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ORIGINAL

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

NATIONAL GRID USA
and
KEYSPAN

Joint Petition
for
Approval of Stock Acquisition
and
Other Regulatory Authorizations

PETITION and EXHIBITS

JULY 20, 2006

nationalgrid

KEYSPAN

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Filing Letter

nationalgrid

KEYSPAN

July 20, 2006

Hon. Jaclyn A. Brilling, Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

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Re: Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisition and Other Regulatory Authorizations

Dear Secretary Brilling:

Enclosed please find five copies of the Joint Petition of National Grid plc and KeySpan Corporation seeking the Commission's consent pursuant to PSL §70 and Part 31 of the Commission's regulations to a stock acquisition and other regulatory approvals in connection with the proposed acquisition of KeySpan Corporation ("KeySpan") stock by National Grid plc through its United States holding company National Grid USA (collectively, "National Grid" unless otherwise indicated). Also enclosed are a draft SAPA and an environmental assessment to facilitate the Commission's SEQRA analysis.

As discussed in the Joint Petition, National Grid and KeySpan propose a merger that will bring significant and long-term benefits to natural gas delivery customers in New York State. The proposed merger would make possible substantial synergy and gas supply savings that we propose to apply to moderate future rate increases for the benefit of customers of KeySpan's New York State gas distribution utilities, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDNY and KEDLI"), in the rate plans submitted with the Joint Petition.

Pursuant to these rate plans, National Grid will embrace and improve on KEDNY's and KEDLI's programs fostering retail competition and demand-side management and will expand their programs assisting low-income customers. Moreover, National Grid's commitments to maintain service quality and to increase investment to replace aging infrastructure will assure that KEDNY and KEDLI customers can look forward to continued high quality, safe and reliable service at stable and reasonable delivery rates for the ten-year term of the rate plans and beyond.

As the Commission is aware, KEDNY and KEDLI have not increased their rates in over ten years, and have implemented two rate reductions during that period. Before the proposed merger with National Grid was announced, KEDNY and KEDLI planned to file for material rate increases in May of 2006. As a result of the merger announcement, these rate filings were postponed. The rate plans we propose postpone them even further, and mitigate rates for KEDNY and KEDLI's customers throughout their ten year terms.

Accordingly, and for the reasons discussed in the Joint Petition, National Grid and KeySpan submit that the proposed combination serves the public interest and should be approved by the Commission. We look forward to a constructive discussion of the issues raised in collaboration with Department of Public Service Staff and any interested party so that we may quickly bring the benefits of the proposed combination to KEDNY's and KEDLI's customers.

Thank you for your cooperation and your attention to this matter.

Very truly yours,

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JOINT PETITION OF NATIONAL GRID PLC
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STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Joint Petition of National Grid plc, National Grid USA, Niagara Mohawk Power Corporation, KeySpan Corporation and its Jurisdictional Subsidiaries for Approval of the Acquisition by National Grid, plc of the Stock of KeySpan Corporation, and (2) other Regulatory Authorizations	)	**Case No.**

JOINT PETITION OF NATIONAL GRID PLC AND KEYSPAN CORPORATION FOR APPROVAL OF STOCK ACQUISITION AND OTHER REGULATORY AUTHORIZATIONS

INTRODUCTION AND SUMMARY

Approval of the Transaction

On February 27, 2006, National Grid plc and KeySpan Corporation, on behalf of themselves and their subsidiaries ("National Grid" and "KeySpan"),[1] announced their agreement and plan of merger (the "Transaction").[2] This Petition, filed pursuant to Sections 70, 99, and 100 of the Public Service Law, seeks Public Service Commission

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[1] National Grid and KeySpan are defined to include both the holding company and affiliates. Specific company names will be used when the context requires it. In the discussion of the Rate Plans, KEDNY and KEDLI are sometimes referred to as the "Company" or the "Companies."

[2] A map of the combined service territories is included as Appendix 1 in a separate volume to the filing. The appendix volume also includes the Agreement and Plan of Merger Dated as of February 25, 2006 as Appendix 2, the corporate organizations of KeySpan and National Grid as Appendix 3, and a listing and description of their subsidiaries as Appendix 4.

("Commission") approval of that Transaction and other regulatory authorizations necessary to realize the benefits of the Transaction.

This Petition seeks authorization under Section 70 for a change in control of the KeySpan subsidiaries that are natural gas corporations subject to comprehensive regulation under the Public Service Law. These natural gas corporations are The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York ("KEDNY") and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI"). In addition, this Petition requests authorization under Section 70 for the change in control of the following KeySpan subsidiaries, which are electric corporations under the Public Service Law, but subject to lightened regulation: KeySpan Generation LLC, KeySpan-Ravenswood, LLC, KeySpan-Port Jefferson Energy Center, LLC, and KeySpan-Glenwood Energy Center, LLC. Finally, KeySpan has a subsidiary, KeySpan Communications Corporation, which is a telephone corporation under the Public Service Law. This petition requests approval for the change in control for that subsidiary under Sections 99 and 100 of the Public Service Law.

Under the Transaction, National Grid plc proposes, through its subsidiary National Grid USA,[3] to acquire 100 percent of the common stock of KeySpan Corporation.[4] As noted above, KeySpan Corporation, directly or indirectly, holds the

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[3] Neither National Grid plc nor National Grid USA are gas, electric, or telephone corporations under the Public Service Law. The anticipated structure within the National Grid USA holding company structure following the Transaction, shown in Appendix 3, assumes that KeySpan Corporation is a direct subsidiary of National Grid USA. This structure is subject to change prior to the close of the Transaction. We will notify the Commission of any changes in the ownership structure if they vary from that shown in Appendix 3.

[4] KeySpan Corporation is itself a holding company that is not a gas, electric or telephone corporation under the Public Service Law. Despite the fact that the proposed stock acquisition is between two holding companies, the Commission has held in similar situations that its consent under the Public Service Law is required.

stock of natural gas corporations, electric corporations, and a telephone corporation. To gain the Commission's consent for the Transaction, the Petitioners must show that the Transaction is in the public interest. As explained below, the Transaction provides significant immediate and long-term economic benefits to customers through synergy savings, gas supply savings, and avoidance of other costs that would have to be incurred by KeySpan, absent the merger. These savings are reflected in the proposed merger rate plans for KEDNY and KEDLI ("Rate Plans"), which are included in this Petition. These Rate Plans provide lower delivery rates as compared to the stand-alone companies. They also include provisions that increase investment in infrastructure, maintain service quality, and expand and improve KEDNY's and KEDLI's retail access, low income, and demand-side management programs. Accordingly, the Transaction is consistent with the public interest and should therefore be approved by the Commission.[5]

Synergy Savings

The primary benefits from the Transaction stem from operational efficiencies and other cost savings. When fully implemented, we estimate that the merger will produce approximately $200 million of synergy savings each year on the combined systems. The savings are derived from personnel savings, primarily in the administrative and general functions, and non-personnel savings in information systems, supply chain, facilities and administrative and general functions. The $200 million savings will be adjusted to net out the costs of the Transaction and the costs to achieve the savings. The net synergy savings will then be allocated among the operating companies on the combined systems.

[5] We also show that the Transaction is consistent with the Commission's policies on vertical market power and horizontal market power, insofar as the Transaction affects the ownership of electric corporations owning generating facilities. See Statement of Policy Regarding Vertical Market Power, Case 96-E-0900, et al. (July 17, 1998); Niagara Mohawk Power Corp., Case 94-E-0098 (May 6, 1998) (guidelines on horizontal market power).

Based on delivery revenues, about two thirds of the net synergy savings produced by the Transaction will be allocated to New York utility operations,[6] and, under our proposed Rate Plans, fifty percent of these savings will flow to New York utility customers. Over the next ten years, we will provide New York customers, served by KEDNY, KEDLI, Long Island Power Authority ("LIPA"), and Niagara Mohawk, with net synergy savings of approximately $518 million, stated in current, undiscounted dollars through the first ten years. Continuing savings beyond that point would also be allocated to customers. This Petition requests the Commission to approve the allocation of net synergy savings to New York customers. Under our proposed allocation, the net synergy savings allocated to KEDNY are $109 million and to KEDLI $64 million. LIPA receives $142 million for the benefit of its customers, and Niagara Mohawk's customers receive $203 million.[7]

In addition, New York natural gas delivery customers will receive 100 percent of an estimated $146 million of gas supply savings over the ten-year period of the Rate Plans. These savings will be produced by the more efficient use of the upstream gas supply and transportation portfolios of KEDNY, KEDLI, and Niagara Mohawk. These savings will be flowed through to KEDNY's, KEDLI's, and Niagara Mohawk's natural gas customers through their respective Gas Adjustment Clauses ("GACs").

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[6] The remaining third of the net synergy savings will be allocated to New England and unregulated operations.

[7] We have engaged in discussions with LIPA associated with the Transaction, and those discussions continue. The $142 million represents our estimate of LIPA's share of the synergy savings during the remaining terms of the contracts with LIPA, which are shorter than ten years. No agreement has been reached with LIPA at this time.

The $203 million allocation to Niagara Mohawk shown above is based on a 50 percent allocation to customers for ten years. Under Niagara Mohawk's rate plan, the fifty percent sharing continues for five years only, and then Niagara Mohawk's customers receive the entire benefit of the synergy savings allocated to Niagara Mohawk. The additional savings in the last five years adds $139 million, producing a total allocation of $342 million over the ten year period.

Both the synergy savings and the gas supply savings resulting from the Transaction will be allocated to New York utility customers through different mechanisms. Niagara Mohawk's methodology for sharing synergy savings with its customers was approved by the Commission in Case 01-M-0075. LIPA's allocation will occur through an agreement with that authority. KEDNY's and KEDLI's allocations are reflected in their Rate Plans that are included in this Petition. Under these arrangements, New York utility customers will receive an estimated total of $664 million of savings in the first ten years following the Transaction.

New Program Initiatives

In addition to the allocation of savings, KEDNY's and KEDLI's Rate Plans include several programs designed to promote the Commission's policies favoring competition in retail energy markets, implement new demand-side programs, enlarge KeySpan's low income discount rate programs, maintain service quality, and accelerate infrastructure investments over the next ten years. Each of these programs is being enhanced as a result of the proposed Transaction.

With regard to competitive opportunities, KEDNY and KEDLI propose unbundled rates for gas sales, billing, and payment processing to give customers the appropriate price signals when exploring alternative gas suppliers. In addition, KEDNY will implement a program to purchase accounts receivable from ESCos without recourse and refer customers to ESCos who have agreed to provide those customers with a pre-arranged introductory discount for their natural gas commodity purchases.[8]

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[8] KEDLI is proposing to defer its purchase of receivables and ESCo referral programs, pending a decision on the integration of KEDLI's billing system that will allow these programs to be implemented as efficiently and effectively as possible.

KEDNY and KEDLI are also proposing significant new conservation programs for their customers based on the award-winning programs that KeySpan and National Grid have implemented in New England. Alternatively, if the Commission decides that programs of this kind are more appropriately implemented through NYSERDA, we propose to work with NYSERDA to design and market programs that will provide our customers with new energy saving opportunities efficiently and effectively. Linked with the conservation programs are proposals to reduce existing disincentives for utilities to encourage conservation. These issues were also recently raised by the Commission in its June 26, 2006 Notice Soliciting Comments in Cases 03-E-0640 and 06-G-0746. We expect that these ideas will be discussed in detail in this proceeding. Specifically, we propose to begin to address the issues associated with rate disincentives to conservation programs through a combination of incentives, rate design, and revenue decoupling. We propose to implement incentives for efficient and effective delivery of conservation programs and reconcile revenues collected through a Local Distribution Adjustment Charge ("LDAC"), which is designed to recover uncontrollable costs that do not vary with increases in usage. Although we have not proposed specific modifications in this filing, we also reserve our right to include cost-based adjustments to the rate designs in individual rate classes in our bi-annual increases to base delivery rates that will mitigate the loss of delivery revenue associated with reduced usage by customers.

We are also concerned about the impact of natural gas prices on low-income customers. To address these concerns, the Rate Plans propose targeted conservation programs, increased discounts on the bills of KEDNY's low-income customers, and the implementation of a new low-income discount program for eligible KEDLI customers.

The Rate Plans also include comprehensive service quality standards to assure that our service continues to be provided safely, reliably, and efficiently. Specific standards focus on our response to safety calls, the survey-measured satisfaction of customers contacting the Companies, and our handling of customer complaints. We are also committing to improving the safety and reliability of the system by accelerating our bare steel pipe replacement program on Long Island.

Ten Year Rate Plans for KEDNY and KEDLI

We propose new Rate Plans for KEDNY and KEDLI that incorporate the synergy savings allocated to those Companies to defer and moderate increases in base delivery rates that would otherwise be required absent the Transaction. The synergy savings allocated to KEDNY and KEDLI customers are used to offset necessary increases in the delivery rates that have been in place for the Companies for the past ten years. KEDNY's last base delivery rate increase occurred in October 1993, almost thirteen years ago; KEDLI's last increase was in December 1995 over ten years ago. Since that time, both Companies have reduced their rates twice. In real terms, taking inflation of 24 percent over the period into account, both KEDNY's and KEDLI's delivery rates are 29 percent below the levels of their delivery rates ten years ago. Over the ten-year period, KEDNY's special franchise and real estate taxes have increased by 223 percent; KEDLI's pension and OPEB costs have risen 87 percent; and both Companies have undertaken significant programs for the environmental remediation of historic manufactured gas plant sites. During that time, KEDNY and KEDLI invested in excess of $1.4 billion in infrastructure reinforcement and replacement, beyond the investments to support growth on the system.

Prior to the announcement of the merger, KEDNY and KEDLI were preparing base rate filings to recover the revenue requirements associated with these and other increased investments and costs. Specifically, KEDNY had intended to file for annual rate relief of $213.4 million or about nine percent, and KEDLI intended to file an increase of $158.7 million or about ten percent. Much of those increases are driven by uncontrollable costs, including Site Investigation and Remediation ("SIR") costs for both companies, gas-related costs (associated with uncollectible expense, cash working capital on wholesale gas purchases, and the return on storage inventories), special franchise taxes for KEDNY, and pensions and other post-retirement benefits ("OPEB") costs for KEDLI. These uncontrollable costs have been deferred under prior settlements for later recovery in rates, with the exception of gas-related costs for which a request for deferral is pending before the Commission. KEDNY's and KEDLI's rate filings were intended to address and recover these uncontrollable costs and bring their delivery rates to the level necessary to recover the cost of providing service to their customers during the rate year beginning on April 1, 2007. In addition, KEDNY and KEDLI projected that further rate increases would be required in subsequent years to provide safe and reliable service to customers over the longer term.

The new Rate Plans proposed in this Petition achieve the same objective in a way that postpones and moderates the delivery rate increases. Under the Rate Plans, the non-gas portion of delivery rates for KEDNY and KEDLI will remain stable through September 30, 2008, eighteen months after the projected close of the Transaction; the rate increases that were otherwise required immediately will be deferred. For KEDNY this will represent its first base rate increase in fifteen years. After eighteen months, volumetric rates are increased as KEDNY and KEDLI begin to recover certain gas-related costs through their GAC and TAC, and credits that have been flowed through KEDLI's GAC and TAC are eliminated.[9] Other than the commodity-related increases, delivery rates for KEDNY and KEDLI are maintained at current levels through the beginning of the third year after the close of the Transaction, when the first of a series of increases in base delivery rates occurs, with the same increase occurring every two years thereafter.[10] The bill increases associated with these bi-annual increases average 2.5 percent for KEDNY and 2.8 percent for KEDLI. Over the term of the Rate Plans, the annual compound bill increase for both Companies averages about one percent, less than one half the rate of inflation.

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[9] As explained more fully below, on the effective date of the Rate Plans, KEDNY and KEDLI propose to reduce the recovery in base delivery rates for certain gas-related costs, which are appropriately recovered through KEDNY's and KEDLI's GAC and transportation adjustment clause ("TAC"). The base rate recovery of these gas-related costs equal to $68.6 million for KEDNY and $28.7 million for KEDLI would instead be used to recover through a Local Distribution Adjustment Charge ("LDAC") the uncontrollable costs that are deferred and included in KEDNY's and KEDLI's Balancing Accounts.

Under the Rate Plans, the gas-related costs will be deferred for eighteen months and only begin to be recovered through the GAC and TAC thereafter. The initial deferrals will be offset by the retention of any pipeline refunds, with any remaining balance amortized through the GAC/TAC in years six through ten of the Rate Plans. In addition, for KEDLI, certain credits associated with the margins for interruptible, temperature controlled, and generation-related sales totaling $24.5 million will be eliminated from the GAC and TAC charges after eighteen months.

[10] At the beginning of year three of the Rate Plans, base delivery rate increases would be implemented for both KEDNY and KEDLI. Base delivery rates, including the LDAC, would increase by $63.8 million for KEDNY and $46.9 million for KEDLI. Increases of the same dollar amounts would then be implemented at the beginning of years five, seven, and nine of the Rate Plans, producing base delivery revenue increases that range from 2.3 to 2.9 percent every other year. The base delivery rate increases recover increases in the costs of providing service, including our forecast of the increases in uncontrollable costs that will be reconciled in KEDNY's and KEDLI's Balancing Accounts and are recovered through the LDAC under the Rate Plans. The LDAC would also operate as a rate adjustment when the balance in the Balancing Account varies from forecast levels by plus or minus $50 million for KEDNY and $25 million for KEDLI. Increases to the LDAC associated with these variances would also be limited to 2.5 percent per year during the term of the Rate Plans, and no increase in the LDAC would be implemented in the first two years of the Rate Plans. In this way, both the accumulation of deferrals and the rate impacts to customers associated with a variance from the forecasts are limited.

Thus, the Rate Plans postpone and moderate KEDNY's and KEDLI's stand-alone plans to increase base delivery rates by nine to ten percent immediately, followed by further increases over the next ten years. Fifty percent of projected net synergy savings are included in the Rate Plans at the outset, providing customers with immediate economic benefits from the Transaction. At the same time, the Rate Plans provide the Companies with the incentive and the opportunity to produce the savings, which have been included in the forecasts and shared with customers in the Rate Plans. Finally, the Rate Plans provide gas customers with significant savings in gas supply costs. Thus, the Transaction provides significant savings and more stable delivery rates for KEDNY's and KEDLI's customers over the ten-year period of the Rate Plans.

Finance and Accounting Commitments and Approvals

The last section of the Petition focuses on the efficient operation of the combined systems after the closing of the Transaction. Specifically, we have several proposals associated with corporate governance, structure, and finance. We propose to implement a combined money pool, under which the regulated utility companies and the Service Company for the combined system may all participate as lenders and borrowers, National Grid USA may participate as a lender, and unregulated companies are excluded.[11] We propose to adopt KeySpan's allocation method for service company charges in a combined National Grid USA Service Company. We also seek authority to pay dividends from KeySpan's retained earnings at the level that existed just prior to the Transaction, request blanket approvals for property transfers between affiliates and below established value triggers, which are necessary to realize the synergy savings included in the Rate Plans, and propose a change of KeySpan's fiscal year from the calendar year to

[11] A separate money pool will be established for the unregulated companies owned by National Grid.

the year ended March 31, as currently used by National Grid. We expect that additional accounting and other authorizations may be necessary as the integration team moves forward with its analysis to combine the National Grid and KeySpan systems, and we intend to amend our Petition or request further approvals, as necessary and appropriate, as we move through the integration process. Finally, we request any waivers of the Commission's regulations that may be necessary to grant the regulatory authorizations requested in this Petition.

PETITION

The Petition describes the Transaction, discusses our compliance with the Commission's competition guidelines insofar as they apply to the transfer of electric corporations, and sets forth the details of the synergy savings, Rate Plans, and other regulatory approvals requested as part of the approval of this Transaction.

I. Approval of the Transaction under Sections 70, 99, and 100 of the Public Service Law

A. Description of the Transaction

National Grid and KeySpan have entered into an Agreement and Plan of Merger dated February 25, 2006 ("Agreement"), which is provided as Appendix 2 in a separate volume to this Petition. Pursuant to the Agreement, a wholly owned subsidiary of National Grid plc will merge with and into KeySpan Corporation. KeySpan Corporation will be the surviving entity, and will become a wholly owned subsidiary of National Grid USA, and all of KeySpan Corporation's subsidiaries will become indirect, wholly owned subsidiaries of National Grid plc. The post-merger corporate organization and a description of the KeySpan and National Grid companies are included as Appendix 3 and Appendix 4 of the separate volume of appendices. The final corporate structure of the combined National Grid USA/KeySpan system is still under evaluation as part of the integration process. In the event that changes occur in the corporate structure set forth in Appendix 3, we will notify the Commission.

The Agreement provides that the Transaction will become effective upon delivery for filing of a certificate of merger with the Secretary of State for New York; we are aiming for such a filing in early 2007. Pursuant to the Agreement, KeySpan will be acquired for cash: each outstanding share of KeySpan Corporation's common stock will be converted into the shareholder's right to receive $42.00. A comparison of the premium over the market price paid for KeySpan as compared to other recent transactions is included in Appendix 5 to this Petition, together with earnings multiples. As the first schedule in that Appendix shows, the price for the KeySpan acquisition was approximately 16 percent above the price of KeySpan's shares one month prior to the announcement of the Transaction, and well within the premiums typically paid in transactions of this kind.[12]

The Agreement also provides for termination under certain conditions, in which event the Transaction will not be consummated. The Agreement may be terminated by mutual agreement of National Grid and KeySpan. It may also be terminated by either party to the Agreement (National Grid or KeySpan) under certain circumstances, including if a final order, decree, or ruling restrains the Transaction, if the other party breaches the Agreement such that the closing conditions cannot be satisfied or cured

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[12] The monthly price was consistent with the market values of KeySpan's stock over the three years prior to the announcement of the Transaction. In those three years, KeySpan's stock price rose steadily from $32 in March, 2003 to a peak of $41.40 in November of 2004. During the first nine months of 2005, KeySpan traded in a range of around $38 to $41 per share. It fell to a low of $33 in October of 2005 before recovering in December to the $36 per share level, which it maintained until just before the Transaction was announced.

within thirty days, if either party's shareholders do not approve the Transaction, or if the Transaction has not been consummated by May 25, 2007, *i.e.*, 15 months from the date of the Agreement, subject to a three-month extension.

The Agreement makes consummation of the Transaction subject to certain conditions. Among these are several customary conditions, including approval by National Grid's and KeySpan's shareholders, no material adverse effect on KeySpan between the dates of the Agreement and the completion of the Transaction, and receipt of state and federal regulatory approvals in the United States. The Agreement obligates National Grid and KeySpan to use their reasonable best efforts to obtain the required regulatory approvals, which approvals are required from this Commission, the Federal Energy Regulatory Commission ("FERC"), the Federal Communications Commission, and the states of New Hampshire and New Jersey. The Agreement also makes consummation of the Transaction conditional upon clearance under United States antitrust and foreign investment laws, which were received as of July 7, 2006 and July 10, 2006, respectively.

B. Commission Consent Required under Sections 70, 99, and 100 of the Public Service Law

The Transaction requires this Commission's consent under Sections 70, 99, and 100 of the Public Service Law, as those Sections have been interpreted by the Commission.[13] Specifically, the Commission has found that Section 70 requires the Commission's consent for the transfer of stock of holding companies that own the

[13] *See, e.g.* Case 00-M-0095, *Joint Petition of Consolidated Edison, Inc and Northeast Utilities for Approval of a Certificate of Merger,* 2000 N.Y.PUC LEXIS 958 (November 30, 2000); Case 05-C-0237, *Joint Petition of Verizon Communications, Inc. and MCI, Inc. for a Declaratory Ruling Disclaiming Jurisdiction over, or in the Alternative, for Approval of Agreement and Plan of Merger,* 2005 N.Y.PUC LEXIS 467 (November 22, 2005). Notwithstanding the foregoing decisions, in the event that the Commission issues an order unfavorable to Petitioners' interests, Petitioners reserve the right to challenge any aspect of such order including any assertion of jurisdiction over the Transaction.

common equity of natural gas and electric corporations, and that Sections 99 and 100 require the Commission's consent for a transaction of this kind involving telephone corporations. In this case, National Grid is indirectly acquiring the stock of several gas and electric corporations and one telephone corporation now owned by KeySpan Corporation that are listed and described in Appendix 4. In particular, the Transaction involves the transfer of control of the common stock of KEDNY and KEDLI, two natural gas corporations that are subject to comprehensive regulation by the Commission; several electric corporations that are subject to lightened regulation, including KeySpan Generation LLC, KeySpan-Ravenswood LLC, KeySpan-Port Jefferson Energy Center, LLC and KeySpan-Glenwood Energy Center, LLC;[14] and one telephone corporation, KeySpan Communications Corporation. This Petition therefore requests consent for the change in control of all of the natural gas and electric subsidiaries pursuant to Section 70 of the Public Service Law and the telephone subsidiary pursuant to Sections 99 and 100 of the Public Service Law.

Because KeySpan's electric corporations and its telephone corporation are subject to lightened regulation, most of this Petition is focused on the Section 70 showing required for KEDNY and KEDLI. However, the Commission has adopted guidelines for evaluating the competitive effects associated with the transfer of electric corporations in the competitive market. These effects are addressed in Appendix 6, which includes a demonstration that the Transaction complies with the Commission's policies on horizontal and vertical market power.

[14] Case 01-E-1716, *Petition of KeySpan-Port Jefferson Energy Center, LLC* (March 7, 2002); Case 01-E-1718, *Petition of KeySpan-Glenwood Energy Center, LLC* (March 7, 2002); Case 96-E-0897, *Consolidated Edison Company* (June 8, 1999); Case 98-M-0074, *Petition of Long Island Lighting Company* (May 1, 1998).

KeySpan Communications Corporation is a wholly-owned subsidiary of KeySpan Services, Inc. which in turn is owned by KeySpan Corporation. KeySpan Communications Corporation operates in New York State as a facilities-based provider and reseller of telephone service pursuant to a Certificate of Public Convenience and Necessity issued by the Commission on January 12, 2004. Neither the operations nor the obligations of KeySpan Communications Corporation will be affected by the merger.

II. Synergy Savings to Customers

A. Summary of Synergy Savings, Gas Supply Savings, and other Economic Benefits from the Merger

When fully realized and before the Transaction costs and costs to achieve the synergy savings are considered, we estimate that the merger will provide about $200 million per year of synergy savings to the combined National Grid USA and KeySpan systems in 2007 dollars.[15] These annual savings are adjusted for the costs to achieve the savings and inflation over the period of the Rate Plans. We then allocate the savings among the Companies on the combined system based on net delivery revenues, and allocate 50 percent of the resulting savings to customers over the periods provided in the rate plans or our contracts with the Long Island Power Authority ("LIPA"). The result is that about two thirds of the net synergy savings are allocated to New York utility operations, of which 50 percent is allocated to New York utility customers during the Rate Plan and contract periods. The remaining third is allocated to New England utilities and unregulated operations. For New York utility customers, we project that the

[15] In addition to the synergy savings from the Transaction, National Grid has announced an agreement to acquire the Rhode Island gas distribution assets of the Southern Union Company. The synergy savings from the Southern Union acquisition are not included in the analysis in this Petition. The estimate of $200 million annual savings relates only to the Transaction, as does the estimate of gas supply savings discussed below.

Transaction will produce about $518 million of net synergy savings over the next ten years. Of this amount, $109 million will flow to KEDNY customers, $64 million to KEDLI customers, $142 million to the Long Island Power Authority ("LIPA"),[16] and $203 million to Niagara Mohawk's electric and natural gas customers,[17] representing 50 percent of the net operating synergies allocated to these companies.

In addition, we project $146 million of gas supply synergy savings that are made possible by the more efficient use of the combined upstream portfolios of KEDNY, KEDLI, and Niagara Mohawk in New York. One hundred percent of the gas supply savings attained will be flowed through to the natural gas customers in New York. These savings will be allocated among KEDNY, KEDLI, and Niagara Mohawk natural gas customers through the Companies' respective GACs.

B. Estimation of Synergy Savings

Mercer Management Consulting ("Mercer") details the sources of the $200 million projected annual synergy savings in Exhibit 1 to this Petition. Mercer begins by reviewing the operations of the companies in detail and develops its synergy estimate by examining each component of the business. Personnel savings are evaluated for each function of the combined entity—administrative and general, customer service, and transmission and distribution operations. In addition, Mercer analyzes non-personnel

[16] KeySpan provides electricity delivery services and power supplies to LIPA under various contracts. A change of control of KeySpan is an event of default under these contracts, and thus, National Grid has requested a waiver of the default by LIPA upon the change of control. National Grid and LIPA have been engaged in discussions regarding the terms under which LIPA will grant the waiver. The $142 million reflects our assessment of the allocation of savings to LIPA during the expected duration of the contracts with LIPA.

[17] The $203 million allocated to Niagara Mohawk is based on a fifty percent sharing for ten years to be comparable to the other values stated in the text. Under Niagara Mohawk's rate plan, Niagara Mohawk's customers are entitled to one hundred percent of the savings after the first five years, adding $139 million of value for Niagara Mohawk's customers.

savings in information systems, supply chain, facilities, and administrative and general functions. As explained in Exhibit 1, Mercer estimates annual savings of $125 million before the costs incurred to achieve the savings.

However, Mercer recognizes that its estimates are preliminary, and that the National Grid and KeySpan integration team have just begun to develop a comprehensive plan to guide the merger integration process. Mercer evaluated past integration efforts associated with other mergers within National Grid USA, and concluded that the integration team will be able to produce savings beyond Mercer's preliminary estimate as the team completes the integration process and expands the scope of the savings analysis to include the operating savings associated with generation and energy supply, electric transmission and distribution personnel, and unregulated services. Accordingly, Mercer adjusted its synergy estimate by one-third to two-thirds, producing a range of estimated synergies (before costs to achieve) from $165 million per year to $210 million per year in 2007 dollars. We have adopted $200 million of annual savings in this Petition, and assumed a one-time associated level of costs to achieve of $400 million.

Accomplishing this level of savings will be a challenge. KeySpan has historically operated with strict attention to cost control and productivity. This established management approach has allowed KeySpan to twice reduce and then maintain its gas distribution delivery rates for more than ten years, despite dramatic increases in infrastructure investments and uncontrollable costs on its gas distribution systems. National Grid also has a strong record of attention to cost control and efficient operations. The efficiency of operations in both companies requires a careful and comprehensive analysis by the integration teams to achieve the savings projection set forth by Mercer and reflected in the KEDNY and KEDLI Rate Plans.

C. Allocation of Synergy Savings to New York Customers

The synergy savings estimated by Mercer are allocated among the KeySpan and National Grid companies in Exhibit 2 to this Petition. Page 1 of that Exhibit provides the results. The top third of the page shows the allocation of synergies by year and by company, the middle third shows the same information for the costs to achieve the synergies, and the bottom third nets the first two amounts to show the net synergies to be allocated between the companies and their customers. Both the allocation among the companies and the allocation between each company and its customers follow the methodology agreed to in National Grid's merger with Niagara Mohawk in Case 01-M-0075. Attachment 10 to the Joint Proposal in that case (which is included in Exhibit 2) established the methodology for allocating synergy savings from follow-on mergers to Niagara Mohawk's customers. We are consistently applying that methodology to all New York customers of the combined systems.

Under that methodology, the total synergy savings are first determined, in this case the $200 million per year based on Mercer's estimate. We next phase in the synergies over three years, and escalate the phased-in amounts by inflation over the ten-year period as shown on page 4 of the Exhibit. A similar phase-in of the costs incurred to achieve the savings (using the methodology approved in Case 01-M-0075) is applied, and then both the synergies and costs to achieve are allocated among the companies on the combined system and to New York utility companies, as shown on pages 2 and 3 of Exhibit 4. The savings of combined gas and electric companies are further allocated between electric and gas operations based on the departmental expenses of the combined company.

Fifty percent of the net synergies are then allocated to customers, either through a credit to the deferral account in the case of Niagara Mohawk (for the first five years), through a contract credit agreed upon with LIPA, or through an allowance to the prospective cost of service in the case of KEDNY and KEDLI. As part of this Petition, we are requesting the Commission to find that both the synergy estimate and the allocations to KEDNY, KEDLI, and Niagara Mohawk customers are reasonable and consistent with the methodology adopted in Case 01-M-0075, and to approve them.

D. Gas Supply Savings

The gas supply savings of the combined companies are estimated in Exhibit 3. Based on current data, we estimate that the complementary nature of the gas resource portfolios and load profiles of KEDNY, KEDLI, and Niagara Mohawk create opportunities to produce gas supply savings, net of costs to achieve, of approximately $146 million over the next ten years. All of these savings will be provided to KEDNY's, KEDLI's, and Niagara Mohawk's bundled natural gas customers through the operation of their respective GACs. These projected savings do not take into account further opportunities that may be available through the joint administration of the gas supply portfolios of KEDNY, KEDLI, Niagara Mohawk, and KeySpan's New England gas distribution affiliates. Nor do they consider potential gas supply benefits associated with National Grid's acquisition of Rhode Island natural gas assets and supplies of the Southern Union Company.

E. Other Benefits from the Merger

In addition to these synergies and gas supply savings, the transaction will provide greater resources to the operating companies of both systems. National Grid and KeySpan make a very good fit. National Grid is the largest delivery company of both electricity and natural gas in the United Kingdom. It operates both the electric and natural gas transmission systems, and provides retail delivery services to over half of the United Kingdom's natural gas customers. A summary of National Grid's operations in the United Kingdom is included in its annual review, which is attached as Appendix 7 to this Petition.

In the United States, National Grid also has a long history in both the electric and natural gas business. Although National Grid's New England operations have been focused on electricity delivery service, this situation is changing with the acquisition of KeySpan's natural gas operations and the purchase of the Rhode Island natural gas distribution assets of Southern Union Company in a transaction announced on February 16, 2006. In New York, Niagara Mohawk has a long tradition of natural gas service to customers in upstate New York.

KeySpan adds substantial new resources to the natural gas operations of the combined system. In addition, the Transaction expands the resources and expertise available for electric operations with delivery service to LIPA and the operation of generating stations providing power to LIPA and to the New York City market. As a result, the combined entity will be able to draw on a much broader range of expertise and resources to address the critical energy policy issues facing New York and the Northeast. Not only will we be able to provide service to customers at a lower cost, we will be able to provide <u>better</u> service to customers at a lower cost.

III. Rate Plans for KEDNY and KEDLI

Prior to the merger announcement, KEDNY and KEDLI intended to file general increases in their base delivery rates using the stand-alone cost of service studies for both KEDNY and KEDLI in Exhibit 4.[18] These stand-alone cost of service studies document a need for a rate increase of $213.4 million for KEDNY and $158.7 million for KEDLI. As explained above, KEDNY and KEDLI have not increased their delivery rates in over ten years. During that ten year period, inflation has totaled 24 percent; KEDNY's special franchise and real estate taxes have increased by 223 percent; KEDLI's pensions and OPEB costs have increased by 87 percent; KEDNY and KEDLI have assumed major responsibility to remediate historic manufactured gas plant sites, and KEDNY and KEDLI have invested $1.4 billion in non-growth related infrastructure reinforcements. Efficiency gains and revenue growth over the period have allowed the two Companies to maintain the same delivery rates for their customers. However, absent the Transaction, KEDNY and KEDLI expected to file in May of 2006 for new rates to recover these and other increases in costs. In addition, KEDNY and KEDLI projected further rate increases over the coming ten year period.

The Rate Plans included with this Petition eliminate the need for those rate filings and defer and reduce the rate increases that would have been required by the stand-alone companies going forward. Under the Rate Plans, KEDNY and KEDLI maintain their

[18] The stand-alone cost of service studies were prepared in accordance with the Commission's *Statements of Policy on Test Periods in Major Rate Proceedings* (November 23, 1977), as modified by the Order in Case 92-M-1145, *Proceeding on Motion of the Commission to Investigate and Develop a Rate-Setting Process Encompassing Long-Term Planning Goals, Rate Strategies, and Resource Utilization,* 167 PUR 4th 317 (January 25, 1996) ("Case 92-M-1145 Order"). The stand-alone cost of service studies consist of operating results for the twelve months ended December 31, 2005 (KEDNY's and KEDLI's fiscal year) and a projected rate year commencing April 1, 2007. The Companies' exhibits and workpapers set forth verifiable links between the base year and the rate year. All data is presented in a format consistent with the Statement of Policy.

current rates at existing levels for eighteen months after the merger. After that period, gas-related costs that were being recovered in base delivery rates are recovered through KEDNY's and KEDLI's Gas Adjustment Clauses ("GAC") and Transportation Adjustment Clauses ("TAC"), and the credits to KEDLI's GAC and TAC for interruptible, temperature controlled and generation delivery (including LIPA) margins are terminated. Base delivery rates remain frozen until the beginning of year three of the Rate Plans, when we implement the first in a series of bi-annual adjustments that will increase overall rates by an average of 2.5 percent for KEDNY and 2.8 percent for KEDLI. This produces a compound average annual rate increase for KEDNY and KEDLI of about one percent over the period of the Rate Plans. The first adjustments in year three are followed by similar increases in years five, seven, and nine of the Rate Plans. Thus, the Rate Plans avoid any initial increase in delivery rates that would otherwise be required for KEDLI and KEDNY as stand-alone companies, and increase delivery rates at less than one half of the projected rate of inflation through the periods of the Rate Plans. The details of the Rate Plans are set forth below.

A. Shifting Gas-Related Costs from Base Delivery Rates to the GAC and TAC

The Rate Plans propose removing gas-related costs from KEDNY's and KEDLI's base delivery rates and, beginning on October 1, 2009 eighteen months after the projected effective date of the Rate Plans, recovering them through KEDNY's and KEDLI's GAC and TAC. These gas-related costs are: (1) the uncollectible expense that is associated with KEDNY's and KEDLI's retail gas commodity sales; (2) the revenue requirements associated with the cash working capital required during the lag between the time that KEDNY and KEDLI pay for gas supplies and deliveries at wholesale and the time that retail customers reimburse KEDNY and KEDLI; and (3) the revenue requirements associated with maintaining gas storage inventories. The commodity-related uncollectible costs are moved to KEDNY's and KEDLI's GAC because they are avoided when a customer purchases gas from an ESCo. The revenue requirements on the commodity-related cash working capital requirement are also shifted to the GAC. KEDNY and KEDLI also avoid these costs when a customer purchases his or her gas from an ESCo. Inclusion of both of these items in the GAC incorporates the costs in the unbundled supply rate, which sends the correct signal to customers who are considering ESCos for their gas supplies. Finally, the revenue requirement associated with gas storage inventories is reflected in both the GAC and the TAC, because KEDNY's and KEDLI's gas storage inventory is filled to provide daily balancing to both bundled sales customers and customers purchasing supply from ESCos. In addition, ESCos receive the benefit of storage inventory pricing through the recently introduced storage service provided by the Companies.

During the rate year, or the first effective year of the Rate Plans, these gas-related costs are projected to total $68.6 million for KEDNY and $28.7 million for KEDLI. We propose to eliminate the rate year amount of these costs from base delivery rates on the effective date of the Rate Plans and defer that amount for eighteen months. After eighteen months, we propose recover these costs prospectively through KEDNY's and KEDLI's GAC and/or TAC using a forecast for the coming year and then reconciling to actual results.[19] We propose to recover the deferred gas-related costs that are actually

[19] Even though KEDNY and KEDLI will be deferring these gas-related costs during the first eighteen months of the Rate Plans, the Companies propose to recognize the costs associated with commodity-related uncollectible expense and gas working capital, and to credit the bills of migrating customers accordingly.

incurred during the first eighteen months by offsetting them with pipeline refunds that are received over the term of the Rate Plan, with the balance, if any, at the end of the fifth year of the Rate Plan being amortized over and recovered in years six through ten of the Rate Plans.

Also after eighteen months, we propose to use the $24.5 million of credits that KEDLI credits to its GAC and TAC for margins associated with interruptible and temperature controlled sales and deliveries to generators including LIPA to offset base delivery cost increases. Rather than provide these credits through the GAC and TAC, under the Rate Plans, these margins are credited to base delivery rates at rate year levels, with fluctuations from these levels included in the Balancing Account. This treatment for KEDLI parallels the approach used by KEDNY for these margins.

B. Implementation of the LDAC and Updating the Balancing Account

The deferrals previously authorized by the Commission have helped to postpone the need for rate filings by KEDNY and KEDLI, but the deferral balances are increasing significantly for both Companies. We propose to address these existing deferrals directly and early in the Rate Plans. Specifically, the Rate Plans begin recovering the deferrals through the implementation of a Local Distribution Adjustment Charge or LDAC beginning on the effective date of the Rate Plans.

The LDAC would be charged on a volumetric basis to bundled sales and transportation customers alike, rendering it an appropriate mechanism for recovering uncontrollable costs associated with delivery service, including the deferrals that have accrued under KEDNY's and KEDLI's existing settlements and the items includable in

The total amount credited to migrating customers in this fashion will be deferred and included in KEDNY's and KEDLI's Balancing Accounts.

KEDNY's and KEDLI's Balancing Accounts under the Rate Plans. A pro forma LDAC is provided in Exhibit 10. As discussed below, the Balancing Accounts would reflect ongoing costs associated with SIR, special franchise taxes, pensions and OPEBs, and similar costs allowed by the Commission in other utility rate proceedings.

During the first two years of the Rate Plans, the LDAC would replace the reduced recoveries of gas-related cost recoveries in base delivery rates with the amortization of a portion of the deferrals in KEDNY's and KEDLI's Balancing Accounts. Thus, for KEDNY, the Balancing Account will be amortized at the annual rate of $68.6 million per year of rate year gas-related costs that was backed out of base delivery rates. Because the LDAC is included in the base delivery rates, prices to customers will not change. For KEDLI, the LDAC would also apply the $28.7 million of gas-related recovery in base delivery rates to amortize KEDLI's Balancing Account in a fashion that does not affect prices to customers.

KEDLI also proposes to include in the LDAC its forecast rate year recovery of KEDLI's property tax surcharge equal to $41.2 million per year, representing KEDLI's forecast property taxes in the year ended March 31, 2007 above the $54.8 million now used to reconcile its property taxes in KEDLI's current rate settlement. After the effective date of the Rate Plan, KEDLI proposes to include these excess property taxes in its Balancing Account, rather than continue its recovery through a separate surcharge. As a result, KEDLI will include special franchise and real estate taxes above $54.8 million in its Balancing Account, and apply the $41.2 million property tax surcharge projected for the Rate Year for the first two years of the Rate Plan to amortization of the Balancing Account. This produces a total amortization of Balancing Account items for KEDLI equal to \$69.9 million during the first two years of the Rate Plans. Because the change simply recategorizes the \$41.2 million property tax surcharge in KEDLI's current rates to an LDAC surcharge of the same amount, this change has no impact on KEDLI's rates to customers.

Both KEDNY and KEDLI will create an LDAC factor by totaling the Balancing Account amortizations over the period from the effective date of the Rate Plans through March 31, 2009 and dividing them by the forecast of volumetric deliveries to produce a dollars per dekatherm allowance in KEDNY's and KEDLI's delivery rates.[20] Actual recoveries through the LDAC will be reconciled to the amortization allowances in the LDAC with any differences included in KEDNY's or KEDLI's Balancing Accounts.

This amortization in rates of \$68.6 million for KEDNY and \$69.9 million for KEDLI continues through the first two years of the Rate Plans. At that time and every two years thereafter, the recovery of amortizations through the LDAC increases with the proposed increase in base delivery rates. Specifically, LDAC recoveries for KEDNY will increase by \$6.2 million and for KEDLI by \$0.9 million in years three, five, seven, and nine of the Rate Plans. These increases in the LDAC are included within the rate increases that occur every two years under the Rate Plans. Thus, the Rate Plans are designed to recover our projection of the deferrals and reconciliations that will be included in the Balancing Accounts over the entire Rate Plan period for both KEDNY and KEDLI.[21]

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[20] The amortizations will begin on the effective dates of Rate Plans, even if the effective dates are different from our projection of April 1, 2007. In that event both the amount of the amortization and dekatherms forecast for the period through March 31, 2009 will be adjusted for the shorter or longer period.

[21] The Rate Plans are designed to recover all deferrals in the Balancing Account through the Rate Plan periods and leave one year's estimated value of the deferrals to be recovered in the year after the Rate Plans

The Rate Plans propose that KEDNY's and KEDLI's Balancing Accounts include uncontrollable costs that would be reconciled and recovered through the LDAC over the period of the Rate Plans. The updated list is included in the terms of the Rate Plans set forth in Exhibit 6 and includes the following:

(1) existing balances in the Balancing Accounts;[22]

(2) Temperature controlled margins above or below $81.8 million for KEDNY and $8.8 million for KEDLI; margins on power generation sales (including KEDLI's deliveries to LIPA) and interruptible sales above or below $13.1 million for KEDNY and $24.3 million for KEDLI;[23]

(3) Special franchise and property taxes, with a credit for associated refunds;[24]

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have ended. For KEDNY, the projected deferral balance at the end of the Rate Plan is $85.6 million and for KEDLI it is $76.7 million as shown on page 12 of Exhibit 8.

[22] The items that are included in KEDNY's and KEDLI's current Balancing Accounts were approved by the Commission most recently in Case 97-M-0567, *Joint Petition of Long Island Lighting Co. and The Brooklyn Union Gas Company* (April 14, 1998) ("Case 97-M-0567 Order") and Case 99-G-1469, *Petition of The Brooklyn Union Gas Co. and KeySpan Gas East Corp.* (May 23, 2002). The Rate Plans carry those balances forward and begin to recover them through the LDAC on the effective date of the Rate Plans. The estimated balances on the Effective Date of the Rate Plans (assumed to be April 1, 2007) are $94.1 million for KEDNY and $88.8 million for KEDLI.

[23] During the last three years, the temperature controlled margins for KEDNY averaged $81.8 million and for KEDLI averaged $8.8 million. Margins for sales to power generators and interruptible customers totaled $13.1 million for KEDNY and $24.3 million for KEDLI. In their Rate Plans, KEDNY and KEDLI have established revenue credits to their costs of service in those amounts and propose to reflect any variations from those base amounts in their Balancing Accounts. In addition, KEDNY and KEDLI propose to eliminate the price caps on temperature controlled and non-firm sales and services to assure that customers receive the maximum value from these sales. For KEDLI, a portion of the margins from temperature controlled, interruptible, and generator deliveries (including LIPA transportation) equal to $24.5 million per year was credited to KEDLI's GAC and/or TAC. KEDLI proposes to end these credits eighteen months after the merger, and roll them into base rates, where they will be reconciled through the Balancing Account.

[24]The partial reconciliation of real estate and special franchise taxes is currently authorized in both of KEDNY's and KEDLI's existing rate plans. On the effective date of both Rate Plans, KEDNY and KEDLI would reconcile 100 percent of actual property and special franchise taxes to the amount of taxes currently included in rates for KEDNY and KEDLI of $61.3 million and $54.8 million, respectively. Variances above and below these levels will be deferred in the Balancing Account. Both Rate Plans reflect forecasts of these deferrals that increase with inflation over the Rate Plan period.

KEDLI is now deferring property and special franchise taxes above $54.8 million by creating a regulatory asset, and recovering the regulatory asset one year later in its GAC. This methodology will continue for the first two years of the KEDLI Rate Plan. Thus, KEDLI will recover through the GAC in 2007 the regulatory asset created by property taxes in 2006, and will recover through the GAC in 2008 the regulatory asset that was accrued based on property taxes in 2007. However, the 2008 accrual will be

(4) Gas safety and reliability incentive;[25]

(5) Customer service quality performance incentive;[26]

(6) Pensions and OPEBs for both KEDLI, which is on the Commission's Statement of Policy for these issues, and KEDNY, which is seeking authorization to move to the Statement of Policy on the effective date of the Rate Plan;[27]

(7) SIR costs;[28]

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included in KEDLI's Balancing Account, and beginning in 2009, the recovery of property taxes through the GAC will cease and will instead be recovered through the LDAC. As shown in Exhibit 6, Attachment 2, page 2, the baseline amount of real estate and special franchise taxes against which the Balancing Account is reconciled for KEDLI is $99.5 million, escalating with inflation over the Rate Plan period. This recovery is reflected in the 2.5 percent base delivery rate increases under the KEDLI Rate Plan.

KEDNY and KEDLI also propose to include in their Balancing Accounts 86 percent of any refunds received for these taxes after the costs to achieve the refunds, in a manner that is also consistent with the settlement approved for ConEd. Case 03-G-1671, *Consolidated Edison Co.,* (September 27, 2004) ("Case 03-G-1671 Order").

[25] The Rate Plans continue the gas reliability incentive approved for KEDNY and KEDLI in their prior settlements, and consistent with those settlements credit any penalties to the Balancing Account.

[26] Customer service incentives are also treated in the same fashion as under the current KEDNY and KEDLI rate settlements.

[27] KEDLI is now on the Commission's Statement of Policy for pensions and OPEBs. Case No. 91-M-0890, *Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits other than Pensions* (September 7, 1993) ("Statement of Policy"). In KEDLI's Rate Plan, the rate year level of pension ($12.1 million) and OPEB ($13.8 million) expense is rolled into the base delivery rates, and our forecast of increases at 2.8 percent in these expenses is reflected in the ten-year revenue requirements analysis that forms the basis for the Rate Plan and the benchmark levels for the Balancing Account reconciliation. The pension and OPEB expense in that ten-year forecast is reduced by fifty percent of the projected synergy savings in these items over the Rate Plan period. We seek authorization for KEDNY to move to the Statement of Policy, and will reconcile to the ten-year revenue requirements forecast in the same manner as KEDLI. For KEDNY, the starting rate year values are $17.9 million for pension expense and $21.9 million for OPEB expense.

[28] Deferral of site investigation and remediation costs has been allowed by the Commission for KEDNY and KEDLI under their prior rate settlements and orders. *See* Case 97-M-0567 Order, and have been routinely allowed for other utilities in the state. *See* Case 03-G-1671 Order. In the Rate Plans, we have assumed that forecast spending for KEDNY and KEDLI is spent equally in each year of the Rate Plan. This produces a base level of spending of $16.5 million for KEDNY and $10.1 million for KEDLI.

(8) Exogenous costs with an impact on revenue requirements or revenues greater than three percent of pre-tax net income for KEDNY and KEDLI;[29]

(9) Revenue requirements associated with variances in capital expenditures above or below forecast levels reflected in the Rate Plans for: (i) capital expenditures associated with city/state construction for KEDNY; (ii) the investment in bare steel pipe replacement for KEDLI; (iii) for both KEDNY and KEDLI, capital expenditures for system improvements excluding growth-related local distribution mains, services, and meters; and (4) for both KEDNY and KEDLI, any incremental capital expenditures associated with new programs mandated by federal, state, or local authorities;[30]

(10) Operation and maintenance expenses associated with the expenditures in item (9) above the levels reflected in the Rate Plans;[31]

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[29] Exogenous costs have been routinely allowed in utility rate settlements in New York to reflect the incremental costs associated with changes in rules, regulations, or accounting and tax requirements by governmental authorities or accounting rules. *See* Case 97-M-0567 Order; Case 01-M-0075, *Niagara Mohawk Power Corp.* (December 3, 2001) ("Case 01-M-0075 Order"). The Commission has found that deferral of costs should only be permitted if they meet a three-part showing: (1) the costs must be incremental to current rates; (2) the amount must be material to the utility's earnings; and (3) the utility can not be over-earning. See Case 04-W-0075, *United Water New Rochelle, Inc.* (March 31, 2005). The Rate Plans address this showing directly and require KEDNY and KEDLI to demonstrate that the change in revenue requirements associated with the new rules or requirements collectively have a material impact of greater than three percent on the pre-tax net income of KEDNY and KEDLI, and that any amounts over the specified levels are reasonable. Finally, the Rate Plans make it clear that the earnings sharing mechanism provides a fair allocation of earnings to customers, while encouraging the efficient operation of the companies, and that KEDNY and KEDLI will not be deemed to be over-earning under the Commission's standard when the earnings sharing mechanism is in place, even if earnings sharing is occurring under the Rate Plan.

[30] These provisions are consistent with the provisions included in the ConEd settlement approved by the Commission in Case 03-G-1671. *See* Case 03-G-1671 Order. In addition, Rochester Gas & Electric and ConEd (electric) have implemented rate settlements that track capital expenditures and allow recovery of the revenue requirements associated with infrastructure improvements that exceed the forecasted level of capital expenditures included in the rate plans. *See* Case 03-E-0765, *Rochester Gas and Electric Corp.*, (May 20, 2004); Case 04-E-0572, *Consolidated Edison Co.* (March 24, 2005).

[31] Compliance with new mandated federal, state and local programs and city/state construction requirements may also give rise to increases in operation and maintenance expenses. This provision

(11) Incremental costs associated with new and enhanced programs under the Rate Plans, including the demand-side management programs, low-income programs, and retail choice programs for KEDNY and KEDLI;[32]

(12) Excess inflation;[33]

(13) Gains or losses on the sale of real estate;[34] and

(14) Credit for earnings sharing, as explained more fully below.[35]

Within the Balancing Accounts, the actual expenditures and revenue requirements associated with these items will be reconciled to the forecast of costs and revenue requirements for these items upon which KEDNY's and KEDLI's Rate Plans are based. Any differences—positive or negative—from the forecast will be included in the Balancing Account for KEDNY or KEDLI. These variances will then be recovered from or returned to customers through the LDAC, in an adjustment that is separate from the scheduled bi-annual rate increases, when the actual balance in the Balancing Account deviates (either positive or negative) from the balance forecast in the Rate Plan by more than \$50 million for KEDNY or \$25 million for KEDLI. We also propose to preclude LDAC adjustments of this kind in the first two years of the Rate Plans, and to limit the

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assures that the related operations and maintenance expense is included in the Balancing Account. Under the Rate Plans, these expenses reconcile to the values shown on Exhibit 8, page 5, line 10.

[32] In the Rate Plans, KEDNY and KEDLI are proposing to undertake various new programs and enhance other activities. These programs are proposed as part of the merger and are therefore not included in the stand-alone costs of service for KEDNY and KEDLI.

[33] Excess inflation is consistent with a provision included in the Niagara Mohawk rate plan. Case 01-M-0075 Order.

[34] The Rate Plans propose to follow traditional accounting for gains and losses on the sale of property and real estate. Proceeds from the sale of facilities and property are credited to the depreciation reserve, and gains or losses on real estate that was included in KEDNY's or KEDLI's rate base are credited or charged to the Balancing Account.

[35] The earnings sharing mechanism is also consistent with the earnings sharing mechanism in the Niagara Mohawk rate plan approved by the Commission in Case 01-M-0075.

LDAC increases (but not decreases) associated with variances from the financial forecasts to 2.5 percent of KEDNY's or KEDLI's aggregate revenues in any given year after that time.[36] These provisions, together with the forecasted escalation of Balancing Account items reflected in the Rate Plans over the next ten years, are designed to assure that the implementation of the LDAC will not lead to unreasonable fluctuations in delivery rates to customers.

These costs have all been included in other rate plan settlements that have been approved by the Commission since the KEDNY and KEDLI rate settlements were implemented more than ten years ago. The adjustments are consistent with current Commission precedent, and represent a reasonable approach to deal with the uncertainty of uncontrollable expenses in the context of a ten-year rate plan. Moreover, the approach allows KEDNY and KEDLI to establish rates based on our projections of future costs in a way that assures that the Companies and their customers are not harmed by a change in circumstance or new development that either increases or decreases the Companies' revenue requirements.

C. Base Delivery Rate Paths for KEDNY and KEDLI

The base delivery rates for both KEDNY and KEDLI, including LDAC recoveries, are frozen at current levels under the Rate Plans for the first two years, and then raised to produce an overall average rate increase of about 2.5 and 2.8 percent respectively in years three, five, seven, and nine of the Rate Plans, producing base delivery rate increases that approximate one half the rate of inflation over the ten-year

[36] This limit does not apply to the pre-determined increases in LDAC recoveries that are included in the scheduled increases in years three, five, seven, and nine of the Rate Plans. Thus, if variances from the benchmark forecast occurred during the Rate Plans, the LDAC could be increased another 2.5 percent above the increases that are already reflected in the Rate Plans.

period of the Rate Plans. The following sections set forth the process used to design the Rate Plans.

1. KEDNY's and KEDLI's Stand-Alone Costs of Service for the Rate Year Commencing April 1, 2007

As noted above, KEDNY and KEDLI had both planned to file for general rate increases absent the Transaction. The cost of service studies associated with these stand-alone filings are included in Exhibit 4 and provide the starting point for the analysis leading to the Rate Plan proposals.[37] Thus, the Rate Plans for KEDNY and KEDLI begin with a cost of service study for each Company, prepared as a stand-alone entity, assuming the Transaction did not occur. For KEDNY, the cost of service study demonstrates the need for rate relief in the amount of $213.4 million and, for KEDLI, the required rate relief is $158.7 million. The test year for both studies is calendar year 2005, adjusted for the rate year that begins on April 1, 2007.

The primary drivers for a need for increased rates are similar for both Companies. Both KEDNY and KEDLI have experienced significant increases in their uncontrollable costs and have invested over $1.4 billion in their infrastructure to provide safe and reliable service to customers since their rates were established. These uncontrollable costs—property and special franchise taxes, pensions and OPEBs, pre-petition deferrals, and SIR costs—will be reflected at rate year levels in KEDNY's and KEDLI's base delivery rates and Balancing Accounts, with variations recovered through the LDAC under our proposed Rate Plans.

The rate relief required by both Companies is also driven by the standard factors that affect utility costs and rates. Wages, salaries, and employee benefits are projected to

[37] A companion embedded cost of service study that will be used to evaluate rate design changes during the Rate Plans is included in Exhibit 5.

increase by 3.8 percent from 2005 through the rate year in line with union contracts and management salary plans. Other operating costs are projected to grow with inflation, and are reflected in a manner consistent with Commission precedent. Finally, the cost of service studies reflect increases in rate base by KEDNY and KEDLI over the period between 2005 and the rate year. These cost increases are offset by projected increases in margins from sales growth.

The stand-alone cost of service studies demonstrate that, absent the Transaction, significant rate relief for both Companies would be necessary for them to recover the reasonable costs of providing safe and reliable service to their customers. KEDNY and KEDLI also forecast further needs for rate relief beyond these levels in the next several years.

2. Develop the Benchmark Cost of Service

The second step in the analyses leading to the Rate Plans adjusts several items from the stand-alone costs of service for KEDNY and KEDLI to reflect changes that occur only as the result of the Transaction to produce the benchmark costs of service used for our proposed Rate Plans. The adjustments made to arrive at the benchmark costs of service for KEDNY and KEDLI are shown on Exhibit 7.

Most notably, we have eliminated the revenues and costs associated with various information technology investments that were included in the stand-alone cases. Many of those costs may be avoided by the integration with National Grid's information systems, and the costs of completing the integration will be treated as a cost to achieve. We have also eliminated increases in non-growth capital investments above the historical three-year average level of investment because we propose that any difference from the average be reconciled through the Balancing Accounts, consistent with other utility settlements approved by the Commission.

In addition, we have made several adjustments to deferral items to reflect the change in the method of recovering deferrals in the Rate Plans from the stand-alone cost of service studies. As explained above, we propose to implement the LDAC amortization starting with a substantial annual amortization made possible by the replacement of the gas-related costs on the effective date of the Rate Plans and increased recoveries through the LDAC over the period of the Rate Plans. In addition, the stand-alone cost of service studies assumed the shift of recovery of state income taxes from the tax surcharge to base delivery rates on the effective date of the rates; in the Rate Plans, this shift occurs on the first base delivery rate change in year three of the Rate Plans. We propose that the level of state income taxes that are currently recovered through revenue surcharges would no longer be reconciled to actual, beginning on the effective date of the Rate Plans.

These adjustments reduce the cost of service for each Company as shown on Exhibit 7. For KEDNY, the revenue increase associated with the lower benchmark cost of service is $78.6 million in the first year, and, for KEDLI, the revenue increase is $71.4 million.

3. Ten Year Revenue Requirements under the Rate Plan

The third step in the development of the Rate Plans is to include fifty percent of the projected synergy savings and cost to achieve in the analysis, and project the resulting benchmark revenue requirements for KEDNY and KEDLI out for the period of the proposed Rate Plans. These ten-year, benchmark revenue requirement projections for KEDNY and KEDLI are provided in Exhibit 8. For both KEDNY and KEDLI, the ten-year revenue requirement analysis begins with the rate year benchmark revenue requirement, adjusted as shown in Exhibit 7, which is escalated to reflect our forecast of the cost to serve and the associated revenue requirement throughout the ten years of our proposed Rate Plans.

These benchmark revenue requirement projections then require one further adjustment to arrive at the proposed rate paths for KEDNY and KEDLI. In order to create the level step increases in years three, five, seven, and nine of the Rate Plans, we add a new deferral to maintain earnings at the levels needed to achieve the required return on common equity for KEDNY and KEDLI throughout the Rate Plan period. We are starting from a significant revenue deficiency and the cost to achieve the synergy savings are experienced in the early years, but the savings are realized in the later years. As a result, this deferral account is negative in the early years, but gradually reverses over the ten-year period of the Rate Plans as synergy savings are realized and the scheduled base rate increases are implemented. Over the ten-year Rate Plans, the deferral zeroes out on a net present value basis for both KEDNY and KEDLI. Unlike the Balancing Account, this deferral is not reconciled to actual earnings. Thus, if we do not produce sufficient synergies to meet the projected earnings that are required, the returns during the Rate Plans will fall short of the target. The deferral is intended only to maintain level earnings throughout the Rate Plan period and avoid earning swings associated with increases in the level of net synergies and the scheduled rate increases in the Rate Plans that are built into our forecast. It does not assure that these earnings will actually be achieved over the period of the Rate Plans.

Net synergy savings significantly reduce the benchmark revenue requirements and the required rate relief over the ten-year periods of the Rate Plans. The ten year revenue requirements associated with the Rate Plans proposed in this Petition are detailed on Exhibit 8. As the Exhibit shows, base delivery rates for both KEDNY and KEDLI remain at current levels for two years, and are then increased in years three, five, seven, and nine for both Companies. For KEDNY, the increases total $63.8 million, representing $57.6 million of base rate increases and $6.2 million of scheduled LDAC increases. For KEDLI, the corresponding total increases implemented every other year are $46.9 million, representing $46.0 million of base increases and $0.9 million of pre-scheduled LDAC increases.[38] For KEDNY, the increases that occur every other year average about 2.5 percent of total bill increases. For KEDLI, the increases average about 2.8 percent, reflecting the increased costs associated with the expansion of KEDLI's bare steel replacement program. For both Companies, the increases represent less than one half of the projected level of inflation over the ten year period of the Rate Plans, and a significant reduction in the revenue requirement increases forecast for KEDNY and for KEDLI on a stand-alone basis over the next ten years.

The annual revenue requirements are set forth in Exhibit 8 for each year using the format that the Commission approved in the National Grid/Niagara Mohawk merger.

[38] We propose to implement these increases through a rate design that allocates the increase among rate classes on an equal percentage based on delivery revenues. Within each rate class, we will propose rate designs that are designed to limit the Companies' disincentive to conservation programs by reconciling revenues actually collected under the LDAC and by decreasing the lost margins in the last usage block of KEDNY's and KEDLI's delivery rates. Specifically, we intend to discuss rate design and revenue decoupling issues with the Parties to this proceeding and develop an array of approaches to mitigate the disincentive for Company sponsored conservation programs. Although for purposes of today's filing, we have allocated the scheduled increases across all rate blocks, we reserve the right to propose rate designs within rate classes as we implement the base delivery increases that occur every two years under the Rate Plans. Specifically, we reserve the right to propose that the increase within each class be allocated to individual rate elements such as the customer charge and initial blocks as long as the resulting rate design is consistent with the embedded cost of service in Exhibit 5.

Accordingly, the first page shows the revenue requirements by year through the entire ten-year period. These results are detailed on the remainder of the exhibit. As explained, the revenue requirements of KEDNY and KEDLI are reduced by the allocation of net synergy savings to those Companies as shown page 1, lines 22 and 23 of Exhibit 8 for KEDNY and Lines 24 and 25 of Exhibit 8 for KEDLI. Finally, Attachment 2 to Exhibit 6 provides a forecast of the values in the Balancing Accounts that will be used for KEDNY's and KEDLI's reconciliations over the Rate Plan period.

4. Comparison to Stand-Alone Revenue Requirements Forecast

The significant economic benefits of the Transaction and Rate Plans can be quantified by summing the values of the net synergies, gas supply savings, and avoided costs associated with the merger. However, this does not capture all of the benefits associated with the Transaction and proposed Rate Plans. The longer-term planning horizon under the Rate Plans allows us to operate the combined companies more efficiently. Costs can be managed with operating plans that extend over longer time frames. Because rates are determined, management is focused on the business, rather than rate cases. All of these features allow us to meet our obligations to provide reliable and safe service, control costs, and produce synergies throughout the entire ten-year period of the Rate Plans.[39]

The proposed Rate Plans delay and reduce substantially the revenue requirements that would otherwise be required absent the Transaction. On a stand-alone basis, we project that KEDNY and KEDLI would require significant rate increases over the next

[39] As the Commission states in its Case 92-M-1145 Order: "Multi-year settlements have proved to be a valuable approach to establishing a longer-term regulatory framework. It has enabled companies to develop longer range plans and reduced Commission micro-management, a necessary development given the competitive transitions."

ten years. These rate increases are moderated under the Rate Plans. The synergy savings reduce and stabilize rates. The gas supply savings reduce gas costs. Base rate increases and LDAC increases to recover deferrals are limited to approximately one half of the rate of inflation over the term of the Rate Plans. Base delivery rates to customers are established for an additional ten years. KEDNY's and KEDLI's remarkable record of stable delivery rates is extended. The Transaction will have provided customers with substantial economic benefits in the form of established rate paths for both KEDNY and KEDLI.

5. Other Terms and Conditions of the Rate Plans

The Rate Plans also update the other terms and conditions of the current KEDNY and KEDLI settlements. The detailed terms and conditions are set forth in Exhibit 6. As set forth in detail in that Exhibit, the Rate Plans adjust the level of margins from temperature controlled sales to the average of the last three years and reconcile for any margins above or below the averages in KEDNY's and KEDLI's Balancing Accounts. Degree day reference points in the weather normalization mechanisms are also adjusted to reflect more current data. Cost of removal is charged to the depreciation reserve, rather than operation and maintenance expenses, on the effective date of the Rate Plans. KEDNY's and KEDLI's Balancing Accounts are also modified as described above. As explained earlier, the deferrals in the Balancing Accounts are recovered through non-scheduled LDAC adjustments only when the actual balances in the Balancing Accounts deviate from forecast levels by more than $50 million for KEDNY and $25 million for KEDLI. No increases in the LDAC are allowed in the first two years of the Rate Plans, and thereafter unscheduled increases associated with these LDAC adjustments are limited to 2.5 percent in any given year.

In addition, the Rate Plans provide for earnings sharing throughout the ten-year period in the event that we outperform our synergy targets or produce better than forecast earnings for any other reason. Specifically, KEDNY and KEDLI will review their cumulative earned return after years four, seven, and ten of the Rate Plans, and, if the cumulative earnings over those periods exceed 11.75 percent but are less 14.0 percent, KEDNY or KEDLI will credit 50 percent of the cumulative earned return in excess of 11.75 percent to customers through the Balancing Account. In the event that the cumulative earned return falls between fourteen percent and sixteen percent, KEDNY or KEDLI will credit 75 percent of the earnings above fourteen percent to customers through the Balancing Account. If the cumulative earned return exceeds sixteen percent, ninety percent of the earnings over sixteen percent will be credited to customers through the Balancing Account.[40]

Finally, we propose to include provisions that allow for re-opening the Rate Plans in the event that circumstances change and the Plans are no longer working to provide reasonable rates to customers or a reasonable level of financial integrity to the Companies. Under the re-opener provisions, KEDNY and KEDLI may file for new rates at any time during the Rate Plan period, but if they do receive an increase they may not include any allowance for the retention of net synergy savings in the cost of service. Thus, if further rate relief is required beyond the terms of the Rate Plans, the Companies

[40] The calculation of the earnings used for earnings sharing is set forth in Exhibit 6, and includes the actual costs that are experienced by the Companies over the Rate Plans, subject to specific adjustments, plus a cost of service allowance equal to 50 percent of the net synergy savings that are retained to support the costs of the acquisition.

lose the right to retain synergy savings. Correspondingly, other parties may seek to re-open and lower rates during the Rate Plans, but in that case the affected Company would be allowed to include a full, 100 percent retention of net synergies in its cost of service.

IV. Service Improvements

A. Competitive Opportunities

The Rate Plans also include several programs designed to enhance service and promote the Commission's policy objectives. As discussed above, supply and billing-related costs will be unbundled using the embedded cost of service in Exhibit 5 to provide accurate price signals to customers evaluating whether to migrate to ESCos. In addition, KEDNY proposes to implement purchase of receivables and ESCo referral programs, called "New Choices" on Niagara Mohawk's system, as soon as information system improvements allow. All of these programs are intended to move the markets forward and provide additional supply choices and hedged price offerings to KEDNY's and KEDLI's gas delivery customers.

B. Demand-Side Management Programs

We are also proposing to implement new demand-side management programs based on National Grid's and KeySpan's award winning conservation programs in New England.[41] These programs will help customers address the higher cost of natural gas supply by using the fuel more efficiently. The goal is to provide the same level of comfort or service with less natural gas. Specific programs will also be targeted to low-income customers, who are especially harmed by increases in natural gas commodity prices. These demand-side programs will be phased in over time from the effective date

[41] KEDNY and KEDLI described these programs and their benefits in their joint comments filed October 17, 2005 in Case 05-M-0090, *Systems Benefits Charge III.*

of the Rate Plans to a budget of $20 million for KEDNY and $10 million for KEDLI. In the event that the Commission determines that the programs should be implemented through NYSERDA, KEDNY and KEDLI propose to engage in a collaborative approach with NYSERDA and other parties to design, implement, and manage effective programs and outreach and marketing efforts.

Regardless of the means for delivering the conservation programs, utilities typically face an economic disincentive to implement energy efficiency programs because the reduction in consumption adversely affects margins. Resolving this disincentive should be a key step in the implementation of the demand-side management programs proposed in this filing. The Commission has issued a notice on this issue on June 26, 2006.[42] We intend to address this issue with the parties in the discussions on our filing. There are several tools available to mitigate the disincentives associated with lost revenue—rate design modifications, revenue decoupling, lost revenue recovery, and incentives designed to replace lost margin while encouraging energy efficiency programs for customers. We will work with all parties to design a fair, efficient, and effective program that eliminates the current disincentives and facilitates the efficient use of natural gas by our customers.

Our initial proposal will be to address the problem through a combination of incentives and revenue de-coupling or revenue reconciliations. Specifically, we propose to include incentives in the demand-side programs that we implement in a similar fashion to those used in New England. We also propose to reconcile the revenues recovered under the LDAC, because the costs recovered through that mechanism are uncontrollable and do not vary with growth in deliveries. This approach reduces the effect of reductions

[42] Cases 03-E-0640 (electric disincentives) and 06-G-0746 (gas disincentives).

in the Companies' usage per customer. Although we do not propose any specific rate designs in the Rate Plans, we reserve our right to address the underlying rate design by allocating the bi-annual increases within individual rate classes to the customer charge and head block, when supported by our embedded cost of service. By using a combination of approaches, we can lower the disincentive to conservation without creating significant cost impacts for customers.

C. Low-Income Programs

The needs of low-income customers will also be addressed through increased discounts for up to 60,000 customers eligible for the Low Income Heating Assistance Program in KEDNY's service territory and the introduction of a low-income discount program for up to 30,000 customers in KEDLI's service area. Specifically, we propose to increase the low-income discount from the customer charge in KEDNY's rates to \$3.50 per month for non-heating customers and \$7.50 per month for heating customers, and implement low-income discounts for KEDLI at the same levels. In addition, we propose to develop conservation programs targeted to low-income customers. These customers have been severely affected by the dramatic increases in energy prices, and thus we intend to focus additional economic benefits on them.

D. Service Quality Standards

KeySpan's existing service quality metrics will be maintained throughout the Rate Plan period. In the customer service area, KEDNY and KEDLI both currently have standards for the level of customer complaints to the Commission, and the level of customer satisfaction as measured through a monthly contractor survey. These will be maintained.

Similarly, in the area of safety and reliability, both KEDNY and KEDLI have standards governing responses to one-call notices, responses to gas leaks and gas odors, and maintenance of leak backlogs. These will also be maintained.

E. Infrastructure Enhancements

In addition to maintaining KeySpan's high standards of service quality, we intend to expand the bare steel pipe replacement program on Long Island. Specifically, we will target an additional twenty miles per year to KEDLI's three year historical replacement program on Long Island. The objective will be to enhance the reliability and safety of natural gas deliveries to our customers over the next ten years.

V. Commitments and Approvals for Implementing Actions

As indicated at the outset, the implementation of the merger requires a finding by the Commission that the Transaction is in the public interest. As described above, the merger will generate significant savings for utility customers throughout New York, and for KEDNY and KEDLI, these savings will be translated into Rate Plans that continue KeySpan's outstanding record of providing quality service at reasonable delivery rates. In this section of the Petition, we make certain finance, accounting, and operational commitments and request approvals for actions that will allow the combined companies to operate efficiently once the merger has closed.

A. Accounting for the Transaction

If approved and completed, we would propose that the purchase method of accounting 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 assets of the acquired companies are generally restated to their fair value and goodwill is recorded on the acquired company's accounts.[43] The premium will be pushed down and allocated among KeySpan Corporation and its subsidiaries in accordance with a fair value study. Recording this premium on the books of the acquired companies is consistent with Securities and Exchange Commission guidance, GAAP,[44] and the Commission has approved it for other acquisitions, including National Grid's acquisition of Niagara Mohawk.[45]

Goodwill will not affect rates. KEDNY's and KEDLI's rate base will continue to reflect the pre-merger net book values of their plant. Rather than being allocated to specific assets, the goodwill for the Companies will be recorded as an intangible asset and equity on their balance sheets.[46] Under the Rate Plans, goodwill 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 KEDNY's and KEDLI's assets. In addition, KEDNY and KEDLI propose to adopt an imputed capital structure for ratemaking that is consistent with those approved for other stand-alone utilities by the Commission for the purpose of setting rates. As a result, the goodwill associated with this Transaction will have no effect on KEDNY's or KEDLI's

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[43] According to the Financial Accounting Standards Board ("FASB"), goodwill is not amortized against earnings. Instead, goodwill reviewed for impairment and written down and expensed only in a period in which the goodwill's recorded value exceeds its fair value.

[44] See FASB Statement No. 141.

[45] *See* Case 01-M-0075 Order.

[46] Pension and OPEB trusts will be revalued to current market values with gains or losses amortized over the ten-year period of the Rate Plans, consistent with the Statement of Policy. A description of the treatment of these issues is included in Exhibit 6, Attachment 3.

rates, revenue requirements, or the earnings calculated for regulatory purposes during the period of the Rate Plans.

B. Financing the Transaction

The Transaction will not adversely affect KEDNY's or KEDLI's financial integrity.[47] The goodwill allocated to KEDNY and KEDLI will be reflected as equity on their balance sheets. The debt used to finance the Transaction will be raised at the holding company level of National Grid, and will not be reflected on the books of KEDNY or KEDLI. The Transaction is planned to be financed by about $7.3 billion of borrowings, but those borrowings will be made at the parent company level.

The funds will be raised by the parent company, and the debt will not be pushed down to the KeySpan operating companies. As a result, neither KEDNY nor KEDLI will have any acquisition-related debt on their books as the result of the Transaction. Neither KEDNY's nor KEDLI's assets will be pledged to secure either the bondholders or National Grid USA. Because KEDNY's and KEDLI's current bondholders will continue as creditors of those Companies under the existing terms and conditions of the KEDNY and KEDLI bond indentures, their security will not be adversely affected by the Transaction. Finally, dividend payments by KEDNY and KEDLI will be limited to the unappropriated retained earnings, unappropriated distributed earnings, and accumulated other comprehensive income of KEDNY and KEDLI just before the merger is consummated, plus the income available for common dividends that is generated after the

[47] Statements of Financial Condition for both KEDNY and KEDLI are included in Appendix 8. That Appendix also includes a demonstration of gas supply adequacy for the Companies.

Transaction has closed.[48] Together these commitments will assure that KEDNY's and KEDLI's financial integrity is maintained after the merger.

This approach has been used in National Grid's prior acquisitions in the United States, including Niagara Mohawk. In general, the acquisitions have increased the equity in the capital structure and reduced the debt leverage of National Grid's utility subsidiaries in the United States, improving their financial position. This effect and the broader access to capital through National Grid have enabled Niagara Mohawk to increase its bond ratings by two notches since its acquisition by National Grid. The bond ratings of National Grid's utility subsidiaries in the United States and the announcement upgrading the rating of Niagara Mohawk are included in Appendix 10.

C. Implementation of a Money Pool for Regulated Companies

Following the merger, KEDNY and KEDLI will be given access to the financial resources of the broader National Grid plc group through the National Grid USA money pool. As part of this transaction, we are committing to create two money pools—the first will be used only by regulated utilities in the combined system, together with National Grid USA (the "regulated utility money pool"),[49] and the second will be used for the unregulated companies on the KeySpan and National Grid USA systems. The details of

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[48] As shown on Appendix 9, the unappropriated retained earnings of each company, the unappropriated undistributed subsidiary earnings of KEDNY, and accumulated other comprehensive income will be restated and reflected as paid-in capital. The accounting entries for this aspect of the Transaction on the books of KEDNY and KEDLI, assuming the transaction closed on December 31, 2005, are also shown on Appendix 9. Because restrictions on the payment of dividends from paid in capital could limit the flexibility of KEDNY and KEDLI to pay dividends from these unappropriated retained earnings, unappropriated undistributed earnings, and accumulated other comprehensive income that were accrued on KEDNY's and KEDLI's balance sheet on the date prior to the consummation of the merger, we are making clear in this Petition that KEDNY and KEDLI retain the ability to pay dividends up to an amount of retained earnings on the books as of the date of the merger.

[49] Until their functions are assumed by the National Grid USA Service Company, KeySpan Corporate Services LLC and KeySpan Utility Services LLC will also participate in the regulated money pool.

the proposal are set forth in Exhibit 11, along with other commitments on corporate structure and affiliate rules.

The regulated utility money pool will provide KEDNY and KEDLI with access to the financial resources of National Grid USA and (through National Grid USA) National Grid plc. Under the regulated utility money pool, the regulated utility companies may lend money to the money pool and borrow from it. However, National Grid USA will lend funds to the operating utility companies only, and will not borrow from the pool. This constraint assures that the regulated utility companies do not use their credit to support borrowing by either the holding companies or the unregulated operations of the National Grid system. Lending by National Grid USA to the regulated companies will be at the lowest available rate. As a result, KEDNY and KEDLI will have broader access to capital at very attractive rates. We intend to implement the restructured money pool upon the receipt of requisite regulatory approvals and when it can be implemented efficiently on the system. We are asking the Commission to approve the action in this Petition.

D. Request for Approval of Corporate Standards and Affiliate Transactions

The remaining approvals requested in the Petition are also included in Exhibit 11. That Exhibit sets forth rules governing affiliate transactions, commitments on dividend limitations and the allocation of goodwill, cost allocation procedures, access to books and records, and audits by the Commission and DPS Staff.

The Exhibit also sets forth rules on the service company and its cost allocation methodology. Specifically, the Exhibit allows the use of a single service company for the combined National Grid USA and KeySpan Corporation systems, and moves to the approved allocation methodology of KeySpan for the billing of the service company costs. With regard to both the combination of service companies and the use of KeySpan allocators, National Grid intends to implement the actions when they can be implemented efficiently and following regulatory approvals that may be required in other jurisdictions. We are requesting approval of the Service Company reorganization and the use of the KeySpan allocations in this Petition.

The service companies also intend to adopt consistent cost allocations when the allocations can be efficiently implemented after the Transaction is consummated. National Grid USA's service company today allocates general service company costs that are not subject to a more precise allocator on the basis of the operating and maintenance expenses of the subsidiaries. This allocator was adopted after the divestiture of the system's generating facilities, and reflects the homogenous operations across the system. In contrast, KeySpan allocates these general service company costs using a three-point formula, based on revenues, investment, and operating and maintenance expenses.[50] The three-point formula produces an allocator that is more indicative of the relative size and complexity of the various entities to which costs are allocated, and is appropriate given the broader spectrum of businesses that would be included in the combined company. To implement the change in National Grid USA allocators, we may require the approval of the Commission and regulators in our other states, as well as FERC. Although this Petition requests the Commission's approval of the KeySpan allocation method, the change may be subject to the approval of our other regulators as well. If approved, the change in allocators would apply to Niagara Mohawk as well as the KeySpan companies.

[50] KeySpan allocates costs based on the three point formula only when costs are neither directly charged nor allocated using an allocation more directly linked to cost causation. We propose to adopt this methodology as well.

The change would be implemented when the systems are in place to accommodate the new allocations.

Exhibit 9 also sets forth standards for transferring assets and employees, and standards related to unregulated services and affiliate transactions. In addition, the Exhibit provides regulatory approval under Sections 69 and 70 of the Public Service Law to transfer property to affiliates and with a value less than specified dollar limits without further action by the Commission. This grant of authority will facilitate the combination of operations following the Transaction and allow us to realize the synergy savings that we have shared with customers in the Rate Plans. We are also requesting a change in the fiscal years for the KeySpan companies to match the year ended March 31 that is used for the National Grid companies.

All of these commitments and approvals are intended to assure the efficient and effective operation of the combined companies after the Transaction is closed. However, it is important to note that the integration team is in the initial phases of its work, and is likely to develop several other recommendations for operating the combined companies better and more efficiently—that is its charge. These ideas may in turn require additional approvals by the Commission or commitments by the Companies. For that reason, the Companies reserve the right to amend the Petition and the provisions of Exhibit 11, when necessary to implement these new ideas. In the meantime, we are requesting the Commission to approve the provisions set forth in Exhibit 11.

E. Request for a Finding of No Significant Environmental Impact.

Appendix 11 contains an environmental assessment for the Transaction and provides documentation supporting the Commission's finding that the Transaction will not have a significant adverse impact on the environment. Under the State Environmental Quality Review Act ("SEQRA"), a transfer of stock does not meet the definitions of either Type I or Type II actions as set forth in 6 NYCRR, Part 617. Such a transfer is, therefore, properly classified as an "unlisted" action, which allows for the submission of a short-form Environmental Assessment Form ("EAF") pursuant to 6 NYCRR, section 617.20. It is anticipated that there will be no change in the operation of KeySpan Corporation or its affiliates that would result in a significant effect on the environment. Petitioners request that the Commission issue, pursuant to SEQRA, a determination of non-significance for the proposed Transaction.

F. Draft Notice under the State Administrative Procedures Act, and Proposal for Technical Sessions on this Petition

Appendix 12 to the Petition includes a draft form of notice under the State Administrative Procedures Act associated with this Petition. To provide interested parties with a better understanding of our filing, we are also suggesting a series of technical sessions that we will set up in the near future. At the technical sessions, we hope to explain our proposals, respond to questions, and begin a collaborative process among interested parties on the issues presented by this Petition and the proposed Rate Plans for KEDNY and KEDLI. We believe that the issues can be resolved by a collaborative and a consensus that meets all regulatory and legal requirements and permits KEDNY's and KEDLI's customers to enjoy the significant and long-term benefits of the proposed merger. We have not included a formal filing of tariff revisions to provide adequate time and opportunity to engage in this collaborative effort. To facilitate that effort, we are requesting the Commission to provide the parties with an opportunity to convene discussions in an attempt to reach a joint proposal on the Petition and the Rate Plans proposed for KEDNY and KEDLI. We will periodically report to the Commission on the progress of these discussions, and will request a more formal procedure to address issues and comply with technical legal requirements in the event that such a procedure is appropriate.

CONCLUSION

For the reasons set forth above, the Commission should find that:

(1) the Transaction is consistent with the public interest and is authorized under Sections 70, 99, and 100 of the Public Service Law;

(2) the determination and allocation of synergy savings is reasonable and approved for KEDNY, KEDLI, and Niagara Mohawk under its rate plan;

(3) The Rate Plans are reasonable and should be implemented;

(4) KEDNY and KEDLI may participate in the utility money pool as borrowers and lenders under the conditions described in this Petition;

(5) the corporate structure and affiliate standards set forth in Exhibit 9 are reasonable and approved and the associated accounting, finance, and allocation approvals requested in that Exhibit are approved for the combined KeySpan and National Grid systems; and

(6) The Transaction will have no significant adverse effect upon the environment; and

(7) Grant such other waivers and relief as may be required to implement the Transaction proposed in this proceeding.

Respectfully submitted,

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Colin Owyang TGR

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

JOINT PETITION OF NATIONAL GRID, plc, NATIONAL GRID USA, NIAGARA MOHAWK POWER CORPORATION, KEYSPAN CORPORATION AND ITS JURISDICTIONAL SUBSIDIARIES FOR APPROVAL OF (1) THE ACQUISITION BY NATIONAL GRID, plc OF THE STOCK OF KEYSPAN CORPORATION, AND (2)OTHER REGULATORY AUTHORIZATIONS	:	CASE 06-_____

VERIFICATION

Lawrence J. Reilly being duly sworn according to law, upon his/her oath, deposes and says:

1. I am Executive Vice President and General Counsel of National Grid, USA, and am authorized to make this Verification on behalf of National Grid, USA.

2. I have read the contents of the foregoing Joint Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge, information and belief.

Lawrence J. Reilly

Sworn to and subscribed before me
this 18 day of July 2006.

Susan A. Costa
Notary Public

SUSAN A. COSTA
Notary Public
Commonwealth of Massachusetts
My Commission Expires
March 21, 2008

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

JOINT PETITION OF NATIONAL GRID, plc, NATIONAL GRID USA, NIAGARA MOHAWK POWER CORPORATION, KEYSPAN CORPORATION AND ITS JURISDICTIONAL SUBSIDIARIES FOR APPROVAL OF (1) THE ACQUISITION BY NATIONAL GRID, plc OF THE STOCK OF KEYSPAN CORPORATION, AND (2)OTHER REGULATORY AUTHORIZATIONS	:	**CASE 06-** _____

VERIFICATION

Joseph Bodanza, being duly sworn according to law, upon his/her oath, deposes and says:

1. I am Senior Vice President of KeySpan Corporation, and am authorized to make this Verification on behalf of KeySpan Corporation.

2. I have read the contents of the foregoing Joint Petition and hereby verify that the statements therein contained are true and accurate to the best of my knowledge, information and belief.

Joseph F. Bodanza

Sworn to and subscribed before me
this 13 day of July, 2006.

Susan A. Costa
Notary Public

SUSAN A. COSTA
Notary Public
Commonwealth of Massachusetts
My Commission Expires
March 21, 2008

Exhibit 1

I. Executive Summary

The merger of National Grid and KeySpan (the Companies) will produce significant cost savings. The purpose of this document is to:

- Provide an estimate of the potential savings and costs to achieve
- Describe the post-merger planning initiative underway 1) to establish how the Companies will operate in the future and 2) to develop more detailed estimates of merger savings and costs

Estimated Savings and Costs

During the period March - July 2006, Mercer Management Consulting: 1) identified areas with potential savings or costs to achieve, 2) reviewed relevant data and information, 3) developed operating and financial assumptions about the merger, and 4) estimated potential savings and costs. Merger-related savings are typically derived from the integration of various corporate functions, cost avoidance, improved utilization of assets and employees, and taking advantage of economies of scale.

Mercer estimated annual "steady-state" savings at approximately $125 million (in $2007). In its two previous mergers (with Niagara Mohawk and Eastern Utilities Associates), National Grid was able to achieve savings that exceeded the original estimate of synergy savings. If National Grid and KeySpan are able to identify and achieve an additional 1/3 to 2/3 of savings (above the $125 million in annual savings), then annual total savings will be in the $165 million to $ 210 million range. At the time that the merger was announced, the Companies estimated total savings at $200 million a year.

In other transactions reviewed, the estimated cost to achieve was in the range of 2.0-2.7 times annual savings. Assuming annual savings of $200 million dollars and a 2.0 times cost to achieve, then the total cost to achieve will be $400 million. Over the following months, the integration team will address cost to achieve and be able to produce a better estimate of the costs that will ultimately be incurred.

Additional details of the synergy analysis are presented in Section II (a narrative discussion) and Attachment 1 (the financial model results).

Post-Merger Integration Planning Initiative

This initiative, described in more detail in Attachment 2, has the overall objective of developing the organizational design, approaches and processes for the combined companies, as well as developing more detailed estimates of savings and costs. Key elements of the initiative include:

- ***Broad participation across the companies:*** More than 200 National Grid and KeySpan executives, managers and staff are involved in this effort. A Joint Senior Management Steering Committee is charged with setting the overall direction for the planning efforts and, ultimately, making decisions on how the post-merger business will be managed and operated. The Committee includes Steve Holliday, the Group Chief Executive designate of National Grid; Michael Jesanis, the President and CEO of National Grid USA; and Robert Catell, the Chairman and CEO of KeySpan. Day-to-day responsibility for managing the initiative resides with Kwong Nuey of National Grid and John Caroselli of KeySpan.

- ***A proven approach:*** This initiative will use an approach similar to the ones successfully used in the previous Niagara Mohawk and EUA mergers. Nine "Tier 1" functional teams organized around the major utility functions (e.g., T&D operations, customer service, and information technology) have been created. These teams are responsible for understanding current National Grid and KeySpan approaches and processes; designing recommended approaches and processes for the future; and developing detailed estimates of potential merger savings and costs to achieve.

  "Tier 2" subteams that will focus on specific parts of the nine functions have also been created. For example, the Customer Service Team includes subteams responsible for specific areas such as call center, meter services, and billing. At this point, approximately 90 subteams have been identified within the structure of the nine functional teams.

- ***A focus on identifying and achieving savings:*** These teams have been charged with conducting detailed analyses to identify savings across the combined companies. The teams will also be responsible for developing detailed implementation plans to ensure that identified savings are realized.

The initiative began in April 2006 and we expect that estimates of savings and costs will be available to the Commission in October 2006.

II. Estimated Synergy Savings

During the period March – July 2006, Mercer Management Consulting developed an estimate of synergy savings using Mercer's merger-related financial model. Annual "steady-state" savings were estimated at approximately $125 million (in $2007). The remainder of this chapter discusses the synergy savings analysis and is organized into the following sections:

- Summary of Personnel and Non-Personnel Savings
- Personnel Savings
- Information Systems Savings
- Supply Chain Savings
- Facilities Savings
- Administrative and General Savings
- Comparisons with Other Transactions
- Cost to Achieve

Attachment 1 provides year-by-year estimates of synergy savings.

Summary of Personnel and Non-Personnel Savings

As illustrated in Attachment 1 to this document, the ten-year savings have been classified into five components:

- ***Personnel savings:*** related to position reductions in A&G; customer, and transmission and distribution functions
- ***Information systems savings (non-personnel):*** related to integration of applications; mainframe, network, midrange/server, and PC/workstation operations; projects; and telecommunications
- ***Supply chain savings (non-personnel):*** related to lower costs for materials, equipment, and contractor services; reductions in inventory and vehicles

- ***Facilities savings (non-personnel):*** related to the closing or consolidation of facilities, including office space

- ***Administrative and general savings (non-personnel):*** related to cost reductions in A&G overheads, advertising, association dues, corporate governance (i.e., shareholder services and board fees), financing costs and fees, insurance, and professional services

The level of estimated savings (in nominal dollars) in each component and the bases for the estimates are discussed below. Annual and ten-year savings figures shown below are taken from Attachment 1, page 1.

Personnel Savings

Personnel savings of approximately $72 million annually (in 2009, the first year in which 100% of savings are achieved) and $699 million over the ten-year period were estimated using the following process:

- National Grid and KeySpan provided databases of current personnel and Mercer assigned each employee to one of the functions listed in Exhibit II-1 below.

Exhibit II-1

Staffing Functions

A&G Functions

- Purchasing and Material Management (excluding Storeroom Personnel)
- Human Resources
- Finance, Accounting, and Planning
- Information Services and Telecommunications
- External Relations
- Legal
- Administrative and Support Services (excluding Storerooms, Transportation, Real Estate, and Facilities Maintenance)
- Executive Management

Customer Functions

- Retail Marketing and Sales
- Customer Service

Transmission and Distribution Functions

- Electric Operations – Field
- Electric Operations – Office and Support
- Gas Operations – Field
- Gas Operations – Office and Support
- T&D Shared Services (Storerooms, Transportation, Real Estate and Facilities Maintenance)

Within these functions, employees were also assigned to specific sub-functions. For example, within Customer Service, an employee could be assigned to meter reading, customer inquiry, credit and collections, or another sub-function. The use of a common format (Mercer's function and sub-function classification) allowed for an "apples-to-apples" staffing analysis.

- Second, the number of positions that could be eliminated as a result of the merger was estimated. The magnitude of the reduction in each sub-function was based upon identified duplication or redundant activities; the expected degree of integration; potential changes in policies or practices; and any incremental workloads that would result in that area.

- Third, savings were calculated based on the number of personnel reductions times an average compensation per reduced position. Compensation includes base compensation (wages or salaries) and benefits. Benefits included such items as pension plans, medical insurance, life insurance, savings (401k) plans, and payroll taxes.

National Grid and KeySpan have a combined 15,690 pre-merger personnel providing electric and gas delivery (as shown in Exhibit II-2).

- National Grid has 8,389 pre-merger positions in the A&G, customer and electric and gas T&D functions.

- KeySpan has 7,301 pre-merger positions in the A&G, customer and electric and gas T&D functions; this figure excludes personnel in the generation and unregulated businesses.

- The 7,301 KeySpan figure includes personnel who provide services to Long Island Power Authority under the Management Services Agreement. KeySpan has 1,180 positions in electric operations (T&D field, office and support positions). In addition, a portion of KeySpan's A&G, customer and shared services organizations (e.g., fleet maintenance) support the LIPA electric business.

Total position reductions were estimated at 624, or approximately 4.0% of the 15,690 combined positions. These reductions consist of 522 A&G, 55 customer and 47 T&D positions, as shown in Exhibit II-2. At this point, no decisions have been made as to which reductions will come from current National Grid positions or KeySpan positions.

Exhibit II-2

Position Reductions

	A&G	Customer	T&D	Total
National Grid Positions	1,175	1,505	5,709	8,389
KeySpan Positions	1,104	1,660	4,537	7,301
Combined Positions	2,279	3,165	10,246	15,690
Estimated Reductions	522	55	47	624
Reduction as a % of Combined Positions	22.9%	1.7%	0.5%	4.0%

As shown above, the percentage reductions in the A&G functions are significantly higher than the percentage reductions in the customer and T&D functions. The relative difference reflects the fact that corporate or administrative functions offer greater opportunities for savings than do "field" functions, such as line maintenance and construction. The opportunity to reduce non-A&G positions is also limited by 1) the mostly non-contiguous nature of the National Grid and KeySpan service territories and 2) the differences in their relative electric and gas customer mix.

Personnel (as well as non-personnel) savings are also limited by the fact that KeySpan and National Grid have controlled growth in operation and maintenance and administrative and general expenses through 1) achieved efficiencies from prior mergers and acquisitions and 2) the implementation of various cost control and efficiency initiatives.

Information Systems Savings (Non-Personnel)

National Grid's data center is located in Syracuse, New York; KeySpan's data centers are located in Melville and Hicksville, New York. Applications (corporate, customer and T&D operations) have limited overlap at this time.

Estimated merger savings were based on the following assumptions: the combined companies will consolidate corporate applications, architectural platforms and data center operations, but will continue to maintain separate operating environments for customer and T&D applications.

Savings from a reduction in IS personnel was discussed earlier. Non-personnel savings due to the partial consolidation of IS operations result from the consolidation of licenses and other operating expenses, and the reduction of recurring capital costs. Non-personnel IS savings were estimated at approximately $21 million annually (in 2009) and $328 million over the 2007-2016 period.

Supply Chain Savings (Non-Personnel)

Cost savings in supply chain can potentially occur in the following areas:

- Lower prices paid for materials, equipment and contractor services, based on greater purchasing leverage and the potential for more standardization and vendor consolidation
- A reduction in inventory, based on the consolidation of storerooms and a sharing of spare parts
- A reduction in the number of vehicles or in the cost per vehicle

Supply chain-related savings were estimated at approximately $18 million annually (in 2009) and $227 million over the ten-year period.

Procurement savings on materials and equipment were estimated at approximately $15 million annually, based on an estimated 3% reduction in the cost of combined annual purchases. Merger-related savings for contractor services were estimated at approximately $2 million annually, based on an estimated 2% reduction in the cost of KeySpan's purchases.

Potential synergy savings related to the reduction of inventory or vehicles were not identified in this study.

Facilities Savings (Non-Personnel)

National Grid and KeySpan will continue to have significant headquarter presence in New York and New England. At this point, no decisions have been made about closing or reducing any of the current headquarter locations. However, with the reduction of personnel, particularly A&G-related staff, facilities savings will occur with estimated savings at $6 million annually (in 2009) and $58 million over the ten-year period.

Administrative and General Savings (Non-Personnel)

We identified the following seven potential areas of cost savings: A&G overheads; advertising; association dues; corporate governance (i.e., shareholder services and board-related costs); financial fees; insurance; and professional services.

Savings of approximately $22 million annually (in 2009) and $233 million over the 2007-2016 period million were estimated. Savings estimates for each of the seven areas are discussed below.

Estimated A&G overhead-related merger savings of $5 million annually (in 2009) and $52 million during 2007-2016 were identified. A&G overheads include expenses for office supplies, publications, personal computers, and other miscellaneous expenses. We estimated overheads at $7,500 per employee (in 2007 dollars) and multiplied this figure times the number of position reductions to estimate annual savings.

Savings in the advertising area were estimated at $2 million annually (in 2009) and $18 million over the ten-year period. Savings will result from an elimination of duplicative costs, but differences in service territory (and media markets) will limit the savings in the merger.

Association dues-related savings of $1 million annually (in 2009) and $8 million over the ten-year period were identified.

Merger savings related to a reduction in corporate governance costs were estimated at approximately $3 million annually (in 2009) and $32 million over the 2007-2016 period. Savings related to shareholder services result from the elimination of duplicate activities and costs, such as preparation of the annual shareholders' report. Additional savings result from the elimination of director fees and expenses for one company.

Merger savings related to financing costs and fees were estimated at approximately $2 million annually (in 2009) and $17 million over the ten-year period, based on a reduction in the required lines of credit and therefore, the line of credit fees for the combined company.

Merger-related insurance savings were estimated at approximately $2 million annually (in 2009) and $22 million over the ten-year period. Savings were based on expected reductions in property and liability coverage premiums; reductions in directors and officers insurance premiums; and reductions in brokerage fees (due to the consolidation of insurance purchasing).

Merger-related savings for professional services were estimated at $8 million annually (in 2009) and $84 million over the ten-year period. Professional services savings result from the elimination of duplicative efforts in areas such as external auditing, legal support, legislative services, and general consulting. The savings were based on an approximate 10% reduction in KeySpan's stand-alone, annual professional services costs.

Comparison with Other Transactions

Mercer compared the percentage reductions in personnel in this merger (4.0%) with the reductions in synergy studies for other mergers. We would expect the percentage reduction in this merger to be at the lower end of the range, given the non-contiguous nature of the National Grid and KeySpan service territories and differences in their relative electric and gas customer mix.

In addition, in this study, we did not address or include any position reductions in the electric T&D field, office and support positions associated with services provided under the contracts between KeySpan and LIPA. Those savings depend on the outcome of discussions with LIPA on the continuation of the contracts. In the event the contracts are continued, synergy savings associated with KeySpan's services to LIPA will be fully considered by the integration teams in their analyses. If we exclude both KeySpan's and National Grid's electric T&D personnel (combined 5,752 pre-merger positions), consistent with the treatment of KeySpan services to LIPA in the analysis, then the personnel reduction would be 6.3% (624 reductions divided by 9,938 positions), rather than 4.0%.

The 4.0% to 6.3% figures are relatively close to the estimated reductions in the Exelon-Public Service Electric and Gas merger (5.2% of combined staffing); the Duke-Cinergy merger (5.5%); the National Grid-Niagara Mohawk merger (5.6%); and the New York State Electric and Gas-Rochester Gas and Electric merger (6.1%).

As indicated at the outset, the integration teams are now undertaking a comprehensive review of operations for a more complete analysis of synergy savings. As part of their work, the teams will also identify savings in three areas not included in this analysis---generation and energy supply, electric T&D personnel, and unregulated services. Based on this extended scope and our experience in prior National Grid USA mergers (in which the integration teams identified significant savings above our estimates), we expect that the integration analysis will be able to increase the estimate of savings from $125 million to $200 million on an annual basis.

Cost to Achieve

Cost to achieve merger-related savings fall into the following four categories:

- ***Transaction costs:*** primarily the fees paid to investment bankers for advice on the merger transaction and to outside legal counsel for advice on the merger transaction and support in regulatory proceedings

- ***Personnel costs:*** primarily the out-of-pocket costs incurred to achieve the reduction in positions, e.g., voluntary or other severance packages; other costs including retention payments to employees deemed necessary for a successful integration, as well as relocation and retraining costs

- ***Transition costs:*** the costs incurred to integrate the two companies, e.g., support for organizational redesign and process integration and for communications costs

- ***Information systems costs:*** the cost associated with integrating systems, consolidating data centers, and connecting telecommunication networks

As discussed in Section I, cost to achieve is estimated at $400 million (2 times annual total savings of $200 million). Over the following months, the integration team will address cost to achieve and be able to produce a better estimate of the costs that will ultimately be incurred.

Attachment 1
Summary of Estimated Synergy Savings

See Attached Excel Document

10-Year Savings Summary

Savings Summary

in $000

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Personnel Savings	13,583	41,942	71,979	74,254	76,593	78,997	81,468	84,009	86,621	89,305	**698,750**
Non-Personnel Savings											
Information Systems	3,369	11,201	21,136	26,063	31,100	36,251	41,517	46,902	52,408	58,038	**327,985**
Supply Chain	3,088	9,871	17,763	20,207	22,706	25,262	27,875	30,547	33,279	36,073	**226,671**
Facilities	-	3,681	6,273	6,414	6,558	6,706	6,857	7,011	7,169	7,330	**58,000**
Administrative and General	21,000	21,473	21,956	22,450	22,955	23,471	23,999	24,539	25,091	25,656	**232,590**
Total Savings Before Cost to Achieve	41,041	88,167	139,107	149,387	159,912	170,687	181,717	193,008	204,568	216,403	**1,543,997**
Personnel Savings % Total Savings	33%	48%	52%	50%	48%	46%	45%	44%	42%	41%	45%

Attachment 2
Post-Merger Integration Planning Initiative

- Objectives
- Integration Team Structure
- Integration Team Functional Structure and Tier-1 Leads
- Integration Tasks and Schedule

Objectives: National Grid – KeySpan merger integration

The primary objectives for the integration of National Grid and KeySpan will be to maximize the benefits of the merger in a timely manner.

Operational

- "Keep the lights on and the gas flowing"; provide excellent reliability, service and safety
- "Keep the money coming in": execute revenue cycle activities well
- Provide a platform for operational excellence and additional growth
  - Integrate processes, functions, systems and organizations wherever feasible
  - Leverage "better" and "best" practices as much as possible

Financial

- Maximize synergy savings and achieve/exceed pre-merger estimates
- Achieve savings as soon as possible

Customer and & Regulatory

- Maintain or grow customer satisfaction and loyalty
- Make the merger seamless and "invisible" to customers and regulators
- Gain necessary approvals quickly

Employee

- Treat employees fairly
- Maintain and build employee morale and dedication; Attract and retain key employees

Specific goals for the Integration Team are to:

- Create an expanded company that will lead the region in financial performance and customer service, while providing a platform for further growth
- Be ready for "Day One", when the merger closes
- Make this merger work from an operational, financial and people perspective

Integration Team Structure

The integration team structure is organized around both cut-across initiatives and functional teams.

Joint Senior Management Steering Committee

Integration Project Management Team

- Project management
- Metrics - savings, cost, and budget summaries
- Timetable and milestones
- Integration progress oversight

Cut-Across Initiatives

Information Technology
- Systems integration
- Resource management
- Infrastructure integration
- Strategic spending and development
- Cut-over strategy

Communications (Employee and External)
- Content and message planning
- Delivery or roll-out planning
- Execution
- Corporate Identity

Regulatory
- Regulatory strategy integration and coordination
- Corporate Identity

Organization, Staffing & Culture
- HR programs strategy
- Benefits and compensation design
- Re-staffing process
- Organizational integration
- Labor strategy
- Cultural integration

Legal
- Legal and regulatory compliance
- Standards of conduct and ethics
- Records management policies

Finance
- Service company allocations
- Internal and external reporting
- Budget and cost management integration

Facilities Planning
- Day One facilities
- Facility consolidation and closure
- Re-stacking buildings

Internal Audit
- Project oversight and compliance
- Risk management and assurance
- Process review (as appropriate)

Functional Integration

Examples of High-Impact Issues

Customer Service Team
- Call centers
- Meter reading standard
- Billing
- Customer Information System
- Products & services
- Marketing
- Account management
- Energy efficiency

T&D Operations Team
- Centralized support services
- Engineering, planning, design and construction
- Standards
- Environmental & safety policies
- Telecomm
- Transmission
- Training

Gas Operations Team
- Gas Distribution planning & ops
- Engineering and design
- Construction & maintenance
- Region/district mgmt.
- Gas Storage management
- Training

Generation & Energy Supply Team
- Integration of electric (and gas) supply planning and procurement
- Gas transportation
- Gas storage
- etc.

Shared Services Team
- SCM integration
- Process integration
- Vendor strategy
- Contractual commitments
- Inventory management
- Fleet
- Facilities
- Security

Finance & Accounting Team
- Integration of accounting, financial budgeting, forecasting, cash management, etc.

Information Technology Team
- IT integration
  - Data center
  - Data network
- Help desk

Human Resources Team
- HR policies, programs and process
- Employee relations

Corporate Services Team
- Legal
- Internal Audit
- Investor relations
- Corporate secretary
- Ethics & compliance
- Records Retention
- Communications coordination
  - External
  - Employee

Integration Team Functional Structure & Tier-1 Leads

Team	Customer Service, Marketing & Retail Services	Electric T&D Operations		Generation & Energy Supply	Shared Services
National Grid KeySpan Partner	Tony Pini Rick Murphy Annie Snodgrass	Clem Nadeau Pat Hogan Justin Heyman		Lee Klosowski Rich Rapp Justin Heyman	Mike Kyle Coleen Ceriello Scott Koren
Sub-teams	• Contact Centers • Metering Services • Billing • Credit & Collections • Customer Strategy • Energy Management • Marketing • Sales & Account Management • HVAC Sales & Service Business	• Electric distribution planning and design • Substation engineering and substation construction and maintenance • Regional Management • Distribution Operations (Regional Control, dispatch and trouble center) • Relay and protection • Vegetation management • Third party attachments	• T& D Operations training • Storm and emergency planning • Transmission Planning • Bulk System Control / Energy management • Transmission contracts, data exchange and billing • Transmission line engineering, construction and maintenance • R&D • Safety	• Gas Supply Planning • Gas Transactions and Portfolio Optimization • Electric Supply Acquisition & Planning • Electric Transactions (Unregulated) • Generation Operations • Generation Environmental and Safety • Asset Investment Strategy & Valuation • Customer choice program management • System Control • Gas and Electric Rates • Middle & Back Office	• Supply Chain • - Procurement • - Inventory and material management • - Warehousing and material logistics • - Accounts payable • - Investment recovery • Facilities • Real Estate & Property • Fleet • Environmental • Corporate security

Team	Finance and Accounting	Information Technology	Human Resources	Corporate Services	Gas Operations
National Grid KeySpan Partner	Marcy Reed Mike Taunton Abhi Bhuchar	Bob Lorkiewicz Frank LaRocca Abhi Bhuchar	Bill Dowd Bill Bollbach Monica Chase	John Sherman Mike Walker Monica Chase	Jim Howe Bill Akley Katherine Capelluto
Sub-teams	• General Accounting • Plant Accounting • Revenue Accounting • Financial Planning • Tax • Treasury • Internal Audit	• IT strategy • IT policies • Infrastructure planning and operation –Data center –Network –Telecommunication • User support/help desk • Application design, implementation and maintenance • Office services	• Compensation and benefits • Labor and collective bargaining strategy • EEO/diversity • Employee relations • Payroll • Recruiting and hiring • Medical • Performance mgmt. • Management training/ leadership development • HRIS	• Legal • Internal Audit • Corporate secretary • Corporate affairs • Government relations • Ethics and compliance • External relations/media communications • Employee communications • Records retention and document mgmt. • Regulatory Affairs • Risk management (claims)	• Asset Management • System Operation & Control • Field Operations • Meter Services • Dispatching • Safety • Technical Training • Emergency Planning & Response • IT Systems • Data/project Support

Exhibit 2

Integration Tasks and Schedule

Key Tasks and Timeframes

Phase	Task	Timeframe	Deliverables
Integration Planning	***Task 1:*** Set Baseline	Apr – May 2006	• Baseline staffing and costs • "Clean Room" evaluation of current initiatives (stop/go) • Day One requirements

Integration Planning	***Task 2:*** Understand and Evaluate National Grid and KeySpan Policies and Processes	Apr - Jun 2006	• Improvement opportunities
			• Identify
			  • Similarities and differences
			  • Strengths and weaknesses

Integration Planning	***Task 3:*** Develop Recommended Approach; Identify Synergies (and Additional Savings)	Jul - Sep 2006	• Work practice and policy changes • Process designs • Systems changes • Integration plan • Savings
Integration Planning	***Task 4:*** Design the Organization Structure	Jul - Sep 2006	• Staffing levels • Organization structure • Key performance metrics • Post-merger budgets
Implementation Planning	***Task 5:*** Develop Individual Functional Implementation Plans	Oct 2006	• Functional or team implementation plans • Day-1 initiatives readiness
Implementation Planning	***Task 6:*** Establish Priorities and Create an Overall Implementation Plan	Oct-Nov 2007	• Overall (prioritized and integrated) implementation plan • Day-1 vs. post-merger initiatives
Implementation	***Task 7:*** Implement and Monitor Progress	Jan 2007 →	• Implementation • Progress updates

Deliverables

- Early decisions and integration direction

Calculation of Synergy Value - Net Synergy by Year

	1	2	3	4	5	6	7	8	9	10	Total
SYNERGIES (Page 2 Column C Times Page 4 Column B)											
1 Massachusetts Electric	$ 9,683,235.28	$ 13,233,821.05	$ 16,955,823.05	$ 20,855,570.58	$ 21,376,959.85	$ 21,911,383.84	$ 22,459,168.44	$ 23,020,647.65	$ 23,596,163.84	$ 24,186,067.94	$ 197,278,841.51
2 Nantucket Electric	$ 118,335.53	$ 161,726.03	$ 207,211.36	$ 254,868.85	$ 261,240.57	$ 267,771.58	$ 274,465.87	$ 281,327.52	$ 288,360.71	$ 295,569.73	$ 2,410,877.75
3 New England Power	$ 3,477,598.63	$ 4,752,741.89	$ 6,089,446.89	$ 7,489,986.72	$ 7,677,236.39	$ 7,869,167.29	$ 8,065,896.48	$ 8,267,543.89	$ 8,474,232.49	$ 8,686,088.30	$ 70,849,938.95
4 Essex Gas	$ 532,305.43	$ 727,487.72	$ 932,093.08	$ 1,146,469.45	$ 1,175,131.18	$ 1,204,509.46	$ 1,234,622.20	$ 1,265,487.75	$ 1,297,124.95	$ 1,329,553.07	$ 10,844,784.28
5 Colonial Gas	$ 1,780,438.77	$ 2,433,278.49	$ 3,117,636.19	$ 3,834,675.64	$ 3,930,542.53	$ 4,028,806.10	$ 4,129,526.25	$ 4,232,764.41	$ 4,338,583.52	$ 4,447,048.10	$ 36,273,300.00
6 Boston Gas	$ 6,381,800.18	$ 8,721,837.19	$ 11,174,847.19	$ 13,745,001.57	$ 14,088,626.61	$ 14,440,842.28	$ 14,801,863.33	$ 15,171,909.92	$ 15,551,207.66	$ 15,939,987.86	$ 130,017,923.79
7 Granite State Electric	$ 412,028.60	$ 563,108.58	$ 721,482.43	$ 887,419.48	$ 909,604.97	$ 932,345.09	$ 955,653.72	$ 979,545.07	$ 1,004,033.69	$ 1,029,134.53	$ 8,394,356.17
8 EnergyNorth Gas	$ 784,675.33	$ 1,072,394.98	$ 1,374,005.25	$ 1,690,019.02	$ 1,732,269.49	$ 1,775,576.23	$ 1,819,965.64	$ 1,865,464.78	$ 1,912,101.40	$ 1,959,903.93	$ 15,986,376.05
9 Niagara Mohawk Electric	$ 19,722,182.31	$ 26,953,783.93	$ 34,534,514.94	$ 42,477,266.48	$ 43,539,198.14	$ 44,627,678.09	$ 45,743,370.05	$ 46,886,954.30	$ 48,059,128.15	$ 49,260,606.36	$ 401,804,682.76
10 Niagara Mohawk Gas	$ 5,085,973.32	$ 6,950,864.96	$ 8,905,790.39	$ 10,954,073.98	$ 11,227,925.83	$ 11,508,623.97	$ 11,796,339.57	$ 12,091,248.06	$ 12,393,529.26	$ 12,703,367.49	$ 103,617,736.83
11 BUG	$ 13,265,638.69	$ 18,129,796.86	$ 23,228,788.28	$ 28,571,283.88	$ 29,285,565.97	$ 30,017,705.12	$ 30,768,147.75	$ 31,537,351.44	$ 32,325,785.23	$ 33,133,929.86	$ 270,263,993.09
12 LILCO - GAS	$ 7,876,404.43	$ 10,764,473.21	$ 13,791,973.02	$ 16,964,052.17	$ 17,388,153.48	$ 17,822,857.32	$ 18,268,428.75	$ 18,725,139.47	$ 19,193,267.95	$ 19,673,099.65	$ 160,467,849.45
13 LIPA	$ 21,012,223.81	$ 28,716,849.45	$ 36,793,441.29	$ 45,255,733.66	$ 46,387,127.00	$ 47,546,805.17	$ 48,735,475.30	$ 49,953,862.19	$ 51,202,708.74	$ 52,482,776.46	$ 428,087,003.07
14 Unregulated	$ 3,069,268.81	$ 4,194,688.35	$ 5,374,441.22	$ 6,610,533.61	$ 6,775,796.95	$ 6,945,191.88	$ 7,118,821.68	$ 7,296,792.22	$ 7,479,212.02	$ 7,666,192.32	$ 62,530,939.06
15 Narragansett	$ 3,903,041.39	$ 5,334,183.23	$ 6,834,418.16	$ 8,406,297.35	$ 8,616,454.79	$ 8,831,866.16	$ 9,052,662.81	$ 9,278,979.38	$ 9,510,953.87	$ 9.748,727.71	$ 79,517,584.86
16 Providence Gas	$ 2,894,849.49	$ 3,956,314.09	$ 5,069,024.38	$ 6,234,872.56	$ 6,390,744.37	$ 6,550,512.98	$ 6,714,275.81	$ 6,882,132.70	$ 7,054,186.02	$ 7,230,540.67	$ 58,977,453.06
17 Total	$ 100,000,000.00	$ 136,667,350.00	$ 175,104,937.13	$ 215,378,125.00	$ 220,762,578.13	$ 226,281,642.58	$ 231,938,683.64	$ 237,737,150.73	$ 243,680,579.50	$ 249,772,593.99	$ 2,037,323,640.70
COST TO ACHIEVE (Page 3 Column C Times Page 4 Column A)											
1 Massachusetts Electric	$ (14,908,309.03)	$ (5,926,139.99)	$ (5,809,941.17)	$ (2,626,093.41)	$ (2,815,884.82)	$ (2,312,356.58)	$ (1,793,335.17)	$ (821,138.35)	$ (844,378.12)	$ (871,491.18)	$ (38,729,067.82)
2 Nantucket Electric	$ (182,189.38)	$ (72,421.35)	$ (71,001.32)	$ (32,092.60)	$ (34,411.97)	$ (28,258.52)	$ (21,915.74)	$ (10,034.85)	$ (10,318.86)	$ (10,650.20)	$ (473,294.79)
3 New England Power	$ (5,354,110.85)	$ (2,128,290.36)	$ (2,086,559.18)	$ (943,124.75)	$ (1,011,285.68)	$ (830,450.55)	$ (644,051.27)	$ (294,900.36)	$ (303,246.60)	$ (312,983.88)	$ (13,909,003.47)
4 Essex Gas	$ (819,537.43)	$ (325,770.92)	$ (319,383.26)	$ (144,361.23)	$ (154,794.42)	$ (127,114.54)	$ (98,582.96)	$ (45,139.50)	$ (46,417.03)	$ (47,907.49)	$ (2,129,008.78)
5 Colonial Gas	$ (2,741,163.53)	$ (1,089,628.53)	$ (1,068,263.26)	$ (482,854.99)	$ (517,751.59)	$ (425,168.78)	$ (329,737.26)	$ (150,981.21)	$ (155,254.26)	$ (160,239.49)	$ (7,121,042.91)
6 Boston Gas	$ (9,825,419.56)	$ (3,905,661.71)	$ (3,829,080.11)	$ (1,730,744.21)	$ (1,855,827.49)	$ (1,523,973.88)	$ (1,181,909.39)	$ (541,176.66)	$ (556,492.98)	$ (574,362.02)	$ (25,524,648.00)
7 Granite State Electric	$ (634,359.24)	$ (252,161.51)	$ (247,217.16)	$ (111,742.16)	$ (119,817.92)	$ (98,392.43)	$ (76,307.70)	$ (34,940.03)	$ (35,928.89)	$ (37,082.57)	$ (1,647,949.61)
8 EnergyNorth Gas	$ (1,208,086.14)	$ (480,221.30)	$ (470,805.20)	$ (212,803.95)	$ (228,183.59)	$ (187,380.47)	$ (145,321.87)	$ (66,540.47)	$ (68,423.69)	$ (70,620.78)	$ (3,138,387.46)
9 Niagara Mohawk Electric	$ (30,364,271.89)	$ (12,069,975.58)	$ (11,833,309.39)	$ (5,348,655.84)	$ (5,735,210.62)	$ (4,709,657.14)	$ (3,652,548.16)	$ (1,672,441.06)	$ (1,719,774.30)	$ (1,774,996.41)	$ (78,880,840.39)
10 Niagara Mohawk Gas	$ (7,830,364.53)	$ (3,112,615.67)	$ (3,051,583.99)	$ (1,379,315.96)	$ (1,479,001.04)	$ (1,214,530.43)	$ (941,922.26)	$ (431,290.54)	$ (443,496.87)	$ (457,737.60)	$ (20,341,858.90)
11 BUG	$ (20,423,777.32)	$ (8,118,570.88)	$ (7,959,383.21)	$ (3,597,641.21)	$ (3,857,647.73)	$ (3,167,834.52)	$ (2,456,796.29)	$ (1,124,926.16)	$ (1,156,763.69)	$ (1,193,907.48)	$ (53,057,248.50)
12 LILCO - GAS	$ (12,126,512.26)	$ (4,820,359.51)	$ (4,725,842.66)	$ (2,136,080.88)	$ (2,290,458.41)	$ (1,880,885.38)	$ (1,458,710.10)	$ (667,919.10)	$ (686,822.47)	$ (708,876.40)	$ (31,502,467.15)
13 LIPA	$ (32,350,419.77)	$ (12,859,480.97)	$ (12,607,334.28)	$ (5,698,515.10)	$ (6,110,354.68)	$ (5,017,719.05)	$ (3,891,463.85)	$ (1,781,836.58)	$ (1,832,265.92)	$ (1,891,100.14)	$ (84,040,490.34)
14 Unregulated	$ (4,725,446.26)	$ (1,878,392.51)	$ (1,841,561.29)	$ (832,385.70)	$ (892,543.37)	$ (732,941.39)	$ (568,428.58)	$ (260,274.00)	$ (267,640.24)	$ (276,234.19)	$ (12,275,847.53)
15 Narragansett	$ (6,009,122.52)	$ (2,388,661.33)	$ (2,341,824.83)	$ (1,058,504.82)	$ (1,135,004.44)	$ (932,046.28)	$ (722,843.26)	$ (330,977.91)	$ (340,345.21)	$ (351,273.72)	$ (15,610,604.33)
16 Providence Gas	$ (4,456,910.28)	$ (1,771,647.89)	$ (1,736,909.70)	$ (785,083.18)	$ (841,822.23)	$ (691,290.06)	$ (536,126.13)	$ (245,483.24)	$ (252,430.88)	$ (260,536.45)	$ (11,578,240.03)
17 Total	$ (153,960,000.00)	$ (61,200,000.00)	$ (60,000,000.00)	$ (27,120,000.00)	$ (29,080,000.00)	$ (23,880,000.00)	$ (18,520,000.00)	$ (8,480,000.00)	$ (8,720,000.00)	$ (9,000,000.00)	$ (399,960,000.00)
NET SYNERGIES (Synergies Plus Cost To Achieve)											
1 Massachusetts Electric	$ (5,225,073.76)	$ 7,307,681.06	$ 11,145,881.88	$ 18,229,477.17	$ 18,561,075.03	$ 19,599,027.26	$ 20,665,833.27	$ 22,199,509.30	$ 22,751,785.72	$ 23,314,576.76	$ 158,549,773.69
2 Nantucket Electric	$ (63,853.85)	$ 89,304.69	$ 136,210.04	$ 222,776.25	$ 226,828.60	$ 239,513.06	$ 252,550.13	$ 271,292.67	$ 278,041.85	$ 284,919.53	$ 1,937,582.96
3 New England Power	$ (1,876,512.22)	$ 2,624,451.53	$ 4,002,887.71	$ 6,546,861.97	$ 6,665,950.70	$ 7,038,716.74	$ 7,421,845.21	$ 7,972,643.53	$ 8,170,985.89	$ 8,373,104.42	$ 56,940,935.48
4 Essex Gas	$ (287,232.01)	$ 401,716.80	$ 612,709.83	$ 1,002,108.21	$ 1,020,336.76	$ 1,077,394.93	$ 1,136,039.23	$ 1,220,348.25	$ 1,250,707.91	$ 1,281,645.58	$ 8,715,775.50
5 Colonial Gas	$ (960,724.76)	$ 1,343,649.96	$ 2,049,372.93	$ 3,351,820.65	$ 3,412,790.94	$ 3,603,637.32	$ 3,799,788.99	$ 4,081,783.20	$ 4,183,329.25	$ 4,286,808.61	$ 29,152,257.09
6 Boston Gas	$ (3,443,619.38)	$ 4,816,175.48	$ 7,345,767.09	$ 12,014,257.36	$ 12,232,799.12	$ 12,916,868.39	$ 13,619,953.94	$ 14,630,733.26	$ 14,994,714.69	$ 15,365,625.84	$ 104,493,275.79
7 Granite State Electric	$ (222,330.64)	$ 310,947.07	$ 474,265.27	$ 775,677.33	$ 789,787.05	$ 833,952.66	$ 879,346.02	$ 944,605.04	$ 968,104.80	$ 992,051.96	$ 6,746,406.56
8 EnergyNorth Gas	$ (423,410.81)	$ 592,173.68	$ 903,200.05	$ 1,477,215.07	$ 1,504,085.91	$ 1,588,195.76	$ 1,674,643.77	$ 1,798,924.31	$ 1,843,677.71	$ 1,889,283.15	$ 12,847,988.59
9 Niagara Mohawk Electric	$ (10,642,089.58)	$ 14,883,808.36	$ 22,701,205.55	$ 37,128,610.63	$ 37,803,987.52	$ 39,918,020.96	$ 42,090,821.88	$ 45,214,513.24	$ 46,339,353.86	$ 47,485,609.95	$ 322,923,842.37
10 Niagara Mohawk Gas	$ (2,744,391.20)	$ 3,838,249.29	$ 5,854,206.39	$ 9,574,758.01	$ 9,748,924.78	$ 10,294,093.54	$ 10,854,417.31	$ 11,659,957.52	$ 11,950,032.39	$ 12,245,629.89	$ 83,275,877.94
11 BUG	$ (7,158,138.64)	$ 10,011,225.98	$ 15,269,405.07	$ 24,973,642.66	$ 25,427,918.24	$ 26,849,870.60	$ 28,311,351.47	$ 30,412,425.28	$ 31,169,021.54	$ 31,940,022.38	$ 217,206,744.59
12 LILCO - GAS	$ (4,250,107.83)	$ 5,944,113.70	$ 9,066,130.36	$ 14,827,971.29	$ 15,097,695.07	$ 15,941,971.94	$ 16,809,718.65	$ 18,057,220.37	$ 18,506,445.49	$ 18,964,223.25	$ 128,965,382.30
13 LIPA	$ (11,338,195.97)	$ 15,857,368.48	$ 24,186,107.00	$ 39,557,218.56	$ 40,276,772.32	$ 42,529,086.13	$ 44,844,011.45	$ 48,172,025.61	$ 49,370,442.83	$ 50,591,676.32	$ 344,046,512.73
14 Unregulated	$ (1,656,177.45)	$ 2,316,295.84	$ 3,532,879.93	$ 5,778,147.91	$ 5,883,253.58	$ 6,212,250.49	$ 6,550,393.09	$ 7,036,518.22	$ 7,211,571.78	$ 7,389,958.13	$ 50,255,091.53
15 Narragansett	$ (2,106,081.13)	$ 2,945,521.90	$ 4,492,593.33	$ 7,347,792.53	$ 7,481,450.35	$ 7,899,819.88	$ 8,329,819.55	$ 8,948,001.47	$ 9,170,608.66	$ 9,397,453.99	$ 63,906,980.53
16 Providence Gas	$ (1,562,060.79)	$ 2,184,666.20	$ 3,332,114.69	$ 5,449,789.38	$ 5,548,922.14	$ 5,859,222.92	$ 6,178,149.68	$ 6,636,649.46	$ 6,801,755.14	$ 6,970,004.21	$ 47,399,213.04
17 Total	$ (53,960,000.00)	$ 75,467,350.00	$ 115,104,937.13	$ 188,258,125.00	$ 191,682,578.13	$ 202,401,642.58	$ 213,418,683.64	$ 229,257,150.73	$ 234,960,579.50	$ 240,772,593.99	$ 1,637,363,640.70

Calculation of Synergy Value - Synergy

		Revenues (A)	Percent (B)		Synergies (C)
1 Massachusetts Electric	$	534,184,464	9.68%	$	19,366,470.56
2 Nantucket Electric	$	6,528,087	0.12%	$	236,671.06
3 New England Power	$	191,844,885	3.48%	$	6,955,197.25
4 Essex Gas	$	29,365,112	0.53%	$	1,064,610.85
5 Colonial Gas	$	98,219,521	1.78%	$	3,560,877.54
6 Boston Gas	$	352,057,800	6.38%	$	12,763,600.36
7 Granite State Electric	$	22,729,932	0.41%	$	824,057.21
8 EnergyNorth Gas	$	43,287,327	0.78%	$	1,569,350.67
9 Niagara Mohawk Electric	$	1,087,992,090	19.72%	$	39,444,364.63
10 Niagara Mohawk Gas	$	280,572,335	5.09%	$	10,171,946.64
11 BUG	$	731,811,000	13.27%	$	26,531,277.38
12 LILCO - GAS	$	434,509,000	7.88%	$	15,752,808.86
13 LIPA	$	1,159,158,400	21.01%	$	42,024,447.62
14 Unregulated	$	169,319,000	3.07%	$	6,138,537.62
15 Narragansett	$	215,314,821	3.90%	$	7,806,082.77
16 Providence Gas	$	159,697,000	2.89%	$	5,789,698.98
17 Total	$	5,516,590,774	100.00%	$	200,000,000.00
18 Synergy				$	200,000,000.00

(A) 2004 T&D Revenue (Rather than adjust the $200 million, Unregulated is included)
(B) Column A / Column A Line 17
(C) Line 18 * Column B

Calculation of Synergy Value - Cost to Achieve

		Revenues (A)	Percent (B)		Cost to Achieve (C)
1 Massachusetts Electric	$	534,184,464	9.68%	$	38,732,941.11
2 Nantucket Electric	$	6,528,087	0.12%	$	473,342.13
3 New England Power	$	191,844,885	3.48%	$	13,910,394.51
4 Essex Gas	$	29,365,112	0.53%	$	2,129,221.70
5 Colonial Gas	$	98,219,521	1.78%	$	7,121,755.09
6 Boston Gas	$	352,057,800	6.38%	$	25,527,200.72
7 Granite State Electric	$	22,729,932	0.41%	$	1,648,114.42
8 EnergyNorth Gas	$	43,287,327	0.78%	$	3,138,701.33
9 Niagara Mohawk Electric	$	1,087,992,090	19.72%	$	78,888,729.26
10 Niagara Mohawk Gas	$	280,572,335	5.09%	$	20,343,893.28
11 BUG	$	731,811,000	13.27%	$	53,062,554.75
12 LILCO - GAS	$	434,509,000	7.88%	$	31,505,617.71
13 LIPA	$	1,159,158,400	21.01%	$	84,048,895.23
14 Unregulated	$	169,319,000	3.07%	$	12,277,075.24
15 Narragansett	$	215,314,821	3.90%	$	15,612,165.54
16 Providence Gas	$	159,697,000	2.89%	$	11,579,397.97
17 Total	$	5,516,590,774	100.00%	$	400,000,000.00
18 Cost to Achieve (Page 2 Line 18 times 2)				$	400,000,000.00

(A) Page 2 Column A
(B) Column A / Column A Line 17
(C) Line 18 * Column B

Exhibit 3

Calculation of Synergy Value - Phase in Rates

Cost to Achieve		Synergy Multiplier		Inflation		Phase-In	
	(A)		(B)		(C)		(D)
Year 1	38.49%	Year 1	50.00%	Year 1	1	Year 1	50%
Year 2	15.30%	Year 2	68.33%	Year 2	1.0250	Year 2	67%
Year 3	15.00%	Year 3	87.55%	Year 3	1.0506	Year 3	83%
Year 4	6.78%	Year 4	107.69%	Year 4	1.0769	Year 4	100%
Year 5	7.27%	Year 5	110.38%	Year 5	1.1038	Year 5	100%
Year 6	5.97%	Year 6	113.14%	Year 6	1.1314	Year 6	100%
Year 7	4.63%	Year 7	115.97%	Year 7	1.1597	Year 7	100%
Year 8	2.12%	Year 8	118.87%	Year 8	1.1887	Year 8	100%
Year 9	2.18%	Year 9	121.84%	Year 9	1.2184	Year 9	100%
Year 10	2.25%	Year 10	124.89%	Year 10	1.2489	Year 10	100%

(A) Attachment 10 Niagara Mohawk Rate Plan (Attached to this Exhibit)
(B) Column (C) * Column (D)
(C) Assumed Inflation Growth of

	Mercer Study	Rates	Weighted Rates
Labor	45.25%	2.80%	1.27%
Non-Labor	54.75%	2.25%	1.23%
Total	100.00%		2.50%

(D) Attachment 10 Niagara Mohawk Rate Plan (Attached to this Exhibit)

DISCRIPTION OF GAS COST SYNERGIES

Since the announcement of the proposed merger between National Grid and KeySpan Corporation, representatives of the two companies have had numerous discussions to assess and review what gas cost synergy savings are likely to be achievable following the merger. While attainment of certain savings will require the expenditure of costs to achieve, certain cost-saving measures are likely achievable over the ten year period following the consummation of the merger.

Both the gas resource portfolios and customer load profiles of Niagara Mohawk Power Corporation ("Niagara Mohawk"), KeySpan Energy Delivery – New York ("KEDNY") and KeySpan Energy Delivery – Long Island ("KEDLI") (collectively "the NY Distributors") complement each other in ways that make significant synergy savings possible, while also enhancing reliability for all of the NY Distributors. Niagara Mohawk, KEDNY and KEDLI hold firm transportation capacity on many of the same interstate pipelines. These pipelines provide access to the Gulf Coast supply basin and to supplies from Western Canada, as well as to liquid market hubs such as Dominion South Point. The NY Distributors have diversified their gas suppliers, and purchase firm supplies from a variety of suppliers at different receipt points along their respective transportation contract paths. In addition, each of the NY Distributors has contracted for a significant quantity of market area storage and has storage contracts with Dominion Transmission, Inc. under Rate Schedule GSS, which provide significant balancing and swing flexibility.[1] KEDNY and KEDLI each own and operate LNG peakshaving facilities that provide a reliable source of peak day supply. By combining both the complementary and unique assets within these portfolios, the overall reliability of the combined portfolio is greatly enhanced. With respect to demand growth, KEDNY and KEDLI are both expected to experience significant growth over the next ten years, while Niagara Mohawk's growth is projected to be relatively flat.

Attachment I sets forth a projection of the total gas costs synergy savings of approximately $146 million, net of costs to achieve, over a ten-year period.[2] This estimate is based upon implementation of the opportunities outlined below. In addition to these projected gas costs savings, the combination of the NY Distributors will enable the combined entities to continue to investigate and implement ways to optimize the use of their respective portfolios. Moreover, Attachment I only assumes savings achievable from the combined management of the New York portfolios, and does not address synergies that may become available as a result of National Grid's acquisition of the Southern Union Gas Company and/or the further integration of KeySpan Energy Delivery – New England's gas supply portfolios with those of the NY Distributors. Any savings derived from further integration will inure to the benefit of all affected National Grid distribution affiliates.

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[1] Dominion Transmission, Inc. ("Dominion") owns and operates the majority of the natural gas storage facilities in the Northeastern United States. Dominion's storage facilities are spread out over Pennsylvania, West Virginia and New York. The size and scope of Dominion's storage operations helps to ensure the reliability of the services that Dominion provides.

[2] The projection of savings and costs to achieve is based upon an analysis of various alternatives as priced out using currently available information and market data. Changes in costs will affect the level of savings actually realized.

The NY Distributors have identified opportunities to achieve savings by taking advantage of the complementary designs of their gas supply portfolios and load growth patterns. Once the merger is completed, all of the New York Distributors will benefit from the increased scale, geographic diversity of assets, and perhaps most significantly, enhanced storage flexibility created by the merger. As a consequence of the portfolio enhancements created by the merger, the NY Distributors will be better able to offset and manage the effects of supply curtailments or disruptions by having access to an overall more reliable, flexible and diversified portfolio. As a result, following consummation of the merger, KEDNY and KEDLI will be able to achieve gas cost savings by adjusting their peak day reserve margins from five percent (5%) to two and one-half percent (2½%). The tangible consequence of this adjustment of two and one-half percent, or approximately 50,000 dth/day, is that going forward KEDNY and KEDLI will be able to in fact reduce the level of firm capacity that they contract for and avoid the associated fixed costs of that capacity while maintaining reliability by taking advantage of assets that are already part of the NY Distributors overall portfolio.

In addition, the merger provides the NY Distributors with the opportunity to achieve significant savings by permitting KEDNY and KEDLI to utilize some of Niagara Mohawk's seasonal supplies more efficiently for the benefit of all of the NY Distributors. At this time, Niagara Mohawk forecasts relatively flat demand growth over the ten year forecast period and thus, is not planning to add significant incremental capacity to its existing portfolio. Moreover, of the total DTI receipt point capacity to which Niagara Mohawk currently has access, approximately 60,000 dth/day is needed to serve the needs of firm customers on only about 20 peak or near-peak days per year. When that receipt point capacity is not needed to meet customer demand, it is marketed to off-system customers or used for dispatch flexibility. Because Niagara Mohawk forecasts relatively flat demand growth over the ten year forecast period, this winter season capacity can be made available to KEDNY and KEDLI on an off-peak basis.

While Niagara Mohawk forecasts flat demand growth over the next ten years, KEDNY and KEDLI are projected to experience significant firm demand growth and will have a need to contract for a mix of firm incremental pipeline transportation, storage capacity, bundled city gate winter and peaking supply to reliably serve that growth. As a consequence of the proposed merger, KEDNY and KEDLI will be able to defer and reduce their need for incremental firm storage and pipeline capacity by purchasing up to 60,000 dth/day of winter supply from Niagara Mohawk on all but the 20 coldest days of the winter when Niagara Mohawk will require that supply for its customers in upstate New York. The benefit of this opportunity for KEDNY and KEDLI is that instead of contracting for firm storage or year-round pipeline capacity to meet their needs, they will be able to purchase 60,000 dth/day from Niagara Mohawk throughout the winter and augment that supply as required with a 20-day peaking supply from a third party. Leidy, Pennsylvania is the assumed point of transfer between Niagara Mohawk and KEDNY/KEDLI because it is a major trading point on the Dominion, Transcontinental Gas Pipe Line Corporation ("Transco") and Texas Eastern Transmission System ("Texas Eastern") pipeline systems; pipelines which serve Niagara Mohawk and/or KEDNY/KEDLI.

To take advantage of this opportunity, Niagara Mohawk would use its DTI receipt entitlements to purchase gas supply that would then be delivered to KEDNY and KEDLI at Leidy and the KeySpan companies would in turn redeliver the supply from Leidy to their city gates. Niagara Mohawk already holds approximately 8,000 Dth/day of firm transportation capacity to Leidy on Transco and has initiated discussions with Dominion about the potential to modify its existing firm transportation contract with Dominion to make Leidy a primary firm delivery point for the remaining 52,000 dth/day. KEDNY and KEDLI have numerous firm transportation contracts with Transco and Texas Eastern at Leidy that are used to deliver gas withdrawn from storage to their city gates. On non-peak days during the winter, when storage withdrawals are not maximized, there is available capacity under these contracts to move most of incremental supply being provided by Niagara Mohawk to the KEDNY/KEDLI city gates. However, KEDNY and KEDLI may need to contract for an additional 10,000 dth/day of capacity at Leidy to firm up the transaction with Niagara Mohawk. The NY Distributors have discussed this strategy with both Dominion and Transco and have received preliminary cost estimates along with confirmation that this strategy is feasible. Adding the incremental deliverability required to implement this opportunity will not likely require major construction. The estimated annual costs to achieve these savings, including the annual costs of adding a Leidy receipt point for Niagara Mohawk and procuring the additional 10,000 dth/day of incremental transportation capacity for KEDNY and KEDLI, as well as certain additional dispatch costs that will be incurred by Niagara Mohawk, are approximately $6.8 million.

The savings to be achieved will flow back to customers through the NY Distributors' Gas Adjustment Clauses. The KEDNY and KEDLI payments to Niagara Mohawk for delivered supply will be based on a cost-based allocation and will flow through to Niagara Mohawk's customers. To the extent that selling supply to KEDNY and KEDLI creates opportunity costs for Niagara Mohawk, such costs will be recognized between the parties in an appropriate manner. Notwithstanding the challenges presented, the combination of gas supply and capacity portfolios made possible by the proposed merger will result in significant savings and efficiencies that will benefit customers.

Exhibit 3
Attachment I

Niagara Mohawk Power Corporation and KeySpan Energy Delivery - New York and Long Island
Projected Annual Fixed Supply Cost Savings
(000$)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Avoided Costs	$3,848	$4,163	$6,920	$6,935	$7,031	$16,161	$21,468	$29,535	$36,646	$36,646	$169,351
Costs To Achieve	$0	$0	$0	$0	$0	$0	($3,880)	($5,961)	($6,766)	($6,766)	($23,374)
Net Savings	$3,848	$4,163	$6,920	$6,935	$7,031	$16,161	$17,588	$23,574	$29,879	$29,879	$145,977

Exhibit 4

Exhibit 4

Stand-Alone Costs of Service
for
KEDNY and KEDLI

See separate volume

Exhibit 5

KEDNY

KEYSPAN ENERGY DELIVERY NEW YORK
SUMMARY OF RATES OF RETURN BY CUSTOMER CLASS
FOR TWELVE MONTHS ENDED DECEMBER 31, 2005

Class	% Return
Residential Non-Heating	-0.64%
Residential Heating	7.85%
Non-Residential General	18.28%
Multi-Family Heating and/or Water Heating	5.63%
High Load Factor Service	18.45%
Temperature Controlled	42.43%
Return for above classes	**9.13%**
System Average	**9.86%**

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 1A NON-HEATING CUSTOMER COMPONENT	RATE 1A NON-HEATING MINIMUM COST TO SERVE	RATE 1B RES HEATING CUSTOMER COMPONENT	RATE 1B RES HEATING MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	1,460,207,157				
813		Other Gas Supply Expenses	213,042				
841-847.8		Other Storage Expenses	4,857,913				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	(2,709)	(755)	(755)	(825)	(825)
874	(2)	Mains & Services Expenses	9,896,517	1,868,769	1,868,769	2,912,070	2,912,070
875		Meas & Reg Expenses	3,042,377	-	-	-	-
878	(3)	Oper Meter & House Reg Exp	10,745,370	6,279,366	6,279,366	3,245,862	3,245,862
879	(4)	Customer Installation Exp	2,849,069	1,368,854	1,368,854	1,236,491	1,236,491
880	(5)	Other Operation Expenses	500,278	102,640	102,640	142,979	142,979
881		Rents	5,600,323	1,148,995	1,148,995	1,600,568	1,600,568
		Total Operation	32,631,226	10,767,869	10,767,869	9,137,145	9,137,145
		MAINTENANCE					
886	(6)	Maintenance of Structures	123,023	-	-	-	-
887	(7)	Maintenance of Mains	44,003,079	5,000,887	5,000,887	8,589,136	8,589,136
889		Meas & Reg Station Equip	2,256,955	-	-	-	-
890		Indust Meas & Reg Equip	397,753	-	-	-	-
892	(7)	Maintenance of Services	7,761,325	2,259,996	2,259,996	3,330,484	3,330,484
893	(8)	Maint of Meters & House Reg	1,681,652	700,121	700,121	616,686	616,686
		Total Maintenance	56,223,787	7,961,003	7,961,003	12,536,305	12,536,305
895		Total Joint Expenses	3,405,925	769,318	769,318	867,164	867,164
		TOTAL DISTRIBUTION EXP	92,260,938	19,498,190	19,498,190	22,540,614	22,540,614
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,548,821	2,613,599	2,613,599	1,839,764	1,839,764
904	(9)	Uncollectibles	42,478,516	2,857,092	2,826,778	4,395,066	4,249,720
901-911	(10)	Others	48,808,851	18,813,978	16,793,123	24,017,248	19,198,124
		Total	96,836,188	24,284,669	22,233,499	30,252,077	25,287,608
915-919		SALES EXPENSES	11,887,762	3,407,387	3,407,387	2,973,851	2,973,851

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 1A NON-HEATING CUSTOMER COMPONENT	RATE 1A NON-HEATING MINIMUM COST TO SERVE	RATE 1B RES HEATING CUSTOMER COMPONENT	RATE 1B RES HEATING MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	124,464,180	33,249,799	32,882,520	37,117,190	36,241,343
	(12) DEPR & AMORT	92,990,067	19,260,134	17,539,897	25,557,646	24,067,881
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	61,702,179	11,738,432	11,731,314	16,353,180	16,336,205
	(14) Other Taxes	3,831,071	1,204,611	1,178,245	1,093,932	1,031,056
	Total Taxes Excluding Revenue Taxes	65,533,249	12,943,043	12,909,558	17,447,111	17,367,261
	(15) LESS GAS UNCOLLECTIBLES	(29,621,928)	-	-	-	-
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	456,015,487	112,643,221	108,471,052	135,888,489	128,478,558
	(16) Rate Base	1,918,263,922	346,376,380	329,537,820	476,578,332	460,985,858
	(17) System Average Return @ 9.86%			32,492,429		45,453,206
	(18) Return for Summary Classes 1-6 @ 9.13% Overall			30,086,803		42,088,009
	(19) Federal Income Taxes @ 9.86% Return			6,268,864		8,769,426
	Federal Income Taxes @ 9.13% Return			5,804,739		8,120,169
	Total Revenue Requirement @ 9.86%			147,232,345		182,701,190
	Total Revenue Requirement @ 9.13%			144,362,594		178,686,736
	No. of Meters			618,839		485,987
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 237.92		$ 375.94
	Bi-monthly Minimum Cost to Serve			$ 39.65		$ 62.66
	Monthly Minimum Cost to Serve			$ 19.83		$ 31.33
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 233.28		$ 367.68
	Bi-monthly Minimum Cost to Serve			$ 38.88		$ 61.28
	Monthly Minimum Cost to Serve			$ 19.44		$ 30.64

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

				RATE 2 GENERAL SERVICE		RATE 3 MULTIFAMILY	
ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	1,460,207,157				
813		Other Gas Supply Expenses	213,042				
841-847.8		Other Storage Expenses	4,857,913				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	(2,709)	(123)	(123)	(33)	(33)
874	(2)	Mains & Services Expenses	9,896,517	294,648	294,648	82,230	82,230
875		Meas & Reg Expenses	3,042,377	-	-	-	-
878	(3)	Oper Meter & House Reg Exp	10,745,370	895,468	895,468	261,138	261,138
879	(4)	Customer Installation Exp	2,849,069	133,448	133,448	47,811	47,811
880	(5)	Other Operation Expenses	500,278	19,566	19,566	5,631	5,631
881		Rents	5,600,323	219,030	219,030	63,031	63,031
		Total Operation	32,631,226	1,562,038	1,562,038	459,808	459,808
		MAINTENANCE					
886	(6)	Maintenance of Structures	123,023	-	-	-	-
887	(7)	Maintenance of Mains	44,003,079	765,219	765,219	213,556	213,556
889		Meas & Reg Station Equip	2,256,955	-	-	-	-
890		Indust Meas & Reg Equip	397,753	-	-	-	-
892	(7)	Maintenance of Services	7,761,325	361,920	361,920	101,004	101,004
893	(8)	Maint of Meters & House Reg	1,681,652	263,414	263,414	80,059	80,059
		Total Maintenance	56,223,787	1,390,553	1,390,553	394,618	394,618
895		Total Joint Expenses	3,405,925	140,536	140,536	35,442	35,442
		TOTAL DISTRIBUTION EXP	92,260,938	3,093,128	3,093,128	889,869	889,869
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,548,821	881,223	881,223	62,842	62,842
904	(9)	Uncollectibles	42,478,516	932,193	896,212	223,462	211,286
901-911	(10)	Others	48,808,851	2,466,746	1,870,415	1,176,684	713,332
		Total	96,836,188	4,280,161	3,647,850	1,462,989	987,461
915-919		SALES EXPENSES	11,887,762	1,769,224	1,769,224	210,970	210,970

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 2 GENERAL SERVICE CUSTOMER COMPONENT	RATE 2 GENERAL SERVICE MINIMUM COST TO SERVE	RATE 3 MULTIFAMILY CUSTOMER COMPONENT	RATE 3 MULTIFAMILY MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	124,464,180	5,351,564	5,243,184	1,491,486	1,407,275
	(12) DEPR & AMORT	92,990,067	3,736,866	2,948,608	1,080,844	905,559
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	61,702,179	2,236,962	2,234,862	644,809	643,177
	(14) Other Taxes	3,831,071	166,839	159,059	45,519	39,473
	Total Taxes Excluding Revenue Taxes	65,533,249	2,403,802	2,393,921	690,328	682,650
	(15) LESS GAS UNCOLLECTIBLES	(29,621,928)	-	-	-	-
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	456,015,487	20,634,745	19,095,914	5,826,485	5,083,783
	(16) Rate Base	1,918,263,922	62,826,621	55,214,075	17,930,101	16,129,747
	(17) System Average Return @ 9.86%			1,767,908		1,590,393
	(18) Return for Summary Classes 1-6 @ 9.13% Overall			1,637,018		1,472,646
	(19) Federal Income Taxes @ 9.86% Return			341,088		306,839
	Federal Income Taxes @ 9.13% Return			315,835		284,122
	Total Revenue Requirement @ 9.86%			21,204,910		6,981,016
	Total Revenue Requirement @ 9.13%			21,048,767		6,840,551
	No. of Meters			43,297		12,083
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 489.75		$ 577.74
	Bi-monthly Minimum Cost to Serve			$ 81.63		$ 96.29
	Monthly Minimum Cost to Serve			$ 40.81		$ 48.14
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 486.14		$ 566.11
	Bi-monthly Minimum Cost to Serve			$ 81.02		$ 94.35
	Monthly Minimum Cost to Serve			$ 40.51		$ 47.18

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

				RATE 4 HIGH LOAD FACTOR		RATE 6 TEMP CONTROLLED	
ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	1,460,207,157				
813		Other Gas Supply Expenses	213,042				
841-847.8		Other Storage Expenses	4,857,913				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	(2,709)	(2)	(2)	(34)	(34)
874	(2)	Mains & Services Expenses	9,896,517	1,174	1,174	122,257	122,257
875		Meas & Reg Expenses	3,042,377	-	-	-	-
878	(3)	Oper Meter & House Reg Exp	10,745,370	9,699	9,699	52,491	52,491
879	(4)	Customer Installation Exp	2,849,069	1,984	1,984	57,496	57,496
880	(5)	Other Operation Expenses	500,278	148	148	5,757	5,757
881		Rents	5,600,323	1,652	1,652	64,445	64,445
		Total Operation	32,631,226	14,655	14,655	302,411	302,411
		MAINTENANCE					
886	(6)	Maintenance of Structures	123,023	-	-	-	-
887	(7)	Maintenance of Mains	44,003,079	3,112	3,112	71,848	71,848
889		Meas & Reg Station Equip	2,256,955	-	-	-	-
890		Indust Meas & Reg Equip	397,753	-	-	-	-
892	(7)	Maintenance of Services	7,761,325	1,426	1,426	209,160	209,160
893	(8)	Maint of Meters & House Reg	1,681,652	3,459	3,459	17,451	17,451
		Total Maintenance	56,223,787	7,997	7,997	298,459	298,459
895		Total Joint Expenses	3,405,925	2,823	2,823	53,091	53,091
		TOTAL DISTRIBUTION EXP	92,260,938	25,475	25,475	653,961	653,961
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,548,821	5,654	5,654	141,607	141,607
904	(9)	Uncollectibles	42,478,516	3,344	2,902	212,228	184,171
901-911	(10)	Others	48,808,851	68,885	39,787	1,993,384	1,036,318
		Total	96,836,188	77,882	48,343	2,347,219	1,362,095
915-919		SALES EXPENSES	11,887,762	134,495	134,495	1,635,801	1,635,801

KEYSPAN ENERGY DELIVERY NEW YORK
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 4 HIGH LOAD FACTOR CUSTOMER COMPONENT	RATE 4 HIGH LOAD FACTOR MINIMUM COST TO SERVE	RATE 6 TEMP CONTROLLED CUSTOMER COMPONENT	RATE 6 TEMP CONTROLLED MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	124,464,180	67,901	62,613	1,632,913	1,458,972
	(12) DEPR & AMORT	92,990,067	31,671	31,252	1,100,240	1,086,472
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	61,702,179	16,960	16,857	660,792	657,421
	(14) Other Taxes	3,831,071	3,032	2,652	53,771	41,285
	Total Taxes Excluding Revenue Taxes	65,533,249	19,992	19,510	714,564	698,706
	(15) LESS GAS UNCOLLECTIBLES	(29,621,928)	-	-	-	-
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	456,015,487	357,417	321,688	8,084,698	6,896,007
	(16) Rate Base	1,918,263,922	516,314	502,904	19,162,261	18,719,162
	(17) System Average Return @ 9.86%			49,586		1,845,709
	(18) Return for Summary Classes 1-6 @ 9.13% Overall			45,915		1,709,059
	(19) Federal Income Taxes @ 9.86% Return			9,567		356,098
	Federal Income Taxes @ 9.13% Return			8,859		329,734
	Total Revenue Requirement @ 9.86%			380,841		9,097,815
	Total Revenue Requirement @ 9.13%			376,462		8,934,801
	No. of Meters			176		4,065
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 2,162.85		$ 2,237.95
	Bi-monthly Minimum Cost to Serve			$ 360.47		$ 372.99
	Monthly Minimum Cost to Serve			$ 180.24		$ 186.50
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 2,137.97		$ 2,197.85
	Bi-monthly Minimum Cost to Serve			$ 356.33		$ 366.31
	Monthly Minimum Cost to Serve			$ 178.16		$ 183.15

KEYSPAN ENERGY DELIVERY NEW YORK
ALLOCATION OF CUSTOMER COSTS IN MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

(1) Supervision and Engineering Expenses - These expenses were allocated based on the ratio of labor related to the minimum cost of service to customer related labor for the applicable operation and maintenance accounts.

(2) Mains and Services Operation Expense - These expenses represent 100% of the operating expenses related to the customer portion of mains and service expenses.

(3) Meter and House Regulator Operation Expenses - The minimum cost to serve reflects the amount related to maintaining all meters anc house regulators .

(4) Customer Installation Expenses - The amount allocated to the minimum cost to install meters and related equipment.

(5) Other Expenses - Reflect the percentage of customer related other expenses allocable to the minimum cost to serve.

(6) Maintenance of Structures - All expenditures for maintenance of structures were allocated to the demand category and not allocated to customers.

(7) Maintenance of Mains and Maintenance of Services - These expenses represent the maintenance expenses related to the customer portion of mains and services.

(8) Maintenance of Meters and House Regulator Expenses - Allocated in the same manner as (3) above.

(9) Customer Accounts Expenses: Uncollectibles - The total expenses reflect the uncollectible revenues for both the distribution and the supply function. Only the amount related to distribution is allocated to the rate classes. The supply allocation is subtracted below.

(10) Customer Accounts Expenses: Meter Reading and All Others - All expenses were allocated to the minimum cost to serve.

(11) Administrative and General Expenses - These expenses reflect the percentage of customer-related administrative expenses allocable to the minimum cost to serve.

(12) Depreciation and Amortization - Reflects the percentage of customer-related plant allocable to the minimum cost to serve.

(13) Property Tax and Special Franchise Tax - These expenses were allocated to the minimum cost to serve based upon the percentage of taxable customer-related plant allocable the the minimum cost to serve.

(14) Other Taxes - This expense represents the portion of payroll and other taxes related to the minimum cost to serve.

(15) Gas Uncollectibles - Since all commodity costs have been excluded from the minimum cost study, these commodity-related expenses are also excluded.

(16) Rate Base - These items were identified by customer component and then allocated to the minimum cost to serve based on the applicable percentage for each function.

(17) Return - Returns were computed at the average overall return of 9.86% and the return for rates presented of 9.13%.

(18) Federal Income Taxes - Federal income taxes were allocated by taking rate base related to the minimum cost to serve in column (3) as a percent of total rate base in column (1) and mutiplying this number by total federal income taxes.

KEYSPAN ENERGY DELIVERY NEW YORK
Customer Records and Collection Expense
Summary of Special Study to Functionalize FERC Account 903

					Allocation Percentage	
Cost Component	Total Dollars	Distribution	Billing/Payment	Gas Cost-Collections	& to Billing/Pay	& to Collections
Costs Related to Meter Reading	1,606,583	1,606,583				
Print & Mail Bills	2,533,995	-	2,533,995		100.0%	
Field Offices - Billing Inquiries	3,001,168	3,001,168				
Field Offices - Collections	3,652,903	3,652,903				
Call Center - Billing	2,647,183		2,647,183		100.0%	
Call Center - Collections	1,554,544	528,545		1,025,999		66.0%
Collections	3,005,057	1,021,719		1,983,338		66.0%
Collections Labor	3,202,499	1,088,850		2,113,649		66.0%
Replevin	2,197,607	747,186		1,450,421		66.0%
Collections Agency Fees	2,451,937	833,659		1,618,278		66.0%
Other Outside Collections Services	476,429	161,986		314,443		66.0%
Remittance Processing	1,056,072		1,056,072		100.0%	
Social Responsibility	1,850,285	1,850,285				
Service Orders	6,962,851	6,962,851				
Bill Calculation	7,162,522	7,162,522				
Outbound Collections Postage	597,255	203,067		394,188		66.0%
Prepaid Postage	1,537,216	1,537,216				
Other	1,290,754	1,290,754				
Total Account 903	**46,786,860**	**31,649,294**	**6,237,250**	**8,900,316**		

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KEYSPAN ENERGY DELIVERY LONG ISLAND
SUMMARY OF RATES OF RETURN BY CUSTOMER CLASS
FOR TWELVE MONTHS ENDED DECEMBER 31, 2005

Class	% Return
Residential Non-Heating	-3.07%
Residential Heating	8.45%
Non-Residential General	11.34%
Multiple-Dwelling Service	7.24%
High Load Factor Service	49.12%
Temperature Controlled	66.53%
Return for Above Classes	**7.68%**
System Average Return	**8.69%**

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

				RATE 1A NON-HEATING		RATE 1B RES HEATING	
ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	963,016,410				
813		Other Gas Supply Expenses	-				
841-847.8		Other Storage Expenses	2,629,304				
850-867		Transmission	6,893,778				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	65,452	11,656	11,656	32,282	32,282
874	(2)	Mains & Services Expenses	8,545,094	1,483,258	1,483,258	3,717,286	3,717,286
875		Meas & Reg Expenses	380,446	-	-	-	-
878	(3)	Oper Meter & House Reg Exp	4,762,758	1,081,524	1,081,524	2,624,645	2,624,645
879	(4)	Customer Installation Exp	1,055,864	120,100	120,100	708,063	708,063
880	(5)	Other Operation Expenses	22,214,815	3,751,137	3,751,137	9,450,630	9,450,630
881		Rents	-	-	-		-
		Total Operation	37,024,429	6,447,675	6,447,675	16,532,906	16,532,906
		MAINTENANCE					
886	(6)	Maintenance of Structures	31,779	-	-	-	-
887	(7)	Maintenance of Mains	15,579,184	2,904,219	2,904,219	6,697,242	6,697,242
889		Meas & Reg Station Equip	440,064	-	-	-	-
890		Indust Meas & Reg Equip	90,162	-	-	-	-
892	(7)	Maintenance of Services	4,276,079	654,357	654,357	1,895,343	1,895,343
893	(8)	Maint of Neters & House Reg	722,209	163,999	163,999	397,992	397,992
		Total Maintenance	21,139,476	3,722,575	3,722,575	8,990,577	8,990,577
895		Total Joint Expenses	-		-		-
		TOTAL DISTRIBUTION EXP	58,163,905	10,170,250	10,170,250	25,523,483	25,523,483
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,250,697	752,045	752,045	3,357,464	3,357,464
904	(9)	Uncollectibles	6,194,114	330,202	328,441	855,771	847,552
901-911	(10)	Others	17,250,666	3,874,749	3,630,772	10,488,330	9,350,057
		Total	28,695,477	4,956,997	4,711,258	14,701,566	13,555,073
915-919		SALES EXPENSES	9,920,217	1,944,016	1,944,016	4,753,267	4,753,267

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

			RATE 1A NON-HEATING		RATE 1B RES HEATING	
ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	57,361,053	9,304,610	9,225,760	25,631,818	25,263,945
	(12) DEPR & AMORT	54,932,930	8,485,258	8,359,768	21,540,880	21,170,615
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	52,313,147	7,760,977	7,760,107	19,549,272	19,545,214
	(14) Other Taxes	3,985,730	646,672	640,635	1,796,160	1,767,993
	Total Taxes Excluding Revenue Taxes	56,298,877	8,407,649	8,400,742	21,345,432	21,313,208
	(15) LESS: GAS UNCOLLECTIBLES	(4,743,087)				
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	260,629,372	43,268,780	42,811,794	113,496,445	111,579,590
	(16) Rate Base	1,616,970,313	235,086,230	233,112,077	597,625,132	592,127,958
	(17) System Average Return @ 8.69%			20,257,439		51,455,920
	(18) Return for Summary Classes 1-6 @ 7.68% Overall			17,903,007		45,475,427
	(19) Federal Income Taxes @ 8.69% Return			6,678,138		16,963,137
	Federal Income Taxes @ 7.68% Return			5,901,967		14,991,587
	Total Revenue Requirement @ 8.69%			69,747,371		179,998,646
	Total Revenue Requirement @ 7.68%			66,616,768		172,046,604
	No. of Meters			141,157		325,514
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 494.11		$ 552.97
	Bi-monthly Minimum Cost to Serve			$ 82.35		$ 92.16
	Monthly Minimum Cost to Serve			$ 41.18		$ 46.08
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 471.93		$ 528.54
	Bi-monthly Minimum Cost to Serve			$ 78.66		$ 88.09
	Monthly Minimum Cost to Serve			$ 39.33		$ 44.04

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

				RATE 2 GENERAL SERVICE		RATE 3 MULTIFAMILY	
ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	963,016,410				
813		Other Gas Supply Expenses	-				
841-847.8		Other Storage Expenses	2,629,304				
			6,893,778				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	65,452	8,575	8,575	340	340
874	(2)	Mains & Services Expenses	8,545,094	-	941,276	-	34,480
875		Meas & Reg Expenses	380,446	941,276	-	34,480	-
878	(3)	Oper Meter & House Reg Exp	4,762,758	876,351	876,351	45,969	45,969
879	(4)	Customer Installation Exp	1,055,864	149,866	149,866	21,228	21,228
880	(5)	Other Operation Expenses	22,214,815	2,605,025	2,605,025	103,062	103,062
881		Rents	-		-		-
		Total Operation	37,024,429	4,581,093	4,581,093	205,078	205,078
		MAINTENANCE					
886	(6)	Maintenance of Structures	31,779	-	-	-	-
887	(7)	Maintenance of Mains	15,579,184	1,121,122	1,121,122	22,507	22,507
889		Meas & Reg Station Equip	440,064	-	-	-	-
890		Indust Meas & Reg Equip	90,162	-	-	-	-
892	(7)	Maintenance of Services	4,276,079	732,503	732,503	34,989	34,989
893	(8)	Maint of Neters & House Reg	722,209	132,887	132,887	6,971	6,971
		Total Maintenance	21,139,476	1,986,512	1,986,512	64,466	64,466
895		Total Joint Expenses	-		-		-
		TOTAL DISTRIBUTION EXP	58,163,905	6,567,604	6,567,604	269,545	269,545
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,250,697	1,098,612	1,098,612	23,312	23,312
904	(9)	Uncollectibles	6,194,114	234,264	232,829	9,655	9,446
901-911	(10)	Others	17,250,666	2,569,984	2,371,309	112,457	83,463
		Total	28,695,477	3,902,860	3,702,750	145,424	116,221
915-919		SALES EXPENSES	9,920,217	1,339,932	1,339,932	113,459	113,459

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

			RATE 2 GENERAL SERVICE		RATE 3 MULTIFAMILY	
ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	CUSTOMER COMPONENT	MINIMUM COST TO SERVE	CUSTOMER COMPONENT	MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	57,361,053	6,835,799	6,771,590	274,851	265,481
	(12) DEPR & AMORT	54,932,930	6,008,483	5,671,994	250,711	230,834
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	52,313,147	5,389,105	5,388,397	213,254	213,150
	(14) Other Taxes	3,985,730	476,695	471,779	19,194	18,476
	Total Taxes Excluding Revenue Taxes	56,298,877	5,865,800	5,860,176	232,447	231,627
		(4,743,087)				
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	260,629,372	30,520,479	29,914,047	1,286,438	1,227,166
	(16) Rate Base	1,616,970,313	168,302,241	162,652,046	6,691,186	6,370,934
	(17) System Average Return @ 8.69%			14,134,463		553,634
	(18) Return for Summary Classes 1-6 @ 7.68% Overall			12,491,677		489,288
	(19) Federal Income Taxes @ 8.69% Return			4,659,616		182,513
	Federal Income Taxes @ 7.68% Return			4,118,050		161,300
	Total Revenue Requirement @ 8.69%			48,708,126		1,963,313
	Total Revenue Requirement @ 7.68%			46,523,773		1,877,754
	No. of Meters			54,491		1,094
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 893.87		$ 1,794.62
	Bi-monthly Minimum Cost to Serve			$ 148.98		$ 299.10
	Monthly Minimum Cost to Serve			$ 74.49		$ 149.55
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 853.79		$ 1,716.41
	Bi-monthly Minimum Cost to Serve			$ 142.30		$ 286.07
	Monthly Minimum Cost to Serve			$ 71.15		$ 143.03

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #		PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 15 HIGH LOAD FACTOR CUSTOMER COMPONENT	RATE 15 HIGH LOAD FACTOR MINIMUM COST TO SERVE	RATE 12 TEMP CONTROLLED CUSTOMER COMPONENT	RATE 12 TEMP CONTROLLED MINIMUM COST TO SERVE
		PRODUCTION EXPENSES					
804-810		Nat. Gas Purchases for Resale	963,016,410				
813		Other Gas Supply Expenses	-				
841-847.8		Other Storage Expenses	2,629,304				
			6,893,778				
		DISTRIBUTION EXPENSES					
		OPERATION					
870	(1)	Supervision & Engineering	65,452	79	79	294	294
874	(2)	Mains & Services Expenses	8,545,094	-	5,585	-	20,446
875		Meas & Reg Expenses	380,446	5,585	-	20,446	-
878	(3)	Oper Meter & House Reg Exp	4,762,758	24,486	24,486	71,068	71,068
879	(4)	Customer Installation Exp	1,055,864	4,262	4,262	22,050	22,050
880	(5)	Other Operation Expenses	22,214,815	25,561	25,561	84,230	84,230
881		Rents	-		-		-
		Total Operation	37,024,429	59,973	59,973	198,088	198,088
		MAINTENANCE					
886	(6)	Maintenance of Structures	31,779	-	-	-	-
887	(7)	Maintenance of Mains	15,579,184	1,324	1,324	8,288	8,288
889		Meas & Reg Station Equip	440,064	-	-	-	-
890		Indust Meas & Reg Equip	90,162	-	-	-	-
892	(7)	Maintenance of Services	4,276,079	6,688	6,688	22,971	22,971
893	(8)	Maint of Neters & House Reg	722,209	3,713	3,713	10,776	10,776
		Total Maintenance	21,139,476	11,725	11,725	42,036	42,036
895		Total Joint Expenses	-		-		-
		TOTAL DISTRIBUTION EXP	58,163,905	71,698	71,698	240,124	240,124
		CUSTOMER ACCOUNT EXP					
902	(10)	Meter Reading	5,250,697	1,371	1,371	8,585	8,585
904	(9)	Uncollectibles	6,194,114	2,378	2,337	8,986	8,774
901-911	(10)	Others	17,250,666	15,934	10,246	81,559	52,127
		Total	28,695,477	19,684	13,954	99,130	69,486
915-919		SALES EXPENSES	9,920,217	34,959	34,959	289,433	289,433

KEYSPAN ENERGY DELIVERY LONG ISLAND
CALCULATION OF THE MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

ACCT #	PSC ACCOUNT TITLE	TOTAL UTILITY OPERATIONS	RATE 15 HIGH LOAD FACTOR CUSTOMER COMPONENT	RATE 15 HIGH LOAD FACTOR MINIMUM COST TO SERVE	RATE 12 TEMP CONTROLLED CUSTOMER COMPONENT	RATE 12 TEMP CONTROLLED MINIMUM COST TO SERVE
	(11) ADMIN & GEN EXPENSES	57,361,053	63,827	61,988	237,068	227,556
	(12) DEPR & AMORT	54,932,930	64,128	63,619	210,021	207,387
	TAXES EXCLUDING REVENUE TAXES					
	(13) Property and Special Franchise Taxes	52,313,147	52,888	52,867	174,265	174,161
	(14) Other Taxes	3,985,730	4,420	4,279	16,612	15,883
	Total Taxes Excluding Revenue Taxes	56,298,877	57,307	57,146	190,877	190,044
		(4,743,087)				
	Total Revenue Requirement Excluding Return, FIT and Revenue Taxes	260,629,372	311,602	303,364	1,266,653	1,224,030
	(16) Rate Base	1,616,970,313	1,693,245	1,688,916	5,635,586	5,613,190
	(17) System Average Return @ 8.69%			146,767		487,786
	(18) Return for Summary Classes 1-6 @ 7.68% Overall			129,709		431,093
	(19) Federal Income Taxes @ 8.69% Return			48,384		160,805
	Federal Income Taxes @ 7.68% Return			42,760		142,116
	Total Revenue Requirement @ 8.69%			498,515		1,872,621
	Total Revenue Requirement @ 7.68%			475,833		1,797,238
	No. of Meters			446		403
	Calculated at System Average					
	Annual Minimum Cost to Serve			$ 1,117.75		$ 4,646.70
	Bi-monthly Minimum Cost to Serve			$ 186.29		$ 774.45
	Monthly Minimum Cost to Serve			$ 93.15		$ 387.23
	Calcuated at Average for Summary Classes 1-6					
	Annual Minimum Cost to Serve			$ 1,066.89		$ 4,459.65
	Bi-monthly Minimum Cost to Serve			$ 177.82		$ 743.27
	Monthly Minimum Cost to Serve			$ 88.91		$ 371.64

KEYSPAN ENERGY DELIVERY LONG ISLAND
ALLOCATION OF CUSTOMER COSTS IN MINIMUM COST TO SERVE
ACTUAL COSTS FOR THE YEAR ENDING DECEMBER 31, 2005

(1) Supervision and Engineering Expenses - These expenses were allocated based on the ratio of labor related to the minimum cost of service to customer related labor for the applicable operation and maintenance accounts.

(2) Mains and Services Operation Expense - These expenses represent 100% of the operating expenses related to the customer portion of mains and service expenses.

(3) Meter and House Regulator Operation Expenses - The minimum cost to serve reflects the amount related to maintaining all meters and house regulators .

(4) Customer Installation Expenses - The amount allocated to the minimum cost to install meters and related equipment.

(5) Other Expenses - Reflect the percentage of customer related other expenses allocable to the minimum cost to serve.

(6) Maintenance of Structures - All expenditures for maintenance of structures were allocated to the demand category and not allocated to customers.

(7) Maintenance of Mains and Maintenance of Services - These expenses represent the maintenance expenses related to the customer portion of mains and services.

(8) Maintenance of Meters and House Regulator Expenses - Allocated in the same manner as (3) above.

(9) Customer Accounts Expenses: Uncollectibles - The total expenses reflect the uncollectible revenues for both the distribution and the supply function. Only the amount related to distribution is allocated to the rate classes. The supply allocation is subtracted below.

(10) Customer Accounts Expenses: Meter Reading and All Others - All expenses were allocated to the minimum cost to serve.

(11) Administrative and General Expenses - These expenses reflect the percentage of customer-related administrative expenses allocable to the minimum cost to serve.

(12) Depreciation and Amortization - Reflects the percentage of customer-related plant allocable to the minimum cost to serve.

(13) Property Tax and Special Franchise Tax - These expenses were allocated to the minimum cost to serve based upon the percentage of taxable customer-related plant allocable the the minimum cost to serve.

(14) Other Taxes - This expense represents the portion of payroll and other taxes related to the minimum cost to serve.

(15) Gas Uncollectibles - Since all commodity costs have been excluded from the minimum cost study, these commodity-related expenses are also excluded.

(16) Rate Base - These items were identified by customer component and then allocated to the minimum cost to serve based on the applicable percentage for each function.

(17) Return - Returns were computed at the average overall return of 8.69% and the returns for rates presented of 7.68%.

(18) Federal Income Taxes - Federal income taxes were allocated by taking rate base related to the minimum cost to serve in column (3) as a percent of total rate base in column (1) and mutiplying this number by total federal income taxes.

KEYSPAN ENERGY DELIVERY LONG ISLAND
Customer Records and Collection Expense
Summary of Special Study to Functionalize FERC Account 903

Cost Component	Total Dollars	Distribution	Billing/Payment	Gas Cost-Collections	Allocation Percentage & to Billing/Pay	Allocation Percentage & to Collections
Costs Related to Meter Reading	274,160	274,160				
Print & Mail Bills	2,044,606		2,044,606		100.0%	
Field Offices - Billing Inquiries	483,570	483,570				
Field Offices - Collections	2,311,519	2,311,519				
Field Offices - Other	3,875,426	3,875,426				
Call Center - Billing	352,790		352,790		100.0%	
Call Center - Collections	211,762	70,517		141,245		66.7%
Call Center - Other	1,275,076	1,275,076				
Collections Labor	1,215,446	404,744		810,702		66.7%
Collections Agency Fees	541,236	180,232		361,004		66.7%
Other Outside Collections Services	452,355	150,634		301,721		66.7%
Remittance Processing	422,266		422,266		100.0%	
Social Responsibility	136,040	136,040				
Prepaid Postage	901,167	901,167				
Bill Calculation	2,108,734	2,108,734				
Outbound Collections Postage	80,608	26,842		53,766		66.7%
Other	109,796	61,423		17,043		66.7%
Total Account 903	**16,796,557**	**12,260,083**	**2,819,662**	**1,685,481**		

Exhibit 6

KEDNY Rate Plan

KEDNY RATE PLAN

I. DEFINITIONS

"Annual Report" means the report that will be served on the parties by July 1 of each year during the term of the Rate Plan beginning on July 1, 2008, which will contain the information detailed in various sections of the Rate Plan.

"Balancing Account" means the regulated account in which certain debits or credits arising out of the operation of the Rate Plan will be recorded based on variances between actual costs and revenue requirements compared to the forecast of costs and revenue requirements included in the Rate Plan.

"Base Delivery Rates" means the base rates set forth in KEDNY's tariff plus the Local Distribution Adjustment Change.

"Case 97-M-0567 Settlement" means the settlement approved by the Commission by Order dated April 14, 1998 in Case 97-M-0567.

"Consummation Date" means the date on which a Certificate of Merger for the Transaction is filed with the Secretary of State of the State of New York or the later time that is provided in the Certificate of Merger.

"Director of Gas & Water" means the Director of the Department of Public Service's Gas and Water Division.

"ESCO" means an entity engaged in an Energy-Related Business and which does business in the service territory of KEDNY.

"Exogenous Costs" means all of the incremental effects on KEDNY's costs, revenues, or revenue requirements associated with or caused by: (i) any externally imposed accounting change; (ii) any change in the Federal, state or local rates, laws, regulations, or precedents governing income, revenue, sales, or franchise taxes; or (iii) any legislative, court, or regulatory change, which imposes new or modifies existing obligations or duties. If these Exogenous Costs individually or collectively in any one Rate Year ending March 31 exceed three percent (3%) of KEDNY's pre-tax net utility income (determined in accordance with the methodology set forth for Earnings Sharing in Section A. 4 of the Rate Plan) for the year in which the change first occurs the total impact of the Exogenous Costs shall be included in the Balancing Account.

"Gas Adjustment Charge" or "GAC" means charges assessed to sales customers to effectuate recovery of certain costs and passthrough of certain credits outside of base rates, including gas costs, from sales customers.

"KEDNY" means The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery – New York.

"KEDNY Core Customer" means a customer taking KEDNY Core Service under Service Classification (SC) Nos. 1A, 1AR, 1B, 1BI, 1BR, 1B-D6, 2-1, 2-2, 3, 4A, 4B, 7, 14, 17, and 21 of the KEDNY Tariff.

"KEDNY Core Service" means firm sales and firm transportation service provided under SC Nos. 1A, 1AR, 1B, 1BR, 1B-D6, 2-1, 2-2, 3, 4A, 4B, 7, 14, 17 and 21 of the KEDNY Tariff.

"KEDNY Rate Plan" means the rate plan for KEDNY's gas rates as set forth in Section II.

"KEDNY Temperature Controlled Service" means sales service provided under SC Nos. 6C (Temperature Controlled Commercial), 6G (Temperature Controlled Governmental) or 6M (Temperature Controlled Multi-Family), or transportation service under the corresponding rate schedule in SC 18 (Non-Core Transportation) or KEDNY's tariff.

"Local Distribution Adjustment Charge" or "LDAC" means a volumetric charge assessed to KEDNY Core Customers in order to recover portions of deferred costs included in the KEDNY Balancing Accounts. The LDAC will consist of a base rate component and a surcharge component. The LDAC will not be separately stated on customer bills.

"Niagara Mohawk" means Niagara Mohawk Power Corporation.

"Non-Core Margins" means: (i) net margins derived by KEDNY from services provided to Temperature Controlled customers served under S.C. Nos. 6C, 6G, 6M, and 18-6 and (ii) net margins derived from services to interruptible customers served under S.C. Nos. 5A and 18-5A.

"NYSERDA" means the New York State Energy Research and Development Agency.

"PSL" means the Public Service Law of the State of New York.

"Rate Year" means any year during the period covered by this Agreement commencing on April 1 and ending on the next succeeding March 31.

"Rate Year One" means the period beginning the first day of the month after the Consummation Date and ending on March 31, 2008.

"Return" means carrying charges at the pre-tax weighted average cost of capital (after accounting for deferred tax effects).

"Return Requirement on Gas in Storage" means the pre-tax weighted average cost of capital multiplied by the thirteen month average storage balance.

"Return Requirement on Working Capital" means the pre-tax weighted average cost of capital multiplied by the working capital associated with the lag on customer payments for gas costs that is not offset by the lead on purchased gas expense.

"S.C.___" means a service classification contained in KEDNY's tariff.

"SIR Costs" means Site Investigation and Remediation Costs, including consultant, legal, insurance, and contractor costs for investigation, acquisition or remediation of former manufactured gas plant sites and other waste sites or related sites at which KEDNY has or will be determined to be a potentially responsible party. Net proceeds from insurance companies and third parties, together with lease payments or proceeds from the sale of properties acquired as part of a remediation plan shall be credited against SIR costs. The former manufactured gas plant sites or other related sites for which KEDNY has been named a potentially responsible party are set forth on Attachment 1. KEDNY will update the list of sites in its Annual Report, and include other sites in the event KEDNY is named as a potentially responsible party at any other sites during the term of the Rate Plan.

"Staff" means the Staff of the New York Department of Public Service.

"Transaction" means the proposed merger of KeySpan Corporation with and into a subsidiary of National Grid, USA, pursuant to the Agreement and Plan of Merger attached as Appendix 2 to the accompanying Petition.

"Temperature Controlled" means certain services provided by KEDNY under S.C. Nos. 6C, 6G, 6M and S.C. No. 18-6.

"Transportation Adjustment Charge" or "TAC" means the charge assessed by KEDNY to effectuate recovery of certain costs and passthrough of certain credits outside of base rates from transportation service customers.

"Uncollectible Expenses Associated with Gas Costs" means the actual percentage of total uncollectible expense attributable to gas costs. This expense will be determined annually by multiplying the percentage that total uncollectible expense is of total revenues by total gas costs.

ARTICLE II

KEDNY RATE PLAN

A. Ratemaking Requirements

A KEDNY Rate Plan will be established to be implemented effective on the first day of the month after the Consummation Date (hereinafter "the Rate Effective Date"), continuing in effect until at least March 31, 2017. During the period of the KEDNY Rate Plan, the rates for KEDNY Core Customers will be established in accordance with this Agreement, and no changes will be made to such rates except in accordance with this Agreement. As more fully set forth below, this Agreement provides that certain costs will be recovered through Base Delivery Rates, which are defined to include a Local Distribution Adjustment Charge ("LDAC") and Base Rates, while other costs will be recovered through the Gas Adjustment Charge ("GAC") and/or the Transportation Adjustment Charge ("TAC"). A condition precedent to the effectiveness of this

KEDNY Rate Plan is the consummation of the Transaction. If the Transaction is not consummated this KEDNY Rate Plan will not become effective.

1. Base Rate Adjustments

a. *Rate Year One – Exclusion of Costs; Implementation of LDAC*

On the Rate Effective Date and for the period ending March 31, 2009, KEDNY's Base Delivery Rates will remain unchanged. However, as of the Rate Effective Date, the definition and amount of certain costs that are currently recovered (or not recovered, as the case may be) through Base Rates will be changed as follows:

1. Exclusion of Rate Year One Costs. $68.6 million of annual gas-related costs as defined below shall be excluded from Base Rate recovery. The $68.6 million includes the following components, which are detailed on Exhibit 8-KEDNY, p. 4:

(i) $24.1 million, representing the forecasted Annual Uncollectible Expense Associated With Gas Costs for the Rate Year ending March 31, 2008. Instead, KEDNY's actual expense for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

(ii) $27.4 million, representing the projected Return Requirement On Gas In Storage for the Rate Year ending March 31, 2008. Instead, KEDNY's actual cost for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

(iii) $17.1 million, representing the projected Return Requirement On Working Capital associated with the lag on customer payments for gas costs that is not offset by the lead on purchased gas expense, as projected for the Rate Year ending March 31, 2008.

Instead, KEDNY's actual cost for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

2. Implementation of LDAC. KEDLI shall implement an LDAC on the Rate Effective Date, which shall be part of Base Delivery Rates and shall not be shown separately on customer bills. On the Rate Effective Date, the LDAC shall consist solely of a Base Rate component. The Base Rate component shall replace the recovery of gas-related costs removed from Base Rates and be designed to recover an annual amortization of $68.6 million deferred costs in the Balancing Account. The Base Rate component of the LDAC shall be computed by dividing the $68.6 million annual recovery amount by the forecast annual volumetric deliveries of KEDNY Core Service and shall be subject to an annual reconciliation of forecasted and actual volumetric deliveries. Any difference between forecast and actual recoveries through the LDAC will be reflected in the KEDNY Balancing Account.

The $68.6 million Base Rate component of the LDAC will be adjusted to include an LDAC surcharge component effective April 1, 2009. The LDAC surcharge will be assessed volumetrically to KEDLI Core Services and will be subject to the same annual reconciliation as the LDAC Base Rate component. The LDAC surcharge will be determined as follows:

(i) The LDAC surcharge will be increased for the bi-annual increases established in the Rate Plan. In the Rate Years commencing April 1 of 2009, 2011, 2013, 2015, KEDNY shall increase the LDAC by $6.2 million to recover additional deferred costs in the Balancing Account, as shown on Exhibit 8-KEDNY, page 1 to the Petition.

(ii) In addition, following the Rate Year ended March 31, 2009, the LDAC, through the LDAC surcharge component, shall recover or return variances from the forecasted balance of the Balancing Account when such variance exceeds $50 million, provided that the implementation of an increase shall not exceed 2.5 percent of KEDNY's total revenues, during the year that the adjustment is implemented. The forecasted balance of the Balancing Account is set forth on Exhibit 8 – KEDNY, Page 12, Line 5.

b. ***Additional Base Rate Adjustments In Rate Years 3, 5, 7, and 9***

In each year commencing April 1, 2009, 2011, 2013 and 2015 KEDNY shall increase its Base Delivery Rates, including the LDAC, by $66.3 million. The $66.3 million step increases include $6.2 million for LDAC recovery of deferred costs as set forth in paragraph a(i) above, and $60.1 million of Base Rate recovery. In addition, in the year beginning April 1, 2009, KEDNY will also roll its State Income Tax surcharge into Base Rates. This roll-in represents an increase in Base Rates of $19.1 million offset by the elimination of the separate State Income Tax Surcharge. In the Rate Years ending March 31, 2008 and 2009, the State Income Surcharge will be fixed at $19.1 million and will not be reconciled to the actual tax expense.

The Base Rate revenue requirement increases of $60.1 million shall be allocated to all KEDNY Core Services on a uniform percentage basis, net of gas costs. The LDAC increases shall be assessed volumetrically to all KEDNY Core Services The Base Delivery Rate increases are projected to increase KEDNY's projected annual aggregate revenues by an average of 2.45% percent over the term of the Rate Plan.

2. **GAC/TAC Adjustments**

a. ***Changes In The Costs Recovered Through The GAC And/Or The TAC***

As of the Rate Effective Date, the GAC and the TAC will be modified to reflect the following changes in the costs recovered through the GAC and/or the TAC as applicable:

(i) Beginning October 1, 2008, the GAC will reflect an adjustment factor to permit KEDNY to recover its forecast annual Uncollectible Expense Associated with

Gas Costs, and its forecast Return Requirement On Working Capital for the ensuing annual period plus the Return on the deferred balance of such costs. Effective October 1, 2008, the actual costs and recoveries of such cost shall be reconciled in the same manner as gas costs and gas cost recoveries are reconciled through the GAC;

(ii) Beginning October 1, 2008, the GAC and the TAC will reflect an adjustment factor to permit KEDNY to recover its forecast annual Return Requirement on Gas in Storage for the ensuing annual period plus the Return on the deferred balance of such costs. The GAC and TAC will be reconciled for the actual return requirement and recoveries in the same manner as other costs and other cost recoveries are reconciled through the GAC and TAC;

(iii) Pursuant to Section 1.A.1, for the period from the Rate Effective Date through September 30, 2008, KEDNY is excluding $68.6 million annually associated with Uncollectible Expense Associated With Gas Costs, the Return Requirement on Working Capital, and the Return Requirement on Gas In Storage in Base Delivery Rates. Moreover, KEDNY will not commence prospective recovery of these costs through the GAC and/or TAC until October 1, 2008. Accordingly, KEDNY shall defer the actual costs and revenue requirement associated with these items during the period from the Rate Effective Date through September 30, 2008, and recover them as follows: (1) KEDNY will apply any pipeline refunds received during the Rate Plan period to reduce the deferred balance in lieu of crediting such refunds to the GAC/TAC; and (2) to the extent that such refunds are inadequate to offset the deferred balance, KEDNY shall commence annual recovery of 20 percent of the remaining deferred balance through the GAC and TAC, as applicable, beginning on April 1, 2012 in order to fully recover the remaining deferred balance by the end of the Rate Plan period. The portion of the deferred balance attributable to Return on Storage Inventory will be recovered through the GAC and TAC on a volumetric basis. The portion of the deferred balance attributable to Return on Working Capital and Uncollectible Expense Associated with Gas Costs will be recovered through the GAC on a volumetric basis. This annual amortization will continue until the deferred amount is fully recovered;

(iv) For the period from the Rate Effective Date through September 30, 2008, the TAC will reflect a credit of $0.415 per dekatherm in order to provide transportation customers with a credit for Uncollectible Expense Associated With Gas Costs and the Return Requirement On Working Capital. Such credits will be reflected in the Balancing Account

b. ***Gas Cost Savings.***

The Transaction will provide KEDNY with the opportunity to engage in coordinated management and planning of gas supply resources with KEDLI, Niagara Mohawk and other Utilities which will enable KEDNY to achieve gas cost savings for its customers. To facilitate such coordination, KEDNY is authorized to transfer any or all of its contracts for pipeline, storage and supply to an affiliate, which will manage such contracts in combination with the pipeline, storage and supply contracts of other Regulated Affiliates, consistent with the Affiliate Rules of Conduct. At such time as these transfers occur, KEDNY is authorized to guarantee the payment obligations under any or all of its pipeline, storage and supply contracts transferred to the affiliate. An estimate of gas cost savings, the allocation of those savings to KEDNY gas customers and a description of the practices that may give rise to such savings is set forth in Exhibit 3 to the Petition. The gas cost savings are by their nature an estimate. All of the net savings – (savings less costs to achieve) will be credited to KEDNY's customers through the GAC as they occur. Nothing in this Rate Plan does or shall be construed to prevent KEDNY from exploring, proposing or implementing other gas supply strategies, either complementary to or in substitution for, the coordinated management and planning of gas supply, which strategies would be designed to achieve a level of gas cost savings equal to or greater than the savings reflected in Exhibit 3 to the Petition, while ensuring the continued reliability of KEDNY's gas supplies. KEDNY will consult with DPS Staff in connection with its portfolio plans

3. KEDNY Balancing Account

KEDNY will modify the KEDNY Balancing Account to receive and fund certain deferrals as described herein. Deferred debits and credits in the KEDNY Balancing Account will accrue a Return. The Return will also be included in the KEDNY Balancing Account. KEDNY will file by July 1 of each year an Annual Report with the Commission that includes a reconciliation of the actual costs and revenues to the forecast amounts included in the Balancing Account in the prior year ended March 31. An illustrative example of such reconciliation is shown on Attachment 2 based on the variance from the forecast included in Exhibit 8-KEDNY, page 12. The Annual Report will also include a report on earnings sharing as discussed in Section 4. A list of all transactions affecting the KEDNY Balancing Account will be included in the Annual Report. A list of the items for which deferred accounting and recovery through the KEDNY Balancing Account is authorized is as follows:

(i) *Balancing Account Balance* – The net balance in the KEDNY Balancing Account, including any Transition Balancing Account balance, provided for in the Case 97-M-0567 Settlement as of March 31, 2007 will be carried forward and reflected in the KEDNY Balancing Account.

(ii) *Non-Core Margins* – If, in any Rate Year, Non-Core Margins revenues net of hedging costs and gas costs, differ from the annual totals shown on Exhibit 8-KEDNY, page

3, KEDNY will include one hundred percent of the difference in the KEDNY Balancing Account,

(iii) *Property Taxes* – In the Rate Plan, KEDNY will include in the KEDNY Balancing Account actual special franchise and property tax expense above or below $61.3 million. KEDNY will also be permitted to retain 14% of any "Net Refunds" obtained as a result of challenging its property tax assessments. Such "Net Refunds" will be determined by subtracting any costs, including, but not limited to litigation costs, incurred by KEDNY to obtain such refunds,

(iv) *Gas Safety and Reliability Incentive* – Any Gas Safety and Reliability Incentive penalties as described below will be credited to the KEDNY Balancing Account,

(v) *Customer Service Quality Performance Mechanism* – Any Customer Service Quality Performance Mechanism penalties as described below will be credited to the KEDNY Balancing Account,

(vi) *Pensions & OPEBs* – From and after the Rate Effective Date, KEDNY shall reconcile actual pension and other post-employment benefits ("OPEB") in accordance with the Commission's Statement of Policy adopted in Case 91-M-0890 (September 7, 1993) as more fully described in Attachment 3. KEDNY's actual pension and OPEB expense shall be reconciled to the amounts shown on Attachment 2, which reflect the forecast of pension and OPEB expense less synergy savings allocated to pension and OPEB expense. Information regarding KEDNY's pension and OPEB expense and funding levels will be included each year in the Annual Report.

(vii) *SIR Costs* –KEDNY will include one hundred percent of its actual investigation and remediation (SIR) expenses for its former manufactured gas plant sites in the

KEDNY Balancing Account. There is no allowance in KEDNY's base rates for SIR expenses, but the Balancing Account forecast in Exhibit 8-KEDNY, page 12 includes SIR costs of $16.5 million per year. KEDNY will credit to SIR costs one hundred percent of the net proceeds (actual proceeds less costs to achieve) of any SIR-related cost recoveries from third parties.

(viii) *Exogenous Costs* – KEDNY will include one hundred percent of Exogenous Costs, in the KEDNY Balancing Account,

(ix) *Capital Expenditures* – Over the three year period January 1, 2003 through December 31, 2005, KEDNY's average annual capital costs in connection with City/State construction totaled $44.5million, net of reimbursements. To the extent that KEDNY's actual costs in any Rate Year differ from such level of costs, KEDNY shall be permitted to defer through the KEDNY Balancing Account the full annual revenue requirement associated with the difference.

KEDNY will also be permitted to defer the revenue requirement associated with all other non-growth capital expenditures (excluding allocated Service Company capital expenditures), associated with: (i) compliance with new programs mandated by federal, state, or local authorities and the Pipeline Integrity Management Program mandated by the U.S. Department of Transportation; and (ii) capital expenditures for system improvements, replacements, and enhancements, including, but not limited to on-system expenditures associated with new gas supply projects, New York Facilities System additions or replacements, ongoing pipeline replacements, system reinforcements, and other capital expenditures that are not solely related to customer growth as defined below, to the extent that these non-growth capital expenditures vary from the forecast levels shown in Attachment 2, page 3 and 4. The revenue requirement associated with any such variance shall be included in the KEDNY Balancing Account.

The capital expenditures described in the previous paragraphs do not include capital expenditures associated with activities that are solely related to customer growth. Expenditures solely related to customer growth are specifically limited to local main extensions, services and meters. Expenditures that are associated solely with customer growth are not subject to deferral under this Agreement.

(x) *Construction-Related Operation and Maintenance Expense* – KEDNY will be permitted to include in the KEDNY Balancing Account net operation and maintenance expenses (expenses less reimbursements) associated with construction-related activities associated with the New York Facilities System or mandated by federal, state or local authorities, including, but not limited to, any Distribution or Transportation Pipeline Integrity Management Program, compliance with Local Law 30, and city-state construction to the extent that these costs exceed the forecast of such expenditures included in the KEDNY Rate Plan.

(xi) *Demand Side Management Costs* – KEDNY's base rates reflect no allowance for the costs of planning, designing, developing, implementing, and evaluating a DSM program. KEDNY will defer all such costs through the KEDNY Balancing Account,

(xii) *Low Income Programs* – KEDNY will incur incremental costs and reduced revenues associated with the discounts provided in the Low Income Program provided for in this Agreement. KEDNY will defer the costs and revenue reductions associated with this program through the KEDNY balancing account,

(xiii) *Retail Choice Costs* – KEDNY will defer through the KEDNY Balancing Account all retail choice costs, including those associated with market expos, customer outreach and education efforts, lost revenue recovery, an ESCO referral program, the information technology costs associated with the purchase of receivables program, and the cost associated with the credit in the first eighteen months for gas-related costs that are being provided to transportation customers.

(xiv) *Excess Inflation* - During the first five years of the Term of this Agreement, KEDNY will include in the KEDNY Balancing Account a deferred amount that reflects the impact of any Excess Inflation in the prior Rate Year. During the first five years of the Term of this Agreement, Excess Inflation will be considered to have occurred if actual inflation as measured by the Gross Domestic Product Price Index ("GDPPI") exceeds 4.5 percent over a period calculated from the Rate Effective Date. During the second five years of the Term of this Agreement, the Excess Inflation percentage shall be adjusted to equal a percentage that is two percent above the average January 2012 Blue Chip consensus forecast of GDPPI for calendar years 2012 and 2013. Any Excess Inflation adjustment shall be applied to KEDNY's actual operation and maintenance and administrative and general expenses as calculated from the Rate Effective Date. However, no inflation adjustment will be made in any Rate Year in which KEDNY's earned return on equity exceeds 11.00 percent. The calculation of this adjustment is set forth on Attachment 4.

(xv) *Earnings Sharing* – KEDNY shall credit to the Balancing Account any earnings credit produced under the Earnings Sharing mechanism established in Section 4.

(xvi) *Gain or Losses on the Sale of Land that has been Included in Rate Base* – KEDNY shall debit or credit the Balancing Account with any gains or losses on the sale of land that had been in Rate Base. Gains or losses on the sale of facilities or property shall be charged to KEDNY's depreciation reserve.

If the cumulative balance of the Balancing Account varies from the forecast level of the Balancing Account shown in Exhibit 8-KEDNY, page 12 and Attachment 2 by more than $50 million, then KEDNY shall make a compliance filing and increase or decrease its LDAC charge by such difference, provided, however that: (1) KEDNY shall not increase the LDAC during the period prior to March 31, 2009; and (2) KEDNY shall not increase the LDAC by more than 2.5 percent of KEDNY's forecast annual total revenues. Any increase or decrease shall be applied as a uniform charge or credit to energy deliveries.

4. *Earnings Sharing*

In its Annual Report, KEDNY will include the calculation of cumulative earned return on equity for the period from the Rate Effective Date through the previous Rate Year using the methodology set forth herein. The cumulative earnings analysis set forth in the Annual Report will be used to determine whether any earnings should be credited to the Balancing Account. In calculating earnings for purposes of this provision, any earnings or reduction in earnings attributable to discrete incentives, including (i) margin sharing from off-system transactions and capacity release, (ii) gas safety and service reliability penalties, (iii) customer service quality performance penalties, (iv) property tax refund incentives, and (v) demand side management incentives, shall be excluded. In addition, 50 percent of the net synergy savings shown on Exhibits 2 and 8-KEDNY, page 2 to the Petition shall be added to expense in calculating the earned return on equity. The earnings for the purpose of the earnings sharing analysis shall include the Settlement levelization amounts shown on Exhibit 8-KEDNY, page 2. For purpose of the Earnings Sharing Analysis, KEDNY shall use the imputed capital structure shown on Exhibit 8-KEDNY, page 11 to the Petition as applied to an earnings base calculated using the Commission's Earnings Base/Capitalization analysis as shown on Attachment 2. The calculation of earnings and return on equity shall otherwise be performed in the same manner as required by the Case 97-M-0567 Settlement.

During the Term of this Agreement, the Annual Report shall present results for the most recently completed Rate Year as well as cumulative results for all prior Rate Years beginning with Rate Year One. The earnings report will compare KEDNY's cumulative return on equity to 11.75%, (hereinafter "the Threshold Earnings Level").

To the extent that KEDNY's average cumulative earnings in the Rate Year ending March 31, 2011, March 31, 2014 and March 31, 2017 exceed the Threshold Earnings Level of 11.75% percent, KEDNY shall credit to the Balancing Account such excess earnings (on a revenue requirements basis) in accordance with the percentages set forth below.

For earnings between:

11.75% - 14.00%	50% customer/50% shareholder
14.00% - 16.00%	75% customer/25% shareholder
> 16.00%	90% customer/10% shareholder

To the extent that this Agreement continues beyond March 31, 2017, earnings in subsequent Rate Years will continue to be credited to the Balancing Account in the manner set forth above every two years or for the period prior to the time KEDNY implements new Base Delivery Rates, until this provision is modified by the Commission.

5. *Right To File A Complaint*

At any time after the Rate Effective Date, KEDNY's base rates may be reviewed upon a complaint brought pursuant to PSL Section 71. In defending against such a complaint, KEDNY will be authorized to include in its revenue requirement one hundred percent of the annual Synergy Savings, and Costs to Achieve for the relevant year. KEDNY will also be authorized to include in its revenue requirement the recovery of amounts deferred for future recovery in accordance with the Terms of this Agreement.

6. *Right To Make A General Rate Filing*

At any time after the Rate Effective Date, KEDNY may file to increase its Base Delivery Rates above the levels set forth in this Agreement by making a general revenue requirements filing with the Commission. If, as a result of any such filing, KEDNY is authorized to increase its base tariff rates above the levels provided under this Agreement, then KEDNY shall be precluded from including in its revenue requirements any adjustment to retain any portion of the Costs to Achieve or Synergy Savings. KEDNY shall be authorized to include in its revenue requirement the recovery of any amounts deferred for future recovery in accordance with this Agreement. Such filing shall include a fully allocated cost of service study showing class rates of return on regulated services.

a. Gas Safety and Service Reliability Incentive Mechanism.

KEDNY's gas safety and service reliability incentive mechanism will continue in effect during the KEDNY Rate Plan, and thereafter until modified or discontinued by the Commission. Penalties applicable for each period will be credited to the KEDNY Balancing Account. The three gas safety and service reliability measures will be continued:

(i) *One Call Notices* – KEDNY will be penalized four (4) basis points of pre-tax return on common equity (revenue requirement equivalent) for failure to respond on three (3) or more occasions to Rule 753-3.1 one call notices within the time frame required by Rule 753.4.5, other than failures to respond as a result of Staff's review of KEDNY quality control audit reports. With concurrence of the Director of Gas & Water, exceptions may be permitted where conditions prevent compliance.

(ii) *Response to Gas Leaks and Gas Odors* – KEDNY will be penalized four (4) basis points of pre-tax return on common equity (revenue requirement equivalent) for failure to respond to 90% of reports of gas leaks and gas odors within forty five (45) minutes or 95% of reports of gas leaks and gas odors within sixty (60) minutes. In situations where a foreign odor causes a large volume of leak/odor calls over a wide area or other unusual situation prevents timely response, KEDNY will notify the Director of Gas & Water of the situation, and with concurrence of the Director of Gas & Water, those leak calls will be excluded from this performance measurement.

(iii) *Leak Repair* – KEDNY will be penalized two (2) basis points of pre-tax return on equity for failure to repair seventy-five percent of new Type 1 leaks within seven (7) days. Where an actual Type 1 repair leak time exceeds thirty days, KEDNY will report each such occurrence and location to the Director of Gas & Water. KEDNY will review such occurrences with the Director of Gas & Water and agrees to take whatever corrective actions are reasonably necessary to ensure satisfactory repair times going forward. KEDNY will also be penalized one-half (2) basis point of pre-tax return on common equity (revenue requirement equivalent) for failure to repair one hundred percent (100%) of Type 2A leaks in less than six (6) months. Finally, KEDNY will be penalized one-half (2) basis point of pre-tax return on common equity (revenue requirement equivalent) for failure to repair one hundred percent (100%) of Type 2 leaks in less than one (1) year. For purposes of calculating penalties, any leak that is initially classified and then downgraded, such as from Type 1 to Type 2A, shall be considered to have been a downgraded leak at all times for purposes of determining whether penalties apply.

(iv) *Leak Survey* – KEDNY will be penalized one (1) basis point of pre-tax return on common equity (revenue requirements equivalent) in each calendar year in which it fails to complete a "Walking" and "Mobile" survey.

8. Customer Service Quality Performance Requirements

a. Customer Outreach and Education Program.

KEDNY will conduct customer outreach and education efforts designed to inform KEDNY gas customers in advance of how the changes to rates, charges and services arising out of this Agreement might affect customers. A description of the outreach and education efforts will be included each year in the Annual Report.

b. Customer Service Quality Performance Mechanism.

KEDNY's customer service quality performance mechanism will remain in effect during the KEDNY Rate Plan, and thereafter until modified or discontinued by the Commission. The measurement period will be the calendar year. The maximum penalty for any annual measurement period will equal 40 basis points of pretax return on common equity (revenue requirement equivalent). Penalties applicable for each period will be credited to the KEDNY Balancing Account. There will be two service quality measures:

(i) *Customer Complaints* – This measure represents the total number of customers registering a complaint with the PSC. A complaint will be charged when a customer, after first having contacted KEDNY to express dissatisfaction with an action, practice or conduct of KEDNY, and having provided KEDNY a reasonable opportunity to address the matter, contacts the PSC to express dissatisfaction with such action, practice or conduct; provided that such action, practice or conduct is within the power of KEDNY to control. A complaint will not be charged for a contact with the PSC that is an opinion or inquiry. For the purposes of this subsection, an "opinion" is an instance where a customer is contacting the Commission to voice a view on a particular issue or condition, such as a pending rate case, a change in rates or charges or the imposition of new rates or charges, or the level of executive compensation. Complaints will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. KEDNY will be penalized twenty basis points of pre-tax return on common equity (revenue requirement equivalent) if customer complaints in the measurement period exceed an average of five complaints per 100,000 customers per month.

(ii) *Monthly Contactor Survey* – KEDNY will continue to conduct its monthly contactor survey. KEDNY will be penalized twenty (20) basis points of pre-tax return on common equity (revenue requirement equivalent) if less than 84.8% of the customers completing the survey rate KEDNY below a "6" on a ten-point satisfaction scale.

9. Low-Income Program

KEDNY will expand its low income program, to be effective on the Rate Effective Date, which will provide for a monthly discount of $3.50 per non-heating customers (S.C. No. 1A) and $7.50 for heating customers (S.C. No. SP1B). Up to 60,000 customers receiving welfare or Low Income Heating Assistance Program benefits will be eligible for the discount rate. The increased cost of the low income program, estimated to be $2.8 million annually, will be deferred and recovered through the KEDNY Balancing Account.

10. Cost Of Removal

From and after the Rate Effective Date, KEDNY's cost of removal shall be charged to the Reserve For Accumulated Depreciation.

11. Revenue Allocation and Rate Design

a. Promotion Of Energy Efficiency Through Revenue Allocation And Rate Design.

KEDNY shall implement the rate designs set forth in this section to implement the bi-annual increases in the LDAC and Base Rates as set forth in the Rate Plan in a compliance filing. KEDNY shall allocate Base Rate increases to all KEDNY Core Services on a uniform percentage basis, net of gas costs.

b. Interclass And Intraclass Revenue Reallocation

In addition to the foregoing, at any time after April 1, 2009, KEDNY shall have the right to make a filing proposing interclass or intraclass revenue reallocation and rate design changes consistent with the results of the embedded cost of service study included in Exhibit 5 to the Petition. Any such changes shall be revenue neutral to KEDNY. Any proposed changes shall only be approved to the extent that they are consistent with cost causation principles.

c. Legislated Rate Design Changes – Nothing in this Agreement shall prohibit KEDNY from implementing changes, in a manner to be determined by the Commission, to rates or charges to KEDNY's customers if, as the result of statutory or regulatory changes, costs previously recovered outside of base rates through tariff riders or surcharges must thereafter be recovered in base rates.

12. Demand Side Management.

KEDNY will spend up to $20 million annually to implement a demand-side management program consistent with the program previously implemented by its distribution affiliate in New England, including the incentives described therein. This program is more fully described in the comments KEDNY filed in Case 05-M-0090. Such programs will include a new technology component. Expenditures for the demand-side management program (including Return) will be deferred through the KEDNY Balancing Account.

Alternatively, if the Commission decides in Case 05-M-0090 or subsequently during the Term of the KEDNY Rate Plan to approve a system benefit charge (SBC) for gas companies, KEDNY will work with NYSERDA, or whomever the Commission designates to administer the gas SBC, to assist with the design and management of that program through a collaborative process.

13. Weather Normalization Clause.

KEDNY's current weather normalization clause will be continued during the Term of the KEDNY Rate Plan, as modified herein. Effective as of the Rate Effective Date, the Weather Normalization Clause will be modified: (i) to substitute a one percent (1%) deadband for the existing sharing mechanism and (ii) to reset the temperature database to utilize twenty years of temperature data for the period 1986-2005.

14. Non-Core Service Changes.

KEDNY currently provides non-firm sales service under S.C. No. 5, TC Sales Service under S.C. No. 6 and non-firm and TC Transportation services under S.C. Nos. 18-6 and 18-5A. As of the Rate Effective Date, these Service Classifications will be revised so that non-firm and TC sales will be provided under the same Service Classification and non-firm and TC transportation services will be provided under the same Service Classification, Service to power generators will continue to be provided under S.C. Nos. 5 and 18-5A. In addition, as of the Rate Effective Date, the caps on TC and non-firm services will be eliminated.

15. Gas Cost Incentive.

KEDNY's existing gas cost incentive will continue for the term of this Rate Plan. Notwithstanding the foregoing, KEDNY may petition the Commission to modify this incentive or implement new incentive mechanisms.

B. Retail Access Program

1. ESCO Referral Program

Within nine months of the implementation of the POR Program, KEDNY will implement an ESCO Referral Program. This Program will be consistent with the Commission's guidelines for the ESCO Contract Approach, as set forth in its December 22, 2005 Order Adopting ESCO Referral Program Guidelines in Cases 05-M-0858 and 05-M-0332.

2. Unbundled Rates

KEDNY has provided an unbundled cost of service study with its filing in this proceeding. As a result of this study, effective as of the Rate Effective Date, KEDNY will implement the unbundled rates set forth in Attachment 5. These unbundled rates will remain in effect for the Term of this KEDNY Rate Plan, subject to modifications ordered by the Commission.

The initial avoided cost curves associated with unbundled billing and payment processing services are provided at Attachment 6. These avoided cost curves will remain in effect for the Term of this KEDNY Rate Plan, except that KEDNY may at any time request that Commission Staff or the Commission review the avoided cost curve(s) in light of KEDNY's avoided cost experience and direct such changes as are warranted.

3. Lost Revenue Recovery Mechanism

On a semi-annual basis, KEDNY will calculate the difference between the unbundled billing and payment processing revenue credited on the bills of transportation customers and KEDNY's short-term avoided cost shown on the avoided cost curve on file with the Commission. Any lost revenue will be debited to the KEDNY Balancing Account.

4. Purchase of Receivables

Within 90 days of the Rate Effective Date, KEDNY will offer a Purchase of Receivables (POR) Program to Energy Service Companies/gas marketers (ESCOs) that are authorized to provide gas commodity retail service in its service territory. Under this program, KEDNY will purchase gas commodity service accounts receivable, at a discount and without recourse, on the accounts of its firm transportation customers who receive a consolidated bill from KEDNY that includes gas commodity service provided by an ESCO. All ESCOs participating in the POR Program will be required to execute KEDNY's Consolidated Billing Services Agreement. The POR Program will remain in effect for the Term of the KEDNY Rate Plan, subject to modifications ordered by the Commission. The Parties will meet on or about three years after commencement of the POR Program to evaluate it and to determine whether to recommend its modification or termination to the Commission. Any such modification or termination proposal will be subject to the approval of the Commission. The POR Program includes the following provisions. The POR Program is described in more detail in Attachment 7.

5. Customer Outreach And Education For Retail Choice

KEDNY is authorized to spend up to $1,000,000 during Rate Year 1, $800,000 during Rate Year 2, and $600,000 during Rate Year 3 to provide education and outreach to promote customer awareness and understanding of retail choice. Such costs will be deferred through the KEDNY Balancing Account.

6. ESCO Ombudsman

KEDNY will designate an ESCO ombudsman as a single point of contact within KEDNY to whom ESCOs may address their problems and concerns. The ombudsman will be responsible to bring ESCO issues to the appropriate people at KEDNY, and to follow up as necessary until the problem is resolved.

7. Market Expo

In each of the first three years the Rate Plan is in effect, KEDNY will solicit interest among ESCOs operating in its service territory in having a Market Expo, and, if there is sufficient interest, KEDNY will host such an event. KEDNY would target promotion and outreach materials concerning the Market Expo to commercial customers with annual consumption exceeding 1,500 Dth, and solicit the participation of ESCOs interested in serving that market. Participating ESCOs will be able to present their offers and enroll customers at these expos. The costs of such market expos may be deferred through the KEDNY Balancing Account.

8. Other Initiatives To Promote Retail Access

(a) Capacity Release and Storage

KEDNY will continue to release interstate pipeline capacity, make bundled sales, and offer storage pricing to ESCOs to enable them to serve customers in KEDNY's service territory.

(b) Cash-out Provisions

The Daily Swing Service Imbalance, City Gate Balancing and Daily Swing Service Demand Charge provisions of KEDNY's transportation tariffs, S.C. Nos. 17, 18 and 19 will be amended to reflect more closely the tariffs of upstream pipelines in terms of benchmark cost of gas and industry standards.

C. Miscellaneous

1. Annual Filings

On or before July 1st of each year during the Term of the KEDNY Rate Plan, KEDNY will submit an Annual Report filing presenting a calculation of excess earnings and the results of any performance incentive awards or penalties for the previous Rate Year. The annual filing will set forth a calculation of accumulative annual earning from the Rate Effective Date through the end of the most recently completed Rate Year, and will provide a reconciliation of the Balancing Account to the forecasts in the Rate Plan.

2. Continuation

All of the provisions of this Rate Plan will continue beyond the last year of the KEDNY Rate Plan on a year-to-year basis until modified or discontinued by the Commission.

3. Tariff Leaves

Within 15 days of Commission approval of this Rate Plan, KEDNY will file all tariff leaves necessary to implement this Rate Plan.

4. Continuation Of Case 97-M-0567 Settlement And Existing Ratemaking Practices

To the extent there is any conflict between this Rate Plan and the Case 97-M-0567 Settlement, this Rate Plan shall control. Notwithstanding the foregoing, any ratemaking practice that existed prior to the effectiveness of this Rate Plan that is not changed by this Rate Plan (*i.e.* the treatment of various revenues) shall continue as before.

Attachment 1

Attachment 2

List of Manufactured Gas Plant Sites

KEDNY

1. Bay Ridge Station A
2. Bay Ridge Station B
3. Belmont
4. Brooklyn Gas Lights
5. Citizens
6. Clifton
7. Coney Island
8. Dangman Park
9. Equity
10. Flatbush
11. Front Street
12. Fulton
13. Greenpoint
14. Jamaica Gas Light
15. Jamaica Holder
16. Keap Street
17. Kings County
18. Metropolitan MGP
19. Nassau a/k/a Brooklyn Navy Yard
20. Newtown
21. Peoples
22. Plymouth Station
23. Rutledge Station
24. Scholes Street Station
25. Skillman Station
26. Union Station
27. Williamsburgh
28. Wythe Avenue Station

This list of former manufactured gas plant (MGP) sites is based on the Company's current information. Additional sites, as well as storage and disposal sites associated with MGP operations, may be added if circumstances warrant, and any such additional sites will be subject to the treatment of SIR costs in the Rate Plan.

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balancing Account Summary										
1 Proj Transitional Account Balance - 3/31/07	94,147	94,320	97,030	96,003	97,540	95,368	95,734	92,423	91,687	87,316
2 Deferral Increase										
3 Property Taxes	45,486	47,920	50,355	52,901	55,447	58,050	60,711	63,431	66,212	69,055
4 Gas Safety and Reliability Incentive	0	0	0	0	0	0	0	0	0	0
5 Service Quality Performance Penalties	0	0	0	0	0	0	0	0	0	0
6 Pensions and OPEBs	0	0	0	0	0	0	0	0	0	0
7 SIR Costs	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514
8 Exogenous Costs	0	0	0	0	0	0	0	0	0	0
9 Capital Expenditure Trackers - Rev. Req.	0	0	0	0	0	0	0	0	0	0
10 Construction Related O&M	0	0	0	0	0	0	0	0	0	0
11 Demand Side Management Costs	0	0	0	0	0	0	0	0	0	0
12 Low Income Program Costs	0	0	0	0	0	0	0	0	0	0
13 Retail Choice Costs	0	0	0	0	0	0	0	0	0	0
14 Excess Inflation	0	0	0	0	0	0	0	0	0	0
15 TC Margins	0	0	0	0	0	0	0	0	0	0
16 Power Generation & Interruptible Margins	0	0	0	0	0	0	0	0	0	0
17 Earnings Sharing				0			0			0
18 Total Deferral Increase	62,000	64,434	66,869	69,414	71,961	74,563	77,224	79,945	82,726	85,569
19 Amortization of Deferrals	(68,593)	(68,593)	(74,825)	(74,825)	(81,058)	(81,058)	(87,290)	(87,290)	(93,522)	(93,522)
20 Interest	6,766	6,869	6,929	6,948	6,925	6,860	6,754	6,609	6,426	6,206
21 Ending Balance	94,320	97,030	96,003	97,540	95,368	95,734	92,423	91,687	87,316	85,569
22										
23 Average Balance	90,851	92,240	93,052	93,298	92,991	92,121	90,701	88,750	86,289	83,340

ıe Notes

1 Projected Balance at March 31, 2007
3 Page 2 of 5, Line 3
4 Page 2 of 5, Line 6
5 Page 2 of 5, Line 9
6 Page 2 of 5, Line 29 and 30
7 Page 2 of 5, Line 33
8 Page 2 of 5, Line 36
9 Page 3 of 5, Line 25
10 Page 4 of 5, Line 2
11 Page 4 of 5, Line 5
12 Page 4 of 5, Line 8
13 Page 4 of 5, Line 11
14 Page 4 of 5, Line 14
15 Page 4 of 5, Line 19
16 Page 4 of 5, Line 24
17 Page 4 of 5, Line 27
19 Exhibit 8 - KEDLI, Page 12 of 12, Line 3
20 Line 1 plus (line20 + Line 21)/2 times Pre Tax Weighted Average Cost of Capital net of Deferred Tax Impact

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

Line		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Property Taxes										
1	Actual Property and Sp. Franch. Tax Expense	106,764	109,198	111,633	114,179	116,725	119,328	121,989	124,709	127,490	130,333
2	Prop. and Sp. Franch. Tax Expense incl. in Base Rates	61,278	61,278	61,278	61,278	61,278	61,278	61,278	61,278	61,278	61,278
3	Prop. and Sp. Franch. Tax Expense Deferral	45,486	47,920	50,355	52,901	55,447	58,050	60,711	63,431	66,212	69,055
4											
5	**Gas Safety and Reliability Incentive**										
6	Actual Gas Safety and Reliability Incentive	0	0	0	0	0	0	0	0	0	0
7											
8	**Service Quality Performance Penalties**										
9	Actual Service Quality Performance Penalties	0	0	0	0	0	0	0	0	0	0
10											
11	**Pensions and OPEBs**										
12	Projected Pension Expense before allocated synergies	17,898	18,399	18,914	19,444	19,988	20,548	21,123	21,715	22,323	22,948
13	Projected OPEB Expense before allocated synergies	21,926	22,540	23,171	23,820	24,487	25,172	25,877	26,602	27,347	28,112
14	Total	39,824	40,939	42,085	43,264	44,475	45,720	47,001	48,317	49,670	51,060
15											
16	Projected Synergies allocated to KEDNY - 100%	13,266	18,130	23,229	28,571	29,286	30,018	30,768	31,537	32,326	33,134
17	Projected total O&M (excluding Net Synergies)	323,823	333,835	342,878	352,362	361,790	371,779	381,815	392,027	402,620	413,436
18	Projected Synergies as a % of Net O&M	4.10%	5.43%	6.77%	8.11%	8.09%	8.07%	8.06%	8.04%	8.03%	8.01%
19											
20	Projected Synergies applicable to Pension	367	500	641	788	809	830	851	873	896	920
21	Projected Synergies applicable to OPEB	449	612	785	966	991	1,016	1,043	1,070	1,098	1,127
22											
23	Net Pension included in Base Rates	17,531	17,900	18,274	18,656	19,179	19,718	20,272	20,841	21,427	22,028
24	Net OPEB included in Base Rates	21,477	21,928	22,386	22,854	23,496	24,156	24,835	25,532	26,249	26,986
25											
26	Actual Pension Expense	17,531	17,900	18,274	18,656	19,179	19,718	20,272	20,841	21,427	22,028
27	Actual OPEB Expense	21,477	21,928	22,386	22,854	23,496	24,156	24,835	25,532	26,249	26,986
28											
29	Deferred Pension Expense	0	0	0	0	0	0	0	0	0	0
30	Deferred OPEB Expense	0	0	0	0	0	0	0	0	0	0
31											
32	**SIR Costs**										
33	Actual SIR Costs	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514
34											
35	**Exogenous Costs**										
36	Actual Exogenous costs	0	0	0	0	0	0	0	0	0	0

Line Notes

1 Exhibit 8 - KEDNY, Page 8 of 12, Line 1 plus Line 3 for illustrative purposes and per rate plan, to be replaced with actual costs as incurred.
2 Exhibit 8 - KEDNY, Page 8 of 12, Line 5
3 Line 1 less Line 2
6 & 9 Will include actual costs as incurred
12 Exhibit 8 - KEDNY, Page 5 of 12, Line 11
13 Exhibit 8 - KEDNY, Page 5 of 12, Line 12
16 Exhibit 8 - KEDNY, Page 5 of 12, Line 17 times 2
17 Exhibit 8 - KEDNY, Page 5 of 12, Line 21 less Exhibit 8 - KEDNY lines 17 and 18
18 Line 16 divide by Line 17
20 Line 12 times Line 18 times 50%
21 Line 13 times Line 18 times 50%
23 Line 12 - Line 21
24 Line 13 - Line 22
26 For illustrative purposes and per rate plan equal to Line 23, to be replaced with actual costs as incurred.
27 For illustrative purposes and per rate plan equal to Line 24, to be replaced with actual costs as incurred.
29 Line 23 - Line 26
30 Line 24 - Line 27
33 For illustrative purposes and per rate plan equal to Exhibit 8 KEDNY Page 1 Line 17, to be replaced with actual costs as incurred.
36 Will include actual costs as incurred

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Capital Expenditures Trackers										
1	Non-Growth Capital Expenditure - Target	57,148	57,148	57,148	58,451	59,754	61,117	62,522	63,960	65,432	66,936
2	Non-Growth Capital Expenditure - Actual	57,148	57,148	57,148	58,451	59,754	61,117	62,522	63,960	65,432	66,936
3	Non-Growth Capital Expenditure Reconciliation	0	0	0	0	0	0	0	0	0	0
4											
5	Cumulative Expenditure Reconciliation	0	0	0	0	0	0	0	0	0	0
6											
7	Current Year Depreciation expense @ 2.82%	0	0	0	0	0	0	0	0	0	0
8	Accumulated Depreciation Reserve	0	0	0	0	0	0	0	0	0	0
9											
10	Year End Net Plant Balance	0	0	0	0	0	0	0	0	0	0
11											
12	Average Net Plant	0	0	0	0	0	0	0	0	0	0
13											
14	Deferred Tax Provision	0	0	0	0	0	0	0	0	0	0
15	Accumulated Deferred Tax Reserve	0	0	0	0	0	0	0	0	0	0
16											
17	Average Deferred Tax Reserve	0	0	0	0	0	0	0	0	0	0
18											
19	Average Rate Base Impact	0	0	0	0	0	0	0	0	0	0
20	Pre-Tax Weighted Average Cost of Capital	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%	12.59%
21											
22	Return Requirement	0	0	0	0	0	0	0	0	0	0
23	Depreciation	0	0	0	0	0	0	0	0	0	0
24											
25	Capital Expenditure Reconciliation - Total Rev. Req.	0	0	0	0	0	0	0	0	0	0

Line Notes

1 Targeted Non - Growth Capital Expenditures based on actual 3 year (2003 - 2005) actual spending.
2 For illustrative purposes and per rate plan equal to 10 year targeted expenditures (Line 6), to be replaced with actual expenditures as incurred.
3 Line 2 minus Line 1
7 Line 11 times 2.82%
10 Line 5 minus Line 8
12 Line 10 Prior Year plus Line 10 current Year divided by 2
14 Line 5 times (4.07% - 2.82%) times 40.87%
17 Line 17 Prior Year plus Line 17 current Year divided by 2
19 Line 12 minus Line 17
20 Exhibit 8 - KEDNY Page 11 of 12.

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
1	**Contruction Related Operation and Maintenance Expense**										
2	Actual Constructiuon Related O&M	0	0	0	0	0	0	0	0	0	0
3											
4	**Demand Side Management Costs**										
5	Actual Demand Side Management Costs	0	0	0	0	0	0	0	0	0	0
6											
7	**Low Income Program Costs**										
8	Actual Low Income Program Costs	0	0	0	0	0	0	0	0	0	0
9											
10	**Retail Choice Costs**										
11	Actual Retail Choice Costs	0	0	0	0	0	0	0	0	0	0
12											
13	**Excess Inflation**										
14	Actual Excess Inflation	0	0	0	0	0	0	0	0	0	0
15											
16	**TC Margins**										
17	TC Margins credited to base rates	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761
18	Actual TC Margins	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761
19	Difference included in Balancing Account	0	0	0	0	0	0	0	0	0	0
20											
21	**Power Generation & Interruptible Margins**										
22	Power Generation Margins credited to base rates	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100
23	Actual Power Generation Margins	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100
24	Difference included in Balancing Account	0	0	0	0	0	0	0	0	0	0
25											
26	**Earnings Sharing**										
27	Actual Customer portion of earnings sharing				0			0			0

Line Notes

2 Will include actual costs as incurred
5 Will include actual costs as incurred
8 Will include actual costs as incurred
11 Will include actual costs as incurred
14 Will include actual costs as incurred.
17 Exhibit 8 - KEDNY Page 3 of 12, Line 3
18 For illustrative purposes and per rate plan equal to Line 17, to be replaced with Revenues as received.
22 Exhibit 8 - KEDNY Page 3 of 12, Line 4
23 For illustrative purposes and per rate plan equal to Line 22, to be replaced with Revenues as received.
27 Will include actual customer portion of shared earnings

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)

Illustrative Example of Shared Earnings Calculation

Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Earnings Sharing Mechanism										
1	Gas Net Income	100,709	103,128	105,490	107,808	110,074	112,292	114,460	116,578	118,641	120,649
2	Imputed Common Equity	915,532	937,528	959,004	980,069	1,000,675	1,020,836	1,040,549	1,059,795	1,078,556	1,096,813
3	Earned Return on Equity	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
4											
5	Average Gas Net Income				104,284			112,276			118,623
6	Average Imputed Common Equity				948,033			1,020,687			1,078,388
7	Average Earned Return on Equity				11.00%			11.00%			11.00%
8											
9	Initial Sharing Block >11.75% <=14.00%				0.00%			0.00%			0.00%
10	Average Imputed Equity				948,033			1,020,687			1,078,388
11	Initial Block Earnings to be shared				0			0			0
12	Initial Block Customer Share = 50%				50.00%			50.00%			50.00%
13	Initial Block Customer portion of shared earnings				0			0			0
14											
15	Second Sharing Block >14.00% <=16.00%				0.00%			0.00%			0.00%
16	Average Imputed Equity				948,033			1,020,687			1,078,388
17	Second Block Earnings to be shared				0			0			0
18	Second Block Customer Share = 75%				75.00%			75.00%			75.00%
19	Second Block Customer portion of shared earnings				0			0			0
20											
21	Third Sharing Block >16.00%				0.00%			0.00%			0.00%
22	Average Imputed Equity				948,033			1,020,687			1,078,388
23	Third Block Earnings to be shared				0			0			0
24	Third Block Customer Share = 90%				90.00%			90.00%			90.00%
25	Third Block Customer portion of shared earnings				0			0			0
26											
27	Total customer portion of shared earnings				0			0			0
28	Tax Gross up (1 - effective tax rate of 40.87%)				59.13%			59.13%			59.13%
29											
30	Revenue requirement				0			0			0
31	Number of Years in sharing period				4			3			3
32											
33	Total Customer Earnings Sharing Credit				0			0			0

Line Notes
1 For Illustrative purposes and per Rate Plan, Exhibit 8 - KEDNY, Page 2 of 12, Line 11. Will reflect actual Gas net income including the Settlement Levelization Debit/(Credit), Exhibit 8 - KEDNY page 2 of 12, Line 5 and the Company's share of net synergy savings Exhibit 8 - KEDNY Page 2 of 12 Lines 3 and 4.
2 For Illustrative purposes and per Rate Plan, Exhibit 8 - KEDNY, Page 2 of 12, Line 15. Will reflect actual imputed common equity.
5 Five year average of Line 1
6 Five year average of Line 2
27 Line 13 plus Line 19 plus Line 25
30 Line 27 divided by Line 28
33 Line 30 times Line 31

Attachment 3

PENSION AND OPEB EXPENSE

During the Rate Plan Period, KEDNY shall follow the procedures set forth below with regard to its pension and OPEB costs. Specific reconciliations shall be performed by KEDNY as set forth in the schedules in Exhibit 6 Attachment 2-KEDNY to the Petition:

1. <u>Fair Value Adjustments on Closing</u>. Within 60 days after the closing, KEDNY shall file with the Commission for its review complete actuarial analyses of its Pension Plan and its Retiree Welfare Plan. The actuarial analyses will identify all assumptions underlying the analyses and quantify the effects of any changes in assumptions from the actuarial analyses in effect prior to the closing of the merger. KEDNY shall recognize: (a) the net transition obligation; (b) prior service cost; (c) net gains or losses; (d) the effects of assumptions changes, including the change in attribution age for the Retiree Welfare Plan; (e) updated plan asset information in both the Pension Plan and the Retiree Welfare Plan as of the date of the closing of the Transaction; and (f) updated plan liability information in both the Pension Plan and the Retiree Welfare Plan as of the date of the closing of the Transaction, but based on January 1, 2006 employee census data, and shall record an offsetting regulatory asset or liability on its accounts for all of the above items. Following the Commission's review, KEDNY will begin amortizing the regulatory asset or liability as of the Effective Date over ten years in equal monthly amounts. The amortization under this paragraph shall be included in KEDNY's actual pension and OPEB expenses for the reconciliation in paragraph 2, below. Amortization of this regulatory asset and the other regulatory assets created under this Attachment, together with amortizations from prior periods, shall be accounted for in an internal reserve for pensions and benefits as required under the Commission's Statement of Policy Concerning Pensions and OPEB's, Case 91-M-0890 (September 7, 1993).

2. <u>Reconciliation of Pension and OPEB Expense during Rate Plan Period</u>. KEDNY shall reconcile its actual Pension and OPEB expense recorded under FAS 87 and FAS 106, including the amortization of the regulatory asset or liability set forth in paragraph 1, above, and their allocated share of Pension and OPEB expense from ServiceCo, as defined in Exhibit 9 to the Petition, but excluding Pension and OPEB expense associated with Supplemental Executive Retirement Programs (SERP) or other executive plans, programs, or arrangements that would otherwise factor into FAS 87, FAS 88, or FAS 106, and unregulated operations. Capitalized FAS 87 and FAS 106 costs shall be excluded from actual FAS 87 and FAS 106 costs in the reconciliation, as will a synergy saving adjustment.

3. <u>Costs to Achieve Merger Savings</u>. In the first year after the Effective Date, KEDNY shall record an offsetting regulatory asset equal to the Separation and

PENSION AND OPEB EXPENSE

Early Retirement Costs,[1] if any, recorded in that period, and shall amortize that regulatory asset in accordance with the percentages set forth in the schedule below:

Rate Year Ended 3/31	Percent
2008	38.49%
2009	15.30%
2010	15.00%
2011	6.78%
2012	7.27%
2013	5.97%
2014	4.63%
2015	2.12%
2016	2.18%
2017	2.25%

Separation and Early Retirement Costs and the amortization of the associated regulatory asset shall be excluded from the reconciliation under Paragraph 2, above, but shall be added to the internal reserve as set forth in Paragraph 1, above.

Separation and Early Retirement Costs shall be offset by curtailment gains, if any. For example, the accumulated projected benefit obligation (APBO) for OPEBs will be adjusted on the effective date in connection with the change in attribution age for the Retiree Welfare Plan. During the first year of the Rate Plan, an employee Separation program may be offered in which employees will separate from the company without earning OPEB benefits that were previously accrued for in the calculation of the APBO, therefore resulting in a curtailment gain. In this example, a portion of this gain is associated with the calculation of the APBO prior to the merger, and the other portion will be attributable to the change in attribution age. The latter portion in this example will be deducted from the regulatory asset, or added to the regulatory liability established on the effective date of the merger.

[1] For purposes of this section, Separation and Early Retirement Costs shall include termination costs. Settlements and Curtailments (whether gains or losses) associated with the one time net charges under FAS 88 and 106 that are incurred by KEDNY directly, or indirectly through KeySpan's service companies within one year of merger due to any KeySpan Separation or Early Retirement Programs, or the effects of ServiceCo or National Grid Other Affiliates' Separation or Early Retirement Programs to the extent they include employees who worked for KeySpan prior to the merger. Separation or Early Retirement costs shall exclude the one time net charges under FAS 88 and 106 associated with SERP or other Executive plans, programs, or arrangements and unregulated operations that would otherwise factor into Separation or Early Retirement Costs.

Attachment 4

Illustration of Extraordinary Inflation Adjustment

(Million Dollars)

Description	Inflation Target 4.50%					Inflation Target 4.50% (GDPPI Est. for Years 6 & 7 in Year 5 + 2.3%)				
	Year One (2008)	Year Two (2009)	Year Three (2010)	Year Four (2011)	Year Five (2012)	Year Six (2013)	Year Seven (2014)	Year Eight (2015)	Year Nine (2016)	Year Ten (2017)
1) Base T & D Charges	$310.99	$310.17	$309.34	$308.49	$307.32	$306.13	$304.89	$303.63	$302.32	$300.99
2) Actual Inflation Rate (GDPPI)	4.75%	3.75%	5.25%	5.75%	4.00%	5.50%	4.50%	3.00%	5.75%	5.75%
3) Extraordinary Inflation Rate	0.25%	-0.75%	0.75%	1.25%	-0.50%	1.00%	0.00%	-1.50%	1.25%	1.25%
4) Cumulative Inflation Trigger	0.25%	-0.50%	0.25%	1.50%	1.00%	2.00%	2.00%	0.50%	1.75%	3.00%
5) Extraordinary Inflation Amount	$0.78	($2.33)	$2.32	$3.86	($1.54)	$3.06	$0.00	($4.55)	$3.78	$3.76
6) Cumulative Extraordinary Inflation Amount	$0.78	$0.00	$0.77	$4.63	$3.09	$6.15	$6.15	$1.60	$5.38	$9.14
7) Actual Departmental	$275.00	$290.00	$290.00	$300.00	$300.00	$310.00	$295.00	$316.00	$330.00	$335.00
8) Forecast Departmental Less Net Synergies	$291.97	$284.00	$286.95	$285.88	$293.69	$301.05	$308.40	$315.24	$323.78	$332.48
9) Difference	($16.97)	$6.00	$3.05	$14.12	$6.31	$8.95	($13.40)	$0.76	$6.22	$2.52
10) Extraordinary Inflation Amount (included in the Deferral Account)	$0.00	$0.00	$0.77	$4.63	$3.09	$6.15	$0.00	$0.73	$5.38	$2.28

1) Page 2, Line 12/1000
2) Estimated for this illustration
3) Line 2 less inflation target for the year
4) Line 3 plus prior year Line 4
5) Line 3 * Line 1
6) Prior year Line 6 plus current year Line 5 (Not less than zero), but no greater than Line 1 * Line 4
7) Estimated here, but will be actuals based on the agreed upon method
8) Page 2, Line 8
9) Line 7 - Line 8
10) Minumum of Line 6 or Line 9 * Line 1 / Line 8 but no less than Zero. No Deferral if Earnings are above 11%

Illustration of Extraordinary Inflation Adjustment

(Thousand Dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Departmental Expenses	327,402	328,829	335,244	339,875	349,076	358,355	367,659	376,821	387,036	397,466
2 Merger Savings	(6,633)	(9,065)	(11,614)	(14,286)	(14,643)	(15,009)	(15,384)	(15,769)	(16,163)	(16,567)
3 Merger Cost to Achieve	10,212	4,059	3,980	1,799	1,929	1,584	1,228	562	578	597
4 Subtotal	330,982	323,823	327,609	327,388	336,362	344,930	353,504	361,615	371,451	381,496
5 Pension Expense	(17,531)	(17,900)	(18,274)	(18,656)	(19,179)	(19,718)	(20,272)	(20,841)	(21,427)	(22,028)
6 OPEB Expense	(21,477)	(21,928)	(22,386)	(22,854)	(23,496)	(24,156)	(24,835)	(25,532)	(26,249)	(26,986)
7 Total	291,973	283,996	286,949	285,879	293,687	301,055	308,397	315,242	323,776	332,481
8 Inflation Base w/ Pension and OPEB Expenses	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
9 Pension Expense	(17,531)	(17,900)	(18,274)	(18,656)	(19,179)	(19,718)	(20,272)	(20,841)	(21,427)	(22,028)
10 OPEB Expense	(21,477)	(21,928)	(22,386)	(22,854)	(23,496)	(24,156)	(24,835)	(25,532)	(26,249)	(26,986)
11 Adjusted Inflation Base	310,992	310,173	309,340	308,490	307,325	306,125	304,893	303,627	302,324	300,986

1 Exhibit 8 KEDNY Page 5, Line 21
2 Exhibit 8 KEDNY Page 5, Line 17
3 Exhibit 8 KEDNY Page 5, Line 18
4 Sum Lines 1 through 3
5 - Exhibit 6, Attachment 2 KEDNY, Page 2, Line 23
6 - Exhibit 6, Attachment 2 KEDNY, Page 2, Line 24
7 Sum 4 through 6
8 Line 5
9 Line 6
10 Sum Line 6 through Line 9
11 Sum 8 through 10

Attachment 5

KEDNY Unbundled Rates

OVERVIEW

In a policy statement issued August 25, 2004 and other orders in the Unbundling Track of Case 00-M-0504, *Proceeding On Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets and Fostering Development of Retail Competitive Opportunities* (August 25, 2004) ("Competitive Opportunities Case"), the Commission directed utilities to file unbundled rates based on embedded cost of service studies and a mechanism for recovery of lost revenue in their next rate proceedings. Accordingly, pursuant to the Commission's decisions in the Competitive Opportunities Case, KEDNY proposes fully unbundled rates for competitive services based on appropriate allocations of actual costs for the year ended December 31, 2005, and consistent with the embedded cost of service study provided at Exhibit 5 to the Joint Petition.

KEDNY intends that the unbundled rates approved in this proceeding will replace its current back-out credits. Currently, KEDNY has a merchant function back-out credit of $.21/Dth that is due to expire on November 1, 2006. As part of its July 18, 2006 filing of tariff revisions, KEDNY proposes to extend this merchant function back-out credit until it is replaced by an unbundled supply rate approved by the Commission. KEDNY also has a billing back-out credit of $.78 per account per month. The billing back-out credit was set by Commission Order in Case 98-M-1343, *In the Matter of Retail Access Business Rules*. It remains in effect until it is replaced by an unbundled billing rate approved by the Commission.

UNBUNDLED RATES

Derivation of Unbundled Rates from Cost of Service Study

Using costs for the year ended December 31, 2005 from the embedded cost of service study provided at Exhibit 5 to the Joint Petition, costs were functionalized among competitive and non-competitive services based on the Commission's Orders in the Unbundling Track of the Competitive Opportunities Case.

Costs were functionalized among the following functions: (1) Supply (including Storage), (2) Transmission (3) Distribution, and (4) Billing and Payment Processing. Because KEDNY performs no competitive energy services, there are no costs allocated to this function.

Unbundled Supply Rate

As shown on Attachment 5, Schedule 1, we have calculated an unbundled supply rate of $.53/Dth.

Components of unbundled supply rate

The unbundled supply rate includes: (1) gas supply procurement costs; (2) credit and collections expense allocated to commodity; (3) advertising and sales promotion expense allocated to commodity; (4) uncollectible expense related to commodity; and (5) the return requirement on working capital associated with the lag on customer payments for gas costs

The increase in KEDNY's unbundled supply rate from $.21/Dth to $.53/Dth is attributable to the Company's proposal in its Rate Plan to move uncollectible expense, the revenue requirement for gas working capital and the revenue requirement for gas storage inventory out of base rates and to recover these costs, following an 18-month deferral, through the Gas Adjustment Clause ("GAC"), as they are directly related to the supply function. The revenue requirement for gas storage inventory would also be recovered from the Transportation Adjustment Clause ("TAC") because the Company uses storage to provide daily balancing to both bundled sales and transportation customers.[1] While the supply-related costs associated with procurement, credit and collections, and advertising and sales promotion expense in the aggregate are $.11/Dth, the gas-related costs deferred but immediately credited to migrating customers under the Company's Rate Plan

[1] In addition, ESCOs have the benefit of the storage pricing through the "Virtual Storage" program recently introduced by the Company.

add $.42/Dth to the unbundled supply rate. Because the revenue requirement for gas storage inventory will be recovered from both sales and transportation customers through the GAC and TAC, it is not included in the unbundled supply rate. This approach should create opportunities for ESCOs to penetrate the residential gas sales market, and facilitates the Commission's objective of fostering retail access.

Credit and collection expense and advertising and sales promotion expense were allocated between delivery and commodity on the basis of revenue. The revenue-based split was 34% and 66%, representing the proportion of delivery and gas supply revenue to all revenue except "other" and off-system sales revenue for the year ending December 31, 2005. Once a purchase of receivables program is implemented, customers with participating ESCOs will not receive the TAC credit for credit and collections expense.

Customer care costs were allocated to the Supply function based on a special study that was conducted by interviewing supervisory personnel as to the amount of time spent on various customer care activities, including credit and collections and billing inquiries. This special study is provided at Exhibit 5 to the Join Petition, Schedule 3.

The costs allocated to the Supply function were loaded with a proportionate amount of indirect costs, including administrative and general expense ("A&G"), working capital and a return on rate base.

Means of crediting migrating customers with the unbundled supply rate

During the initial 18 months of the Rate Plan, the unbundled supply rate will be credited to migrating customers through the TAC. Following the 18-month deferral period, the costs associated with commodity-related uncollectible expense and the revenue requirement on purchased gas working capital will be reconciled annually in the GAC, and automatically avoided by migrating customers; the revenue requirement for storage inventory will be collected through the GAC/TAC.

Unbundled Billing and Payment Processing Rate

As shown on Attachment 5, Schedule 2, we have calculated an unbundled billing and payment processing rate of $.76/account/month.

Components of Uunbundled Billing and Payment Processing Rate

The unbundled billing and payment processing rate includes the direct costs of issuing and mailing bills, and responding to billing inquiries. In addition, the billing and payment processing function was assigned costs associated with billing inquiries based on the special study cited above. We added a loading of indirect costs, including, A&G, working capital and a return on rate base.

Means of crediting migrating customers with the unbundled billing and payment processing rate

For transportation customers whose ESCO's charges are on KEDNY's consolidated bill, the unbundled billing rate will be credited to KEDNY's delivery charge. KED NY will charge the ESCO the same unbundled billing rate for providing this service. Transportation customers whose ESCOs are not participating in the Company's consolidated billing program will not receive a credit for the unbundled billing rate.

LOST REVENUE RECOVERY MECHANISM

The Company proposes a lost revenue recovery mechanism for costs included in the unbundled supply rate that it is unable to avoid when customers migrate. The initial avoided cost curves associated with gas supply procurement, credit and collections, and advertising and sales promotion expense are provided at Attachment 6.[2] While these avoided cost curves represent our best estimate at this

[2] This Attachment is divided into two sections. The left side represents the unbundled supply rate and avoided costs associated with collection expense allocated to commodity. As shown on this Attachment, the unbundled supply rate associated with collection expense allocated to commodity is $.1025/thm. The migration percentage is calculated as firm transportation volumes for customers not in the POR program as a percent of total firm sales and transportation volumes.

time of the pace at which we can avoid costs, we reserve the right to request that DPS Staff or the Commission review the avoided cost curve(s) in light of KEDNY's avoided cost experience and permit such changes as are warranted.

On a semi-annual basis, KEDNY will calculate the difference between the gas supply procurement cost, credit and collections expense, and advertising and sales promotion expense credited on the bills of transportation customers eligible for the credit and KEDNY's short-term avoided cost based on the avoided cost curves.

On a semi-annual basis, KEDNY will calculate the difference between the gas supply procurement cost, credit and collections expense, and advertising and sales promotion expense credited on the bills of transportation customers and KEDNY's short-term avoided cost based on the avoided cost curves and the proportionate volume of customers receiving the credit. The Company proposes to allocate the lost revenue between firm sales customers and firm transportation customers in the LDAC through a deferral in the KEDNY Balancing Account. Moreover, the Company will recover from the Balancing Account the amount used to fund the gas-related cost component of the unbundled supply rate during the eighteen months such costs are deferred pursuant to its Rate Plan.

BILL FORMAT

For each level of migration, the per therm and percent avoided collection expense are shown. Avoided costs are realized because agency collection fees associated with the cost of commodity are avoided when ESCOs provide supply. The table also shows the collection costs that are not avoided on a per therm and percentage basis. For example, at a 30% migration level, 2% of the costs or \$0.0022/thm are avoided and 98% or \$0.1003/thm are not avoided.

The right hand side of the table illustrates the avoided and unavoided costs for the total Collection, Gas supply procurement and promotional advertising expenses allocated to commodity.

Pending the proposed Transaction the integration team is only beginning to develop plans for how National Grid and KeySpan should integrate their operations, including a potential integration of information technology systems.

In its "Order Directing Filing of Unbundled Bill Formats" issued February 18, 2005 in the Competitive Opportunities Case ("Bill Format Order"), the Commission directed utilities to propose bill format revisions that would separately state unbundled rates for competitive services in an effort to promote retail access in their next rate proceedings. In doing so, however, the Commission recognized the need to coordinate utility resource planning efforts in a manner that minimizes costs to customers, and urged utilities to economize in every way possible to conserve expenses in carrying out the objectives of its order. (Bill Reformat Order at p.12).

To that end, KEDNY seeks to defer discussions on bill reformatting pending additional clarity as to the future of its billing system from the integration planning process with National Grid. In the meantime, the objective of promoting retail access will not be compromised. KEDNY's existing bill format clearly identifies the unbundled supply back-out credit and consolidated bill credit as savings available to customers migrating to competitive providers.

KeySpan Energy Delivery New York
Unbundled Supply Rates
(Thousands of Dollars except per Dth)

		Embedded Cost of Service December 2005		Per Dth
I	**Merchant Function**			
1	**Gas Procurement Costs**	$ 350	1	$ 0.003
2	**Collection Costs**			
	Collections	4,097		
	Collection Agency Fees	1,618		
	Collections-Other OutSide Services	1,765		
	Call Center	1,026		
	Outbound Postage And Other	647		
	Total Direct Costs	9,153		
	Loadings	2,087		
	Total Direct & Indirect	11,240		
	Return	406		
	Total Collection Costs	$ 11,646	1	$ 0.102
3	**Promotional Advertising Expense**			
	Direct Costs	774		
	Loadings	11		
	Total Direct & Indirect	785		
	Return	11		
	Total Promotional Expenses	$ 796	1	$ 0.007
	Subtotal	$ 12,792		$ 0.113

		Rate Year March 2008		Per Dth
II	**Other Commodity-Related Costs**			
4	**Uncollectibles**	24,113	2	$ 0.243
5	**Working Capital Return - Lead/Lag**	17,105	2	$ 0.172
	Subtotal	$ 41,218		$ 0.415
	Total	$ 54,010		$ 0.53

* Unitization Based on :

1	2005 Firm Sales and Transportation (MDth)	113,625
2	12 Mos Ended 3/31/08 Firm Sales (MDth)	99,317

KeySpan Energy Delivery New York
Unbundled Billing and Payment Processing Rate
Cost of Service Study Year Ending December 31, 2005

COSTS:	Total		Per Account per Month	
Direct Costs				
Print & Mail Bills	$	2,535	$	0.18
Call Center	$	2,647	$	0.19
Remittance	$	1,286	$	0.09
Total Direct Costs	**$**	**6,468**	**$**	**0.46**
Allocated Loadings	$	3,581	$	0.26
Return on Rate Base	$	582	$	0.04
Total Revenue Requirement	**$**	**10,631**	**$**	**0.76**

Attachment 6

KeySpan Energy Delivery New York
Avoided Cost Curves

Collection Costs

Total Cost $ 11,645,683
$/Therm $ 0.1025

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
1%	-	0%	0.1025	100%
2%	-	0%	0.1025	100%
3%	-	0%	0.1025	100%
4%	-	0%	0.1025	100%
5%	-	0%	0.1025	100%
6%	-	0%	0.1025	100%
7%	-	0%	0.1025	100%
8%	-	0%	0.1025	100%
9%	-	0%	0.1025	100%
10%	-	0%	0.1025	100%
11%	-	0%	0.1025	100%
12%	-	0%	0.1025	100%
13%	-	0%	0.1025	100%
14%	-	0%	0.1025	100%
15%	-	0%	0.1025	100%
16%	-	0%	0.1025	100%
17%	-	0%	0.1025	100%
18%	0.0002	0%	0.1023	100%
19%	0.0003	0%	0.1022	100%
20%	0.0005	0%	0.1020	100%
21%	0.0007	1%	0.1018	99%
22%	0.0008	1%	0.1017	99%
23%	0.0010	1%	0.1015	99%
24%	0.0012	1%	0.1013	99%
25%	0.0013	1%	0.1012	99%
26%	0.0015	1%	0.1010	99%
27%	0.0017	2%	0.1008	98%
28%	0.0018	2%	0.1007	98%
29%	0.0020	2%	0.1005	98%
30%	0.0022	2%	0.1003	98%
31%	0.0023	2%	0.1002	98%
32%	0.0025	2%	0.1000	98%
33%	0.0027	3%	0.0998	97%
34%	0.0028	3%	0.0997	97%
35%	0.0030	3%	0.0995	97%
36%	0.0032	3%	0.0993	97%
37%	0.0033	3%	0.0992	97%
38%	0.0035	3%	0.0990	97%
39%	0.0037	4%	0.0988	96%
40%	0.0038	4%	0.0987	96%
41%	0.0040	4%	0.0985	96%
42%	0.0042	4%	0.0983	96%
43%	0.0043	4%	0.0981	96%
44%	0.0045	4%	0.0980	96%
45%	0.0047	5%	0.0978	95%
46%	0.0048	5%	0.0976	95%
47%	0.0050	5%	0.0975	95%
48%	0.0052	5%	0.0973	95%
49%	0.0053	5%	0.0971	95%
50%	0.0055	5%	0.0970	95%

Collection, Gas Supply Procurement and Advertising and Sales Promotion Expense

Total Cost $ 12,791,289
$/Therm $ 0.1126

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
1%	-	0%	0.1126	100%
2%	-	0%	0.1126	100%
3%	-	0%	0.1126	100%
4%	-	0%	0.1126	100%
5%	-	0%	0.1126	100%
6%	-	0%	0.1126	100%
7%	-	0%	0.1126	100%
8%	-	0%	0.1126	100%
9%	-	0%	0.1126	100%
10%	-	0%	0.1126	100%
11%	-	0%	0.1126	100%
12%	-	0%	0.1126	100%
13%	-	0%	0.1126	100%
14%	-	0%	0.1126	100%
15%	-	0%	0.1126	100%
16%	-	0%	0.1126	100%
17%	-	0%	0.1126	100%
18%	0.0002	0%	0.1124	100%
19%	0.0003	0%	0.1122	100%
20%	0.0005	0%	0.1121	100%
21%	0.0007	1%	0.1119	99%
22%	0.0008	1%	0.1117	99%
23%	0.0010	1%	0.1116	99%
24%	0.0012	1%	0.1114	99%
25%	0.0013	1%	0.1112	99%
26%	0.0015	1%	0.1111	99%
27%	0.0017	1%	0.1109	99%
28%	0.0018	2%	0.1107	98%
29%	0.0020	2%	0.1106	98%
30%	0.0022	2%	0.1104	98%
31%	0.0023	2%	0.1102	98%
32%	0.0025	2%	0.1101	98%
33%	0.0027	2%	0.1099	98%
34%	0.0028	3%	0.1097	97%
35%	0.0030	3%	0.1096	97%
36%	0.0032	3%	0.1094	97%
37%	0.0033	3%	0.1092	97%
38%	0.0035	3%	0.1091	97%
39%	0.0037	3%	0.1089	97%
40%	0.0038	3%	0.1087	97%
41%	0.0040	4%	0.1086	96%
42%	0.0042	4%	0.1084	96%
43%	0.0043	4%	0.1082	96%
44%	0.0045	4%	0.1081	96%
45%	0.0047	4%	0.1079	96%
46%	0.0048	4%	0.1077	96%
47%	0.0050	4%	0.1076	96%
48%	0.0052	5%	0.1074	95%
49%	0.0053	5%	0.1072	95%
50%	0.0055	5%	0.1071	95%

KeySpan Energy Delivery New York
Avoided Cost Curves

Collection Costs

Total Cost $ 11,645,683
$/Therm $ 0.1025

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
51%	0.0057	6%	0.0968	94%
52%	0.0058	6%	0.0966	94%
53%	0.0060	6%	0.0965	94%
54%	0.0062	6%	0.0963	94%
55%	0.0063	6%	0.0961	94%
56%	0.0065	6%	0.0960	94%
57%	0.0067	7%	0.0958	93%
58%	0.0068	7%	0.0956	93%
59%	0.0070	7%	0.0955	93%
60%	0.0072	7%	0.0953	93%
61%	0.0074	7%	0.0951	93%
62%	0.0075	7%	0.0950	93%
63%	0.0077	7%	0.0948	93%
64%	0.0079	8%	0.0946	92%
65%	0.0080	8%	0.0945	92%
66%	0.0082	8%	0.0943	92%
67%	0.0084	8%	0.0941	92%
68%	0.0085	8%	0.0940	92%
69%	0.0087	8%	0.0938	92%
70%	0.0089	9%	0.0936	91%
71%	0.0090	9%	0.0935	91%
72%	0.0092	9%	0.0933	91%
73%	0.0094	9%	0.0931	91%
74%	0.0095	9%	0.0930	91%
75%	0.0097	9%	0.0928	91%
76%	0.0099	10%	0.0926	90%
77%	0.0100	10%	0.0925	90%
78%	0.0102	10%	0.0923	90%
79%	0.0104	10%	0.0921	90%
80%	0.0105	10%	0.0920	90%
81%	0.0107	10%	0.0918	90%
82%	0.0109	11%	0.0916	89%
83%	0.0110	11%	0.0915	89%
84%	0.0112	11%	0.0913	89%
85%	0.0114	11%	0.0911	89%
86%	0.0115	11%	0.0910	89%
87%	0.0117	11%	0.0908	89%
88%	0.0119	12%	0.0906	88%
89%	0.0120	12%	0.0905	88%
90%	0.0122	12%	0.0903	88%
91%	0.0124	12%	0.0901	88%
92%	0.0125	12%	0.0900	88%
93%	0.0127	12%	0.0898	88%
94%	0.0129	13%	0.0896	87%
95%	0.0130	13%	0.0895	87%
96%	0.0132	13%	0.0893	87%
97%	0.0134	13%	0.0891	87%
98%	0.0135	13%	0.0890	87%
99%	0.0137	13%	0.0888	87%
100%	0.0139	14%	0.0886	86%

Collection, Gas Supply Procurement and Advertising and Sales Promotion Expense

Total Cost $ 12,791,289
$/Therm $ 0.1126

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
51%	0.0057	5%	0.1069	95%
52%	0.0058	5%	0.1067	95%
53%	0.0060	5%	0.1066	95%
54%	0.0062	5%	0.1064	95%
55%	0.0063	6%	0.1062	94%
56%	0.0065	6%	0.1061	94%
57%	0.0067	6%	0.1059	94%
58%	0.0068	6%	0.1057	94%
59%	0.0070	6%	0.1056	94%
60%	0.0072	6%	0.1054	94%
61%	0.0074	7%	0.1052	93%
62%	0.0075	7%	0.1051	93%
63%	0.0077	7%	0.1049	93%
64%	0.0079	7%	0.1047	93%
65%	0.0080	7%	0.1046	93%
66%	0.0082	7%	0.1044	93%
67%	0.0084	7%	0.1042	93%
68%	0.0085	8%	0.1041	92%
69%	0.0087	8%	0.1039	92%
70%	0.0089	8%	0.1037	92%
71%	0.0090	8%	0.1036	92%
72%	0.0092	8%	0.1034	92%
73%	0.0094	8%	0.1032	92%
74%	0.0095	8%	0.1031	92%
75%	0.0097	9%	0.1029	91%
76%	0.0099	9%	0.1027	91%
77%	0.0100	9%	0.1026	91%
78%	0.0102	9%	0.1024	91%
79%	0.0104	9%	0.1022	91%
80%	0.0105	9%	0.1021	91%
81%	0.0107	9%	0.1019	91%
82%	0.0109	10%	0.1017	90%
83%	0.0110	10%	0.1015	90%
84%	0.0112	10%	0.1014	90%
85%	0.0114	10%	0.1012	90%
86%	0.0115	10%	0.1010	90%
87%	0.0117	10%	0.1009	90%
88%	0.0119	11%	0.1007	89%
89%	0.0120	11%	0.1005	89%
90%	0.0122	11%	0.1004	89%
91%	0.0124	11%	0.1002	89%
92%	0.0125	11%	0.1000	89%
93%	0.0127	11%	0.0999	89%
94%	0.0129	11%	0.0997	89%
95%	0.0130	12%	0.0995	88%
96%	0.0132	12%	0.0994	88%
97%	0.0134	12%	0.0992	88%
98%	0.0135	12%	0.0990	88%
99%	0.0137	12%	0.0989	88%
100%	0.0139	12%	0.0987	88%

Attachment 7

Purchase of Receivables Program
KeySpan Energy Delivery New York

(a) Applicability

Participation in the POR program will be a condition of having the ESCO's charges presented on KEDNY's consolidated bill. KEDNY will purchase only the accounts of core, firm transportation customers. Amounts owed by a participating ESCO to KEDNY for any service (including, without limitation, consolidated billing service, swing service, and imbalance charges) may be netted against KEDNY's payments to the ESCO for its receivables.

(b) Purchase of Prospective Receivables

With respect to receivables for ESCO charges billed after implementation of the POR Program (Prospective Receivables), KEDNY will be deemed to have purchased the ESCO receivables at the point when the consolidated bill is prepared. As of then, KEDNY will treat such receivables as its own, and enjoy the full array of rights the ESCO would otherwise have to collect such receivables, including, without limitation, collection of late payment charges, disconnection, suspension, and levy. ESCOs will be paid for the receivables on the 20^{th} business day of the month for charges first presented in the previous month.

(c) Purchase of Prior Receivables

KEDNY will purchase ESCO receivables arising prior to implementation of the POR Program, provided: i) they are for accounts active with KEDNY; ii) they are based on bills issued after June 20, 2003; and iii) the ESCO is presenting charges on KEDNY's consolidated bill as of the implementation of the POR Program. ESCO Prior Receivables will be purchased at a discount that differs from the discount applicable to Prospective Receivables, as provided by this Agreement.

(d) Discount Rate for Prospective Receivables

The discount rate applicable to Prospective Receivables will be 2.02% in the first year of the POR Program. The discount rate reflects the sum of:

- 1.50%, which is KEDNY's actual uncollectible rate for all firm residential and commercial customers in the 12-month period ending December 31, 2005;

- .23%, which is 15% of the actual uncollectible rate and is intended to compensate KEDNY for its financial risk that the actual uncollectible rate for the purchased receivables may be higher than 1.05%; and

- .29%, which reflects KEDNY's incremental cost to administer the POR Program.

In each subsequent year of the POR Program, the discount rate will be adjusted to reflect: (i) KEDNY's most recent 12-month experience in uncollectibles; (ii) a corresponding adjustment to the risk factor; and (iii) any incremental administrative costs associated with administration of the POR Program not reflected in the initial discount rate. Sixty days before the effective date of the initial discount rate and any subsequent discount rate, KEDNY will notify all Parties of the opportunity to receive information about the discount rate and will provide such information to interested parties and to all ESCOs authorized to serve gas customers in KEDNY's service territory. ESCOs reserve the right to dispute the proposed discount rate. With respect to the initial discount rate, an ESCO may request mediation from the Commission's Office of Hearings and Alternative Dispute Resolution if the ESCO believes that KEDNY has not established the initial discount rate reasonably in accordance with the foregoing criteria applicable to the initial discount. With respect to subsequent discount rates, an ESCO may request such mediation with respect to any increase in the discount rate (but not the underlying discount rate) if the ESCO believes that KEDNY has not established the increase reasonably in accordance with the foregoing criteria applicable to adjustments to the discount rate.

(e) Discount Rate for ESCO Prior Receivables

The discount rate applicable to ESCO Prior Receivables will be 4.9%.

(f) Implementation Costs

KEDNY will incur information technology costs to implement the POR program and related matters associated with retail choice. None of these costs are reflected in KEDNY's rates, or in the discount rate applicable to purchased receivables. Pursuant to its Rate Plan, KEDNY will be permitted to defer these and other incremental retail access costs and include them in the KEDNY Balancing Account.

(g) Disputed Charges

ESCO charges that are disputed by the customer will be held in abeyance for 60 days, during which KEDNY will assist as it is able in resolving the dispute. If the dispute is not resolved within 60 days, the disputed amount will be netted against the next ESCO payment from KEDNY or charged back to the ESCO.

(h) Disconnection of Service

By participating in KEDNY's consolidated billing and POR Program, ESCOs waive any rights they may have to terminate commodity service, to seek suspension of utility delivery service, to collect security deposits and other forms of security and to charge late payment charges on the commodity portion of the bill. ESCOs will turn over to KEDNY any security deposits associated with accounts subject to the POR program.

KEDNY, in accordance with applicable provisions of law, may disconnect its delivery customers and the ESCO's commodity service to residential customers who fail to make full payment of all amounts due on the consolidated bill, including the amount of the purchased ESCO receivables. Participating ESCOs will be required to notify their customers that KEDNY has the right to disconnect their service for the nonpayment of commodity charges.

Prospectively, participating ESCOs will note clearly in their contracts with customers that KEDNY has the right to disconnect their service for non-payment of commodity charges.

Residential customers with accounts subject to the POR Program who are disconnected from utility service will be reconnected upon the payment of the arrears that were the subject of the disconnection, which may include both delivery and supply charges, or a lesser amount as specified in PSL §32(5)(d).

KEDNY is authorized to disconnect delivery service and ESCO commodity service, in accordance with 16 NYCRR Part 13, to non-residential customers on a consolidated bill where: (i) the customer fails to make full payment of all amounts due on the consolidated bill; (ii) KEDNY purchased the ESCO receivable; and (iii) the ESCO furnishes KEDNY with an affidavit from an officer of the ESCO representing to KEDNY that the ESCO has notified its current non-residential customers and will notify its future non-residential customers that KEDNY is permitted to disconnect the customer for nonpayment of ESCO charges. The ESCO will indemnify KEDNY for any cost, expense, or penalty if the customer's service is disconnected for nonpayment and the customer establishes that it did not receive such notice.

(i) Charge Back Of Commodity Differential

Where KEDNY reconnects service to a residential customer in accordance with PSL §32(5)(d), KEDNY may charge back to the ESCO the difference between the applicable ESCO charges and the amount the residential customer would have been charged for commodity service as a full service customer. Charge back may be accomplished by netting out the amounts owed to KEDNY by the ESCO from the payments otherwise due the ESCO from KEDNY.

(j) Billing Options

KEDNY is not obligated to offer consolidated billing options to ESCOs operating in its service territory other than the consolidated billing option under the POR Program. ESCOs not electing to participate in KEDNY's POR Program are required to issue their own bills pursuant to the Commission's rules and regulations. KEDNY may seek waivers of the Uniform Business Practices as they relate to consolidated billing options if necessary to implement and/or administer the POR Program, including, without limitation, restricting consolidated billing options.

(k) Billing Services Agreement

Within 90 days of the Consummation Date, KEDNY will implement a Consolidated Billing and Purchase of Receivables Agreement for participating ESCOs.

KEDLI Rate Plan

KEDLI RATE PLAN

I. DEFINITIONS

"Annual Report" means the report that will be served on the parties by July 1 of each year during the term of the Rate Plan beginning on July 1, 2008, which will contain the information detailed in various sections of the Rate Plan.

"Balancing Account" means the regulated account in which certain debits or credits arising out of the operation of the Rate Plan will be recorded based on variances between actual costs and revenue requirements compared to the forecast of costs and revenue requirements included in the Rate Plan.

"Base Delivery Rates" means the base rates set forth in KEDLI's tariff plus the Local Distribution Adjustment Charge.

"Case 97-M-0567 Settlement" means the settlement approved by the Commission by Order dated April 14, 1998 in Case 97-M-0567.

"Consummation Date" means the date on which a Certificate of Merger for the Transaction is filed with the Secretary of State of the State of New York or the later time that is provided in the Certificate of Merger.

"Director of Gas & Water" means the Director of the Department of Public Service's Gas and Water Division.

"ESCO" means an entity engaged in an Energy-Related Business and which does business in the service territory of KEDLI.

"Exogenous Costs" means all of the incremental effects on KEDLI's costs, revenues, or revenue requirements associated with or caused by: (i) any externally imposed accounting change; (ii) any change in Federal or state or local rates, laws, regulations, or precedents governing income, revenue, sales, or franchise taxes; or (iii) any legislative, court, or regulatory change, which imposes new or modifies existing obligations or duties. If these Exogenous Costs individually or collectively in any one Rate Year ending March 31 exceed three percent (3%) of KEDLI's pre-tax net utility income (determined in accordance with the methodology set forth for Earnings Sharing in Section A. 4 of the Rate Plan) for the year in which the change first occurs the total impact of the Exogenous Costs shall be included in the Balancing Account.

"Gas Adjustment Charge" or "GAC" means charges assessed to sales customers to effectuate recovery of certain costs and passthrough of certain credits outside of base rates, including gas costs, from sales customers.

"KEDLI" means KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery – Long Island.

"KEDLI Core Customer" means a KEDLI customer taking KEDLI Core Service under SC Nos. 1A, 1B, 1B-DG, 2A, 2B, 3, 5, 15, 16, 17 of KEDLI's Gas Tariff.

"KEDLI Core Service" means firm gas sales and firm transportation service provided under SC Nos. 1A, 1B, 1B-DG, 2A, 2B, 3, 5, 15, 16, 17 of KEDLI's Gas Tariff.

"KEDLI Rate Plan" means the rate plan for KEDLI's gas rates as set forth in Section II.

"Local Distribution Adjustment Charge" or "LDAC" means a volumetric charge assessed to KEDLI Core Customers in order to recover portions of deferred costs included in the KEDLI Balancing Accounts. The LDAC will consist of a base rate component and a surcharge component. The LDAC will not be separately stated on customer bills.

"Niagara Mohawk" means Niagara Mohawk Power Corporation.

"Non-Core Margins" means: (i) for KEDLI net margins derived by service to Temperature Controlled customers served under S.C. Nos. 12 and 13, (ii) net margins derived from services provided to interruptible and power generation customers under S.C. Nos. 4 and 7, and (iii) net margins derived from the comprehensive transportation service provided to LIPA.

"NYSERDA" means the New York State Energy Research and Development Agency.

"Property Tax Surcharge" means the surcharge approved by the Commission in the Case 97-M-0567 Settlement to permit KEDLI to recovered deferred property tax expenses on a one-year lag basis.

"PSL" means the Public Service Law of the State of New York.

"Rate Year" means any year during the period covered by this Agreement commencing on April 1 and ending on the next succeeding March 31.

"Rate Year One" means the period beginning the first day of the month after the Consummation Date and ending on March 31, 2008.

"Return" means carrying charges at the pre-tax weighted average cost of capital (after accounting for deferred tax effects).

"Return Requirement on Gas in Storage" means the pre-tax weighted average cost of capital multiplied by the thirteen month average storage balance.

"Return Requirement on Working Capital" means the pre-tax weighted average cost of capital multiplied by the working capital associated with the lag on customer payments for gas costs that is not offset by the lead on purchased gas expense.

"S.C.___" means a service classification contained in KEDLI's tariff.

"SIR Costs" means Site Investigation and Remediation Costs, including consultant, legal, insurance, and contractor costs for investigation, acquisition or remediation of former manufactured gas plant sites and other waste sites or related sites at which KEDLI has or will be determined to be a potentially responsible party. Net proceeds from insurance companies and third parties, together with lease payments or proceeds from the sale of properties acquired as part of a remediation plan shall be credited against SIR costs. The former manufactured gas plant sites or other related sites for which KEDLI has been named a potentially responsible party are set forth on Attachment 1. KEDLI will update the list of sites in its Annual Report, and include other sites in the event KEDLI is named as a potentially responsible party at any other sites during the term of the Rate Plan.

"Staff" means the Staff of the New York Department of Public Service.

"Transaction" means the proposed merger of KeySpan Corporation with and into a subsidiary of National Grid, USA, pursuant to the Agreement and Plan of Merger.

"Temperature Controlled" means certain services provided by KEDLI under S.C. Nos. 12 and 13.

"Transportation Adjustment Charge" or "TAC" means the charge assessed by KEDLI to effectuate recovery of certain costs and passthrough of certain credits outside of base rates from transportation service customers.

"Uncollectible Expenses Associated with Gas Costs" means the actual percentage of total uncollectible expense attributable to gas costs. This expense will be determined annually by multiplying the percentage that total uncollectible expense is of total revenues by total gas costs.

ARTICLE II

KEDLI RATE PLAN

A. Ratemaking Requirements

A KEDLI Rate Plan will be established to be implemented effective on the first day of the month after the Consummation Date (hereinafter "the Rate Effective Date"), continuing in effect until at least March 31, 2017. During the period of the KEDLI Rate Plan, the rates for KEDLI Core Customers will be established in accordance with this Agreement, and no changes will be made to such rates except in accordance with this Agreement. As more fully set forth below, this Agreement provides that certain costs will be recovered through Base Delivery Rates, which are defined to include a Local Distribution Adjustment Charge ("LDAC") and Base Rates, while other costs will be recovered through the Gas Adjustment Charge ("GAC") and/or the Transportation Adjustment Charge ("TAC"). A condition precedent to the effectiveness of this KEDLI Rate Plan is the consummation of the Transaction. If the Transaction is not consummated this KEDLI Rate Plan will not become effective.

1. Base Rate Adjustments

a. *Rate Year One—Exclusion of Costs; Implementation of LDAC*

On the Rate Effective Date and for the period ending March 31, 2009, KEDLI's Base Delivery Rates will remain unchanged. However, as of the Rate Effective Date, the definition and amount of certain costs that are currently recovered (or not recovered, as the case may be) through Base Rates will be changed as follows:

1. ***Exclusion of Rate Year One Costs.*** $28.7 million of annual gas-related costs as defined below shall be excluded from Base Rate recovery. The $28.7 million includes the following components, which are detailed on Exhibit 8-KEDLI p. 4:

(i.) $6.2 million, representing the forecasted annual Uncollectible Expense Associated With Gas Costs for the Rate Year ending March 31, 2008. Instead, KEDLI's actual expense for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

(ii) $16.6 million, representing the projected Return Requirement On Gas In Storage for the Rate Year ending March 31, 2008. Instead, KEDLI's actual cost for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

(iii) $5.9 million, representing the projected Return Requirement On Working Capital associated with the lag on customer payments for gas costs that is not offset by the lead on purchased gas expense, as projected for the Rate Year ending March 31, 2008. Instead, KEDLI's actual cost for this cost item will be deferred along with a Return and recovered in the manner set forth in Section A.2.a below;

2. Implementation of LDAC. KEDLI shall implement an LDAC on the Rate Effective Date, which shall be part of Base Delivery Rates and shall not be shown separately on customer bills. The LDAC shall include a Base Rate component and an LDAC surcharge component. The Base Rate component of the LDAC shall replace the recovery of gas-related costs removed from base rates and be designed to recover an annual amortization of $28.7 million of deferred costs in the Balancing Account. The Base Rate Component of the LDAC shall be computed by dividing the $28.7 million annual recovery amount by the forecasted annual volumetric deliveries of KEDLI Core Service to KEDLI Core Customers, and shall be subject to an annual reconciliation of forecasted and actual volumetric deliveries. Any difference between forecast and actual recoveries through the LDAC will be reflected in the KEDLI Balancing Account.

The LDAC surcharge component shall initially be designed from the Rate Effective Date to recover amounts that are currently recovered by KEDLI through a Property Tax Surcharge. Under the Case 97-M-0567 Settlement, KEDLI defers certain property tax expenses and recovers them on a one-year lag basis through a Property Tax Surcharge. KEDLI's Property Tax Surcharge will be designed to recover $41.2 million during the Rate Year ending March 31, 2008. The $41.2 million amount is the deferred property tax expense projected to be incurred during the twelve-months ending March 31, 2007. The surcharge designed to recover these costs, which is currently included in the GAC/TAC, shall be considered the LDAC surcharge as of the Rate Effective Date. Recoveries through the LDAC surcharge will be applied as credits to the Balancing Account. Moreover, all deferred property tax expense will be included in the Balancing Account as of the Rate Effective Date. The LDAC surcharge component shall be subject to the same volumetric reconciliation as the LDAC Base Rate component.

The $28.7 million Base Rate component of the LDAC and the $41.2 million LDAC surcharge will continue in effect during the entire term of the Rate Plan, subject to the following adjustments:

(i) The LDAC will be adjusted for the bi-annual increases established in the Rate Plan. In the Rate Years commencing April 1 of 2009, 2011, 2013, and 2015, KEDLI shall increase the LDAC by $871,000 of incremental deferred costs, as shown on Exhibit 8-KEDLI, page 1 to the Petition.

(ii) In addition, following the Rate Year ending March 31, 2009, the LDAC shall recover or return variances from the forecasted balance of the Balancing Account when such variance exceeds $25 million, provided that the implementation of an increase shall not exceed 2.5 percent of KEDLI's forecast total revenues during the year that the adjustment is implemented. The forecasted balance of the Balancing Account is shown on Exhibit 8 – KEDLI, Page 12, Line 5.

b. ***Additional Base Rate Adjustments In Rate Years 3, 5, 7, and 9***

In each year commencing April 1 of 2009, 2011, 2013, and 2015, KEDLI shall increase its Base Delivery Rates, by $46.9 million. The $46.9 million step increases include $871,000 for LDAC recovery of deferred costs as set forth in paragraph a(ii), above, and $46.0 million of Base Rate increases. In addition, in the year beginning April 1, 2009, KEDLI will also roll its State Income Tax surcharge into Base Rates. This roll-in represents an increase in Base Rates of $8.3 million offset by the elimination of the separate State Income Tax Surcharge. In the Rate Years ending March 31, 2008 and 2009, the State Income Surcharge will be fixed at $8.3 million and will not be reconciled to the actual tax expense.

The Base Rate revenue requirement increases of $46.0 million shall be allocated to all KEDLI Core Services on a uniform percentage basis, net of gas costs. The LDAC increases of $871,000 will be assessed volumetrically to all KEDLI Core Services through the LDAC surcharge component. The Base Delivery Rate increases are projected to increase KEDLI's projected annual aggregate revenues by an average of 2.76 percent over the term of the Rate Plan.

2. GAC/TAC Adjustments

a. ***Changes In The Costs Recovered Through The GAC And/Or The TAC***

As of the Rate Effective Date, the GAC and the TAC will be modified to reflect the following changes in the costs recovered through the GAC and/or the TAC as applicable:

(i) Beginning October 1, 2008, the GAC will reflect an adjustment factor to permit KEDLI to recover its forecast annual Uncollectible Expense Associated with Gas Costs, and its forecast Return Requirement On Working Capital for the ensuing annual period plus the Return on the deferred balance of such costs. Effective October 1, 2008, actual costs and recoveries of these costs will be reconciled in the same manner as gas costs and gas cost recoveries are reconciled through the GAC;

(ii) Beginning October 1, 2008, the GAC and the TAC will reflect an adjustment factor to permit KEDLI to recover its forecasted annual Return Requirement on Gas in Storage for the ensuing annual period plus the Return on the deferred balance of such costs. The GAC and TAC will be reconciled for the actual return requirement and recoveries in the same manner as other costs and other cost recoveries are reconciled through the GAC and TAC;

(iii) Pursuant to Section 1.A.1,for the period from the Rate Effective Date through September 30, 2008, KEDLI is excluding $28.7 million annually associated with Uncollectible Expense Associated With Gas Costs, the Return Requirement on Working Capital, and the Return Requirement on Gas In Storage from Base Delivery Rates. Moreover, KEDLI will not commence prospective recovery of these costs through the GAC and/or TAC until October 1, 2008. Accordingly, KEDLI shall defer the actual costs and revenue requirement associated with these items, during the period from the Rate Effective Date through September 30, 2008, and recover them as follows: (1) KEDLI will apply any pipeline refunds received during the Rate Plan period to reduce the deferred balance in lieu of crediting such refunds to the GAC/TAC; and (2) to the extent that such refunds are inadequate to offset the deferred balance, KEDLI shall commence annual recovery of 20 percent of the remaining deferred balance through the GAC and TAC, as applicable, beginning on April 1, 2012 in order to fully recover the remaining deferred balance by the end of the Rate Plan period. The portion of the deferred balance attributable to Return on Storage Inventory will be recovered through the GAC and TAC on a volumetric basis. The portion of the deferred balance attributable to Return on Working Capital and Uncollectible Expense Associated with Gas Costs will be recovered through the GAC on a volumetric basis. This annual amortization will continue until the deferred amount is fully recovered;

(iv) Beginning on October 1, 2008, Non-Core Margins currently credited to the GAC/TAC will be retained by KEDLI as Base Rate recoveries and fully reconciled through the Balancing Account. The amounts considered to be recovered through Base Rates are $2.0 million for TC Margins and $22.5 million for Power Generation and Interruptible Margins based on the actual three year (2003 through 2005) average for these items.

(V) For the period from the Rate Effective Date through September 30, 2008, the TAC will reflect a credit of $0.168 per dekatherm in order to provide transportation customers with a credit for Uncollectible Expense Associated With Gas Costs and the Return Requirement On Working Capital. Such credits will be reflected in the Balancing Account

b. *Gas Cost Savings.*

The Transaction will provide KEDLI with the opportunity to engage in coordinated management and planning of gas supply resources with KEDNY, Niagara Mohawk and other Utilities which will enable KEDLI to achieve gas cost savings for its customers. To facilitate such coordination, KEDLI is authorized to transfer any or all of its contracts for pipeline, storage and supply to an affiliate, which will manage such contracts in combination with the pipeline, storage and supply contracts of other Regulated Affiliates, consistent with the Affiliate Rules of Conduct. At such time as these transfers occur, KEDLI is authorized to guarantee the payment obligations under any or all of its pipeline, storage and supply contracts transferred to the affiliate. An estimate of gas cost savings, the allocation of those savings to KEDLI gas customers and a description of the practices that may give rise to such savings is set forth in Exhibit 3 to the Petition. The gas cost savings are by their nature an estimate. All of the net savings (savings less costs to achieve) will be credited to KEDLI's customers through the GAC as they occur. Nothing in this Rate Plan does or shall be construed to prevent KEDLI from exploring, proposing or implementing other gas supply strategies, either complementary to or in substitution for, the coordinated management and planning of gas supply, which strategies would be designed to achieve a level of gas cost savings equal to or greater than the savings reflected in Exhibit 3 to the Petition, while ensuring the continued reliability of KEDLI's gas supplies. KEDLI will consult with DPS Staff in connection with its portfolio plans.

3. KEDLI Balancing Account

KEDLI will modify the KEDLI Balancing Account to receive and fund certain deferrals as described herein. Deferred debits and credits in the KEDLI Balancing Account will accrue a Return. The Return will also be included in the KEDLI Balancing Account. KEDLI will file by July 1 of each year an Annual Report with the Commission that includes a reconciliation of the actual costs and revenues to the forecast amounts included in the Balancing Account in the prior year ended March 31. An illustrative example of such reconciliation is shown on Attachment 2, based on the variance from the forecast included in Exhibit 8-KEDLI, page 12. The Annual Report will also include a report on earnings sharing as discussed in Section 4. A list of the items for which deferred accounting and recovery through the KEDLI Balancing Account is authorized is as follows:

(i) *Balancing Account Balance* – The net balance in the KEDLI Balancing Account, including any Transition Balancing Account balance, provided for in the Case 97-M-0567 Settlement as of March 31, 2007 will be carried forward and reflected in the KEDLI Balancing Account.

(ii) *Non-Core Margins* – If, in any Rate Year, Non-Core Margins, net of hedging costs and gas costs, differ from the annual totals shown on Exhibit 8-KEDLI, page 3, Lines 3 and 4, KEDLI will include one hundred percent of the difference in the KEDLI Balancing Account. For the first 18 months of the Rate Plan, the annual amounts on Exhibit 8-KEDLI, page 3, lines 3 and 4 are TC margins of $6.8 million and Power Generation margins of $1.8 million which are currently being retained by KEDLI, will continue to be retained and which will be fully reconciled to actual levels through the Balancing Account. Commencing October 1, 2008 incremental TC margins of $2.0 million and incremental Power Generation and Interruptible margins of $22.5 million will be retained by KEDLI and fully reconciled to actuals through the Balancing Account as discussed in Section 2.a (iv).

(iii) *Property Taxes* – In the Rate Plan, KEDLI will include in the KEDLI Balancing Account actual property tax expense above or below $54.8 million. KEDLI will also be permitted to retain 14% of any "Net Refunds" obtained as a result of challenging its property tax assessments. Such "Net Refunds" will be determined by subtracting any costs, including, but not limited to litigation costs, incurred by KEDLI to obtain such refunds;

(iv) *Gas Safety and Reliability Incentive* – Any Gas Safety and Reliability Incentive penalties as described below will be credited to the KEDLI Balancing Account;

(v) *Customer Service Quality Performance Mechanism* – Any Customer Service Quality Performance Mechanism penalties as described below will be credited to the KEDLI Balancing Account;

(vi) *Pensions & OPEBs* – KEDLI shall reconcile actual pension and other post-employment benefits ("OPEB") in accordance with the Commission's Statement of Policy adopted in Case 91-M-0890 (September 7, 1993) and as more fully described in Attachment 3. KEDLI's actual pension and OPEB expense shall be reconciled to the amounts shown on Attachment 2, which reflect the forecast of pension and

OPEB expense less synergy savings allocated to pension and OPEB expense. Information regarding KEDLI's pension and OPEB expense and funding levels will be included each year in the Annual Report.

(vii) *SIR Costs* –KEDLI will include one hundred percent of its actual investigation and remediation (SIR) expenses for its former manufactured gas plant sites in the KEDLI Balancing Account. There is no allowance in KEDLI's base rates for SIR expenses, but the forecast of LDAC Revenues in Exhibit 8-KEDLI, page 12 includes SIR costs of $10.1 million per year. KEDLI will credit to SIR costs one hundred percent of the net proceeds (actual proceeds less costs to achieve) of any SIR-related cost recoveries from third parties.

(viii) *Exogenous Costs* – KEDLI will include one hundred percent of Exogenous Costs, in the KEDLI Balancing Account.

(ix) *Capital Expenditures* – During the Term of this Agreement KEDLI will replace, on average, at least forty miles of bare steel main per year until all such main has been replaced. To the extent that KEDLI's actual costs in any Rate Year vary from the forecast of bare steel replacement shown on Attachment 2, Page 3 of 5, KEDLI shall include in the KEDLI Balancing Account the full revenue requirement associated with the difference, using the calculations shown in Attachment 2.

KEDLI will also be permitted to defer the revenue requirement associated with all other non-growth capital expenditures (excluding allocated Service Company capital expenditures), including without limitation, those expenditures associated with: (i) compliance with new programs mandated by federal, state, or local authorities and the Pipeline Integrity Management Program mandated by the Department of Transportation; and (ii) capital expenditures for system improvements, replacements, and enhancements, including, but not limited to, on-system expenditures associated with new gas supply projects, New York Facilities System additions or replacements, ongoing pipeline replacements, system reinforcements, and other capital expenditures that are not solely related to customer growth as defined below, to the extent that these non-growth capital expenditures vary from the forecast levels shown in Attachment 2, Page 3 of 5. The revenue requirement associated with any such variance shall be included in the KEDLI Balancing Account.

The capital expenditures described in the previous paragraphs do not include capital expenditures associated with activities that are solely related to customer growth. Expenditures solely related to customer growth are specifically limited to local main extensions, services and meters. Expenditures that are associated solely with customer growth are not subject to deferral under this Agreement.

(x) *Construction-Related Operation and Maintenance Expense* – KEDLI will be permitted to include in the KEDLI Balancing Account net operation and maintenance expenses (expenses less reimbursements) associated with construction-related activities associated with The New York Facilities Systems or mandated by federal, state, or local authorities, including, but not limited to, any Distribution or Transmission Pipeline Integrity Management Program, and city and state construction expectations to the extent not reflected in the forecast of such expenses included in the KEDLI Rate Plan.

(xi) *Demand Side Management Costs* – KEDLI's base rates reflect no allowance for DSM costs. KEDLI will defer all such costs through the KEDLI Balancing Account.

(xii) *Low Income Programs* – KEDLI will incur costs and reduced revenues associated with the discounts provided in the Low Income Program provided for in this Agreement. KEDLI will defer the costs and revenue reductions associated with this program through the KEDLI Balancing Account.

(xiii) *Retail Choice Costs* – KEDLI will defer through the KEDLI Balancing Account all retail choice costs, including those associated with market expos, customer outreach and education efforts, and lost revenue recovery and the costs associated with the credits in the first eighteen months for gas-related costs that are being provided to transportation customers.

(xiv) *Excess Inflation* - During the first five years of the Term of this Agreement, KEDLI will include in the KEDLI Balancing Account a deferred amount that reflects the impact of any Excess Inflation in the prior Rate Year. During the first five years of the Term of this Agreement, Excess Inflation will be considered to have occurred if actual inflation as measured by the Gross Domestic Product Price Index ("GDPPI") exceeds 4.5 percent over a period calculated from the Rate Effective Date. During the second five years of the Term of this Agreement, the Excess Inflation percentage shall be adjusted to equal a percentage that is two percent above the average January 2012 Blue Chip consensus forecast of GDPPI for calendar years 2012 and 2013. Any Excess Inflation adjustment shall be applied to KEDLI's actual operation and maintenance and administrative and general expenses as calculated from the Rate Effective Date. However, no inflation adjustment will be made in any Rate Year in which KEDLI's earned return on equity exceeds 11.0 percent. The calculation of this adjustment is set forth on Attachment 4.

(xv) *Earnings Sharing* – KEDLI shall credit to the Balancing Account any earnings credit produced under the Earnings Sharing mechanism established in Section 4.

(xvi) *Gains or Losses on the Sale of Land that has been Included in Rate Base* – KEDLI shall credit or debit the Balancing Account with any gains or losses on the sale of land that has been in Rate Base. Gains or losses on the sale of facilities or property shall be charged to KEDLI's depreciation reserve.

If the cumulative balance of the Balancing Account varies from the forecast level of the Balancing Account shown in Exhibit 8-KEDLI, Page 12, Line 5 and Attachment 2, Page 1, Line 2 by more than $25 million, then KEDLI shall make a compliance filing and increase or decrease its LDAC charge by such difference, provided, however that: (1) KEDLI shall not increase the

LDAC during the period prior to March 31, 2009; and (2) KEDLI shall not increase the LDAC by more than 2.5 percent of KEDLI's forecasted annual total revenues. Any increase or decrease shall be applied on a volumetric basis.

4. *Earnings Sharing*

In its Annual Report, KEDLI will include the calculation of cumulative earned return on equity for the period from the Rate Effective Date through the previous Rate Year using the methodology set forth herein. The cumulative earnings analysis set forth in the Annual Report will be used to determine whether any earnings should be credited to the Balancing Account. In calculating earnings for purposes of this provision, any earnings or reduction in earnings attributable to discrete incentives, including: (i) margin sharing from off-system transactions and capacity release, (ii) gas safety and service reliability penalties, (iii) customer service quality performance penalties, (iv) property tax refund incentives, and (v) demand side management incentives, shall be excluded. In addition, 50 percent of the net synergy savings shown on Exhibit 2 and 8-KEDLI, page 2 shall be added to expense in calculating the earned return on equity. The earnings for the purpose of the earnings sharing analysis shall include the Settlement levelization amounts shown on Exhibit 8-KEDLI, page 2. For purpose of the Earnings Sharing Analysis, KEDLI shall use the imputed capital structure shown on Exhibit 8-KEDLI, page 11 to the Petition as applied to an earnings base calculated using the Commission's Earnings Base/Capitalization analysis as shown on Attachment 2. The calculation of earnings and return on equity shall otherwise be performed in the same manner as required by the Case 97-M-0567 Settlement.

During the Term of this Agreement, the Annual Report shall present results for the most recently completed Rate Year as well as cumulative results for all prior Rate Years beginning with Rate Year One. The earnings report will compare KEDLI's cumulative return on equity to 11.75% (hereinafter "the Threshold Earnings Level").

To the extent that KEDLI's average cumulative earnings in the Rate Years ending March 31, 2011, March 31, 2014 and March 31, 2017 exceed the Threshold Earnings Level of 11.75 percent, KEDLI shall credit to the Balancing Account such excess earnings (on a revenue requirements basis) in accordance with the percentages set forth below. For earnings between:

11.75% - 14.00%	50% customer/50% shareholder
14.00% - 16.00%	75% customer/25% shareholder
> 16.00%	90% customer/10% shareholder

To the extent that this Agreement continues beyond March 31, 2017, earnings in subsequent Rate Years will continue to be credited to the Balancing Account in the manner set forth above every two years or for the period prior to the time KEDLI implements new Base Delivery Rates, until this provision is modified by the Commission.

5. *Right To File A Complaint*

At any time after the Rate Effective Date, KEDLI's base rates may be reviewed upon a complaint brought pursuant to PSL Section 71. In defending against such a complaint, KEDLI will be authorized to include in its revenue requirement one hundred percent of the annual Synergy Savings, and Costs To Achieve for the relevant year. KEDLI will also be authorized to include in its revenue requirement the recovery of amounts deferred for future recovery in accordance with the Terms of this Agreement.

6. *Right To Make A General Rate Filing*

At any time after the Rate Effective Date, KEDLI may file to increase its Base Delivery Rates above the levels set forth in this Agreement by making a general revenue requirements filing with the Commission. If, as a result of any such filing, KEDLI is authorized to increase its base tariff rates above the levels provided under this Agreement, then KEDLI shall be precluded from including in its revenue requirements any adjustment to retain any portion of the Costs To Achieve or Synergy Savings. KEDLI shall be authorized to include in its revenue requirement the recovery of any amounts deferred for future recovery in accordance with this Agreement. Such filing shall include a fully allocated cost of service study showing class rates of return on regulated services.

7. Safety and Reliability Performance Requirements

a. Gas Safety and Service Reliability Incentive Mechanism.

KEDLI's gas safety and service reliability incentive mechanism will continue in effect during the KEDLI Rate Plan, and thereafter until modified or discontinued by the Commission. The measurement period will be the calendar year. Penalties applicable for each period will be credited to the KEDLI Balancing Account. The three gas safety and service reliability measures will be continued:

(i) *One Call Notices* – KEDLI will be penalized three (3) basis points of pre-tax return on common equity (revenue requirement equivalent) for failure to respond on three (3) or more occasions to Rule 753-3.1 one call notices within the time frame required by Rule 753.4.5, other than failures to respond as a result of Staff's review of KEDLI quality control audit reports. With concurrence of the Director of Gas & Water, exceptions may be permitted where conditions prevent compliance.

(ii) *Response to Gas Leaks and Gas Odors* – KEDLI will be penalized three (3) basis points of pre-tax return on common equity (revenue requirement equivalent) for failure to respond to 90% of reports of gas leaks and gas odors within forty five (45) minutes or 95% of reports of gas leaks and gas odors within sixty (60) minutes. In situations where a foreign odor causes a large volume of leak/odor calls over a wide area or other unusual situation prevents timely response, KEDLI will notify the Director of Gas & Water of the situation, and with concurrence of the Director of Gas & Water, those leak calls will be excluded from this performance measurement.

(iii) *Leak Backlogs* – KEDLI will be penalized four (4) basis points of pre-tax return on common equity (revenue requirement equivalent) for failure to maintain the number of leaks in backlog of Types 1, 2 and 2A so that the backlog levels do not exceed 250 on the last day of the measurement period.

8. Customer Service Quality Performance Requirements

a. Customer Outreach and Education Program.

KEDLI will conduct customer outreach and education efforts designed to inform KEDLI gas customers in advance of how the changes to rates, charges and services arising out of this Agreement might affect customers. A description of the outreach and education efforts will be included each year in the Annual Report.

b. Customer Service Quality Performance Mechanism.

KEDLI's customer service quality performance mechanism will remain in effect during the KEDLI Rate Plan as described below, and thereafter until modified or discontinued by the Commission. The measurement period will be the calendar year. The maximum penalty for any annual measurement period will equal 40 basis points of pretax return on common equity (revenue requirement equivalent). Penalties applicable for each period will be credited to the KEDLI Balancing Account. There will be two service quality measures:

(i) *Customer Complaints* – This measure represents the total number of customers registering a complaint with the PSC. A complaint will be charged when a customer, after first having contacted KEDLI to express dissatisfaction with an action, practice or conduct of KEDLI, and having provided KEDLI a reasonable opportunity to address the matter, contacts the PSC to express dissatisfaction with such action, practice or conduct; provided that such action, practice or conduct is within the power of KEDLI to control. A complaint will not be charged for a contact with the PSC that is an opinion or inquiry. For the purposes of this subsection, an "opinion" is an instance where a customer is contacting the Commission to voice a view on a particular issue or condition, such as a pending rate case, a change in rates or charges or the imposition of new rates or charges, or the level of executive compensation. Complaints will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. KEDLI will be penalized twenty basis points of pre-tax return on common equity (revenue requirement equivalent) if customer complaints in the measurement period exceed an average of five complaints per 100,000 customers per month.

(ii) *Monthly Contactor Survey* – KEDLI will continue to conduct its monthly contactor survey. KEDLI will be penalized twenty (20) basis points of pre-tax return on common equity (revenue requirement equivalent) if customer satisfaction levels in any Rate Year ending March 31 fall below the 83.4% level.

9. Low-Income Program

KEDLI will develop a low income program, to be effective on the Rate Effective Date, which will provide for a monthly discount of $3.50 for residential non-heating customers (S.C. No. 1A) and $7.50 for residential heating customers (S.C. No. 1B). Up to 30,000 customers receiving welfare or Low Income Heating Assistance Program benefits will be eligible for the discount rate. The cost of the low income program, estimated to be $2.3 million annually, will be deferred and recovered through the KEDLI Balancing Account.

10. Revenue Allocation and Rate Design

a. Base Rate Increases

KEDLI shall implement the rate designs set forth in this section to implement the bi-annual increases in the LDAC and Base Rates as set forth in the Rate Plan in a compliance filing. KEDLI shall allocate Base Rate increases to all KEDLI Core Services on a uniform percentage basis, net of gas costs.

b. Interclass And Intraclass Revenue Reallocation

In addition to the foregoing, at any time after April 1, 2009, KEDLI shall have the right to make a filing proposing interclass or intraclass revenue reallocation and rate design changes consistent with the results of the embedded cost of service study including in Exhibit 5 to the

Petition. Any such changes shall be revenue neutral to KEDLI. Any proposed changes shall only be approved to the extent that they are consistent with cost causation principles.

c. **Legislated Rate Design Changes** – Nothing in this Agreement shall prohibit KEDLI from implementing changes, in a manner to be determined by the Commission, to rates or charges to KEDLI's customers if, as the result of statutory or regulatory changes, costs previously recovered outside of base rates through tariff riders or surcharges must thereafter be recovered in base rates.

11. Demand Side Management.

KEDLI will spend up to $10 million to implement a demand-side management program consistent with the program previously implemented by its distribution affiliate in New England, including the incentives therein described. This program is more fully described in the comments KEDLI filed in Case 05-M-0090. Such programs will include a new technology component. Expenditures for the demand-side management program (including carrying charges) will be deferred through the KEDLI Balancing Account.

Alternatively, if the Commission decides in Case 05-M-0090 or subsequently during the Term of the KEDLI Rate Plan to approve a system benefit charge (SBC) for gas companies, KEDLI will work with NYSERDA, or whomever the Commission designates to administer the gas SBC, to assist with the design and management of that program through a collaborative process.

12. Weather Normalization Clause.

KEDLI's current weather normalization clause will be continued during the Term of the KEDLI Rate Plan, as modified herein. Effective as of the Rate Effective Date, the Weather Normalization Clause will be modified: (i) to substitute a one percent (1%) deadband for the existing 2.2% deadband; (ii) to reset the temperature database to utilize twenty years of temperature data for the period 1986-2005; and (iii) to revise the inputs for calculating temperature for any day to the average of the high and the low daily temperature.

13. Non-Core Service Changes.

KEDLI currently provides non-firm sales service under S.C. No. 4, TC Sales services under S.C. No. 12, non-firm transportation services under S.C. No. 7 and TC transportation services under S.C. No. 13. As of the Rate Effective Date, these service classifications shall be revised so that non-firm and TC sales will be provided under the same service classification, and non-firm transportation services will be provided under this same service classification. Non-firm Transportation to small power generators will continue to be provided under S.C. No. 7. In addition, as of the Rate Effective Date, the caps on the rates for TC and non-firm services will be eliminated.

14. Gas Cost Incentive.

KEDLI's existing gas cost incentive will continue for the term of this Rate Plan. Notwithstanding the foregoing, KEDLI may petition the Commission to modify this incentive or implement new incentive mechanisms.

B. Retail Access Program

1. Purchase of Receivables

KEDLI will postpone implementing a purchase of receivables program until such time as it determines the appropriate course given the near obsolescence of its billing system and the pending Transaction.

2. ESCO Referral Program

Within nine months of the implementation of the POR Program, KEDLI will implement an ESCO Referral Program. This Program will be consistent with the Commission's guidelines for the ESCO Contract Approach, as set forth in its December 22, 2005 Order Adopting ESCO Referral Program Guidelines in Cases 05-M-0858 and 05-M-0332.

3. Unbundled Rates

KEDLI has provided an unbundled cost of service study with its filing in this proceeding. As a result of this study, effective as of the Rate Effective Date, KEDLI will implement the unbundled rates set forth in Attachment 5. These unbundled rates will remain in effect for the Term of this KEDLI Rate Plan, subject to modifications ordered by the Commission.

The initial avoided cost curves associated with unbundled billing and payment processing and credit and collections services are provided at Attachment 6. These avoided cost curves will remain in effect for the term of this KEDLI Rate Plan, except that KEDLI may at any time request that Commission Staff or the Commission review the avoided cost curve(s) in light of KEDLI's avoided cost experience and direct such changes as are warranted.

4. Lost Revenue Recovery Mechanism

On a semi-annual basis, KEDLI will calculate the difference between the unbundled billing and payment processing and credit and collections charges credited on the bills of transportation customers and KEDLI's short-term avoided cost shown on the avoided cost curves on file with the Commission. Any lost revenue will be debited to the KEDLI Balancing Account.

5. Customer Outreach And Education For Retail Choice

KEDLI is authorized to spend up to $1,000,000 during Rate Year 1, $800,000 during Rate Year 2, and $600,000 during Rate Year 3 to provide education and outreach to promote customer awareness and understanding of retail choice. Such costs will be deferred through the KEDLI Balancing Account.

6. ESCO Ombudsman

KEDLI will designate an ESCO ombudsman as a single point of contact within KEDLI to whom ESCOs may address their problems and concerns. The ombudsman will be responsible to bring ESCO issues to the appropriate people at KEDLI, and to follow up as necessary until the problem is resolved.

7. Market Expo

In each of the first three years the Rate Plan is in effect, KEDLI will solicit interest among ESCOs operating in its service territory in having a Market Expo, and, if there is sufficient interest, KEDLI will host such an event. KEDLI would target promotion and outreach materials concerning the Market Expo to commercial customers with annual consumption exceeding 1,500 Dth, and solicit the participation of ESCOs interested in serving that market. Participating ESCOs will be able to present their offers and enroll customers at these expos. The costs of such market expos may be deferred through the KEDLI Balancing Account.

8. Other Initiatives To Promote Retail Access

(a) Capacity Release and Storage

KEDLI will continue to release interstate pipeline capacity, make bundled sales, and offer storage pricing to ESCOs to enable them to serve customers in KEDLI's service territory.

(b) Cash-out Provisions

The Daily Swing Service Monthly Imbalance Charge, Charges for Failure to Deliver Daily Transportation Quantities and Daily Swing Service Demand Charge provisions of

KEDLI's transportation tariffs S.C. Nos. 5 and 8 will be amended to reflect more closely the tariffs of upstream pipelines in terms of the benchmark cost of gas and industry standards.

C. Miscellaneous

1. Annual Filings

On or before July 1 of each year during the Term of the KEDLI Rate Plan, KEDLI will submit an Annual Report filing presenting a calculation of excess earnings and the results of any performance incentive awards or penalties for the previous Rate Year. The annual filing will set forth a calculation of accumulated annual earnings from the Rate Effective Date through the end of the most recently completed Rate Year, and will provide a reconciliation of the Balancing Account to the forecasts in the Rate Plan.

2. Continuation

All of the provisions of this Rate Plan will continue beyond the last year of the KEDLI Rate Plan on a year-to-year basis until modified or discontinued by the Commission.

3. Tariff Leaves

Within 15 days of Commission approval of this Rate Plan, KEDLI will file all tariff leaves necessary to implement it.

4. Continuation Of Case 97-M-0567 Settlement And Existing Ratemaking Practices

To the extent there is any conflict between this Rate Plan and the Case 97-M-0567 Settlement, this Rate Plan shall control. Notwithstanding the foregoing, any ratemaking practice that existed prior to the effectiveness of this Rate Plan that is not changed by this Rate Plan (*i.e.* the treatment of various revenues) shall continue as before.

Attachment 1

List of Manufactured Gas Plant Sites

KEDLI

1. Babylon
2. Bay Shore
3. East Garden City - Stewart Avenue Holder
4. Far Rockaway
5. Garden City
6. Glen Cove
7. Glenwood Landing
8. Halesite
9. Hempstead
10. Hempstead - Clinton Road
11. Inwood Holder
12. Long Beach Holder
13. Patchogue
14. Rockaway Park
15. Sag Harbor

This list of former manufactured gas plant (MGP) sites is based on the Company's current information. Additional sites, as well as storage and disposal sites associated with MGP operations, may be added if circumstances warrant, and any such additional sites will be subject to the treatment of SIR costs in the Rate Plan.

Attachment 2

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Balancing Account Summary										
1	Proj Transitional Account Balance - 3/31/07	47,615									
2	Proj. Property Tax Deferral - 3/31/07	41,189									
3	Beginning Balance	88,804	79,937	72,738	66,434	62,103	58,997	58,170	58,949	62,421	67,948
4	Deferral Increase										
5	Property Taxes	44,645	46,913	49,181	51,553	53,925	56,350	58,829	61,363	63,954	66,603
6	Gas Safety and Reliability Incentive	0	0	0	0	0	0	0	0	0	0
7	Service Quality Performance Penalties	0	0	0	0	0	0	0	0	0	0
8	Pensions and OPEBs	0	0	0	0	0	0	0	0	0	0
9	SIR Costs	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053
10	Exogenous Costs	0	0	0	0	0	0	0	0	0	0
11	Capital Expenditure Trackers - Rev. Req.	0	0	0	0	0	0	0	0	0	0
12	Construction Related O&M	0	0	0	0	0	0	0	0	0	0
13	Demand Side Management Costs	0	0	0	0	0	0	0	0	0	0
14	Low Income Program Costs	0	0	0	0	0	0	0	0	0	0
15	Retail Choice Costs	0	0	0	0	0	0	0	0	0	0
16	Excess Inflation	0	0	0	0	0	0	0	0	0	0
17	TC Margins	0	0	0	0	0	0	0	0	0	0
18	Power Generation & Interruptible Margins	0	0	0	0	0	0	0	0	0	0
19	Earnings Sharing				0			0			0
20	Total Deferral Increase	54,698	56,966	59,235	61,606	63,978	66,403	68,882	71,417	74,008	76,656
21	Amortization of Deferrals	(69,860)	(69,860)	(70,731)	(70,731)	(71,602)	(71,602)	(72,473)	(72,473)	(73,343)	(73,343)
22	Interest	6,295	5,696	5,192	4,795	4,518	4,371	4,369	4,528	4,863	5,394
23	Ending Balance	79,937	72,738	66,434	62,103	58,997	58,170	58,949	62,421	67,948	76,656
24											
25	Average Balance	81,223	73,490	66,990	61,871	58,292	56,398	56,375	58,421	62,753	69,605

Line Notes

1 Projected Balance at March 31, 2007
2 Projected Balance at March 31, 2007
5 Page 2 of 5, Line 3
6 Page 2 of 5, Line 6
7 Page 2 of 5, Line 9
8 Page 2 of 5, Line 29 and 30
9 Page 2 of 5, Line 33
10 Page 2 of 5, Line 36
11 Page 3 of 5, Line 25
12 Page 4 of 5, Line 2
13 Page 4 of 5, Line 5
14 Page 4 of 5, Line 8
15 Page 4 of 5, Line 11
16 Page 4 of 5, Line 14
17 Page 4 of 5, Line 19
18 Page 4 of 5, Line 24
19 Page 4 of 5, Line 27
21 Exhibit 8 - KEDLI, Page 12 of 12, Line 3
23 Line 3 plus (Line20 + Line 21)/2 times Pre Tax Weighted Average Cost of Capital net of Deferred Tax Impact

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Property Taxes										
1	Actual Property and Sp. Franch. Tax Expense	99,466	101,734	104,002	106,374	108,746	111,171	113,650	116,184	118,775	121,424
2	Prop. and Sp. Franch. Tax Expense incl. in Base Rates	54,821	54,821	54,821	54,821	54,821	54,821	54,821	54,821	54,821	54,821
3	Prop. and Sp. Franch. Tax Expense Deferral	44,645	46,913	49,181	51,553	53,925	56,350	58,829	61,363	63,954	66,603
4											
5	**Gas Safety and Reliability Incentive**										
6	Actual Gas Safety and Reliability Incentive	0	0	0	0	0	0	0	0	0	0
7											
8	**Service Quality Performance Penalties**										
9	Actual Service Quality Performance Penalties	0	0	0	0	0	0	0	0	0	0
10											
11	**Pensions and OPEBs**										
12	Projected Pension Expense before allocated synergies	12,125	12,465	12,814	13,172	13,541	13,920	14,310	14,711	15,123	15,546
13	Projected OPEB Expense before allocated synergies	13,812	14,199	14,596	15,005	15,425	15,857	16,301	16,757	17,227	17,709
14	Total	25,937	26,663	27,410	28,177	28,966	29,777	30,611	31,468	32,349	33,255
15											
16	Projected Synergies allocated to KEDLI - 100%	7,876	10,764	13,792	16,964	17,388	17,823	18,268	18,725	19,193	19,673
17	Projected total O&M (excluding Net Synergies)	158,721	163,581	168,136	172,719	177,427	182,339	187,339	192,475	197,766	203,207
18	Projected Synergies as a % of Net O&M	4.96%	6.58%	8.20%	9.82%	9.80%	9.77%	9.75%	9.73%	9.71%	9.68%
19											
20	Projected Synergies applicable to Pension	301	410	526	647	664	680	698	716	734	753
21	Projected Synergies applicable to OPEB	343	467	599	737	756	775	795	815	836	857
22											
23	Net Pension included in Base Rates	11,824	12,054	12,288	12,525	12,878	13,240	13,612	13,995	14,389	14,794
24	Net OPEB included in Base Rates	13,469	13,732	13,998	14,268	14,669	15,082	15,506	15,942	16,391	16,852
25											
26	Actual Pension Expense	11,824	12,054	12,288	12,525	12,878	13,240	13,612	13,995	14,389	14,794
27	Actual OPEB Expense	13,469	13,732	13,998	14,268	14,669	15,082	15,506	15,942	16,391	16,852
28											
29	Deferred Pension Expense	0	0	0	0	0	0	0	0	0	0
30	Deferred OPEB Expense	0	0	0	0	0	0	0	0	0	0
31											
32	**SIR Costs**										
33	Actual SIR Costs	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053
34											
35	**Exogenous Costs**										
36	Actual Exogenous costs	0	0	0	0	0	0	0	0	0	0

Line Notes

1 Exhibit 8 - KEDLI, Page 8 of 12, Line 1 plus Line 3 for illustrative purposes and per rate plan, to be replaced with actual costs as incurred.
2 Exhibit 8 - KEDLI, Page 8 of 12, Line 5
3 Line 1 less Line 2
6 & 9 Will include actual costs as incurred
12 Exhibit 8 - KEDLI, Page 5 of 12, Line 11
13 Exhibit 8 - KEDLI, Page 5 of 12, Line 12
16 Exhibit 8 - KEDLI, Page 5 of 12, Line 17 times 2
17 Exhibit 8 - KEDLI, Page 5 of 12, Line 21 less Exhibit 8 - KEDLI lines 17 and 18
18 Line 16 divide by Line 17
20 Line 12 times Line 18 times 50%
21 Line 13 times Line 18 times 50%
23 Line 12 - Line 21
24 Line 13 - Line 22
26 For illustrative purposes and per rate plan equal to Line 23, to be replaced with actual costs as incurred.
27 For illustrative purposes and per rate plan equal to Line 24, to be replaced with actual costs as incurred.
29 Line 23 - Line 26
30 Line 24 - Line 27
33 For illustrative purposes and per rate plan equal to Exhibit 8 KEDLI Page 1 Line 17, to be replaced with actual costs as incurred.
36 Will include actual costs as incurred

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
1	Capital Expenditures Trackers										
2	Bare Steel Replacement Expenditure - Target	36,326	36,326	36,326	37,155	37,983	38,849	39,743	40,657	41,592	42,549
3	Bare Steel Replacement Expenditure - Actual	36,326	36,326	36,326	37,155	37,983	38,849	39,743	40,657	41,592	42,549
4	Bare Steel Replacement Expenditure Reconcliation	0	0	0	0	0	0	0	0	0	0
5											
6	Non-Growth Capital Expenditure - Target	57,148	57,148	57,148	58,451	59,754	61,117	62,522	63,960	65,432	66,936
7	Non-Growth Capital Expenditure - Actual	57,148	57,148	57,148	58,451	59,754	61,117	62,522	63,960	65,432	66,936
8	Non-Growth Capital Expenditure Reconciliation	0	0	0	0	0	0	0	0	0	0
9											
10	Current Year Expenditure Reconcilitaion	0	0	0	0	0	0	0	0	0	0
11	Cumulative Expenditure Reconciliation	0	0	0	0	0	0	0	0	0	0
12											
13	Current Year Depreciation expense @ 2.02%	0	0	0	0	0	0	0	0	0	0
14	Accumulated Depreciation Reserve	0	0	0	0	0	0	0	0	0	0
15											
16	Year End Net Plant Balance	0	0	0	0	0	0	0	0	0	0
17											
18	Average Net Plant	0	0	0	0	0	0	0	0	0	0
19											
20	Deferred Tax Provision	0	0	0	0	0	0	0	0	0	0
21	Accumulated Deferred Tax Reserve	0	0	0	0	0	0	0	0	0	0
22											
23	Average Deferred Tax Reserve	0	0	0	0	0	0	0	0	0	0
24											
25	Average Rate Base Impact	0	0	0	0	0	0	0	0	0	0
26	Pre-Tax Weighted Average Cost of Capital	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%	13.11%
27											
28	Return Requirement	0	0	0	0	0	0	0	0	0	0
29	Depreciation	0	0	0	0	0	0	0	0	0	0
30											
31	Capital Expenditure Reconciliation - Total Rev. Req.	0	0	0	0	0	0	0	0	0	0

Line Notes
1 Targeted Expenditures for Bare Steel Replacement program based on forecast for replacing 40 miles per year.
2 For illustrative purposes and per rate plan equal to 10 year targeted expenditures (Line 1), to be replaced with actual expenditures as incurred.
3 Line 2 minus Line 1
6 Targeted Non - Growth Capital Expenditures based on actual 3 year (2003 - 2005) actual spending.
7 For illustrative purposes and per rate plan equal to 10 year targeted expenditures (Line 6), to be replaced with actual expenditures as incurred.
8 Line 7 minus Line 6
10 Line 4 plus Line 8
13 Line 11 times 2.02%
16 Line 11 minus Line 14
18 Line 16 Prior Year plus Line 16 current Year divided by 2
20 Line 11 times (4.07% - 2.02%) times 40.87%
23 Line 21 Prior Year plus Line 21 current Year divided by 2
25 Line 18 minus Line 23
26 Exhibit 8 - KEDLI Page 11 of 12.

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Illustrative Example of Balancing Account Reconciliation
Rate Year Ending March 31, 2008 through 2017
($000)

Line		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
1	**Contruction Related Operation and Maintenance Expense**										
2	Actual Constructiuon Related O&M	0	0	0	0	0	0	0	0	0	0
3											
4	**Demand Side Management Costs**										
5	Actual Demand Side Management Costs	0	0	0	0	0	0	0	0	0	0
6											
7	**Low Income Program Costs**										
8	Actual Low Income Program Costs	0	0	0	0	0	0	0	0	0	0
9											
10	**Retail Choice Costs**										
11	Actual Retail Choice Costs	0	0	0	0	0	0	0	0	0	0
12											
13	**Excess Inflation**										
14	Actual Excess Inflation	0	0	0	0	0	0	0	0	0	0
15											
16	**TC Margins**										
17	TC Margins credited to base rates	6,800	7,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
18	Actual TC Margins	6,800	7,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
19	Difference included in Balancing Account	0	0	0	0	0	0	0	0	0	0
20											
21	**Power Generation and Interruptible Margins**										
22	Power Generation Margins credited to base rates	1,800	13,050	24,300	24,300	24,300	24,300	24,300	24,300	24,300	24,300
23	Actual Power Generation Margins	1,800	13,050	24,300	24,300	24,300	24,300	24,300	24,300	24,300	24,300
24	Difference included in Balancing Account	0	0	0	0	0	0	0	0	0	0
25											
26	**Earnings Sharing**										
27	Actual Customer portion of earnings sharing					0					0

Line Notes

2 Will include actual costs as incurred
5 Will include actual costs as incurred
8 Will include actual costs as incurred
14 Will include actual costs as incurred.
17 Exhibit 8 - KEDLI Page 3 of 12, Line 3
18 For illustrative purposes and per rate plan equal to Line 17, to be replaced with actual costs as incurred.
22 Exhibit 8 - KEDLI Page 3 of 12, Line 4
23 For illustrative purposes and per rate plan equal to Line 23, to be replaced with actual costs as incurred.
27 Will include actual customer portion of shared earnings

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Illustrative Example of Shared Earnings Calculation
Rate Year Ending March 31, 2008 through 2017
($000)

		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
	Earnings Sharing Mechanism										
1	Gas Net Income	85,222	89,790	94,179	98,541	102,849	107,138	111,432	115,696	119,907	124,062
2	Imputed Common Equity	774,748	816,273	856,177	895,834	934,995	973,988	1,013,024	1,051,789	1,090,065	1,127,841
3	Earned Return on Equity	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
4											
5	Average Gas Net Income				122,577			107,140			119,889
6	Average Imputed Common Equity				1,114,344			974,003			1,089,898
7	Average Earned Return on Equity				11.00%			11.00%			11.00%
8											
9	Initial Sharing Block >11.75% <=14.00%				0.00%			0.00%			0.00%
10	Average Imputed Equity				1,114,344			974,003			1,089,898
11	Initial Block Earnings to be shared				0			0			0
12	Initial Block Customer Share = 50%				50.00%			50.00%			50.00%
13	Initial Block Customer portion of shared earnings				0			0			0
14											
15	Second Sharing Block >14.00% <=16.00%				0.00%			0.00%			0.00%
16	Average Imputed Equity				1,114,344			974,003			1,089,898
17	Second Block Earnings to be shared				0			0			0
18	Second Block Customer Share = 75%				75.00%			75.00%			75.00%
19	Second Block Customer portion of shared earnings				0			0			0
20											
21	Third Sharing Block >16.00%				0.00%			0.00%			0.00%
22	Average Imputed Equity				1,114,344			974,003			1,089,898
23	Third Block Earnings to be shared				0			0			0
24	Third Block Customer Share = 90%				90.00%			90.00%			90.00%
25	Third Block Customer portion of shared earnings				0			0			0
26											
27	Total customer portion of shared earnings				0			0			0
28	Tax Gross up (1 - effective tax rate of 40.87%)				59.13%			59.13%			59.13%
29											
30	Revenue requirement				0			0			0
31	Number of Years in sharing period				4			3			3
32											
33	Total Customer Earnings Sharing Credit				0			0			0

Line Notes

1 For Illustrative purposes and per Rate Plan, Exhibit 8 - KEDLI, Page 2 of 12, Line 10. Will reflect actual Gas net income including the Settlement Levelization Debit/(Credit), Exhibit 8 - KEDLI page 3 of 12, Line 4 and the Company's share of net synergy savings Exhibit 8 - KEDLI Lines 2 and 3.
2 For Illustrative purposes and per Rate Plan, Exhibit 8 - KEDLI, Page 2 of 12, Line 13. Will reflect actual imputed common equity.
5 Five year average of Line 1
6 Five year average of Line 2
27 Line 13 plus Line 19 plus Line 25
30 Line 27 divided by Line 28
33 Line 30 times Line 31

Attachment 3

PENSION AND OPEB EXPENSE

During the Rate Plan Period, KEDLI shall follow the procedures set forth below with regard to its pension and OPEB costs. Specific reconciliations shall be performed by KEDLI as set forth in the schedules in Exhibit 6 Attachment 2-KEDLI to the Petition:

1. Fair Value Adjustments on Closing. Within 60 days after the closing, KEDLI shall file with the Commission for its review complete actuarial analyses of its Pension Plan and its Retiree Welfare Plan. The actuarial analyses will identify all assumptions underlying the analyses and quantify the effects of any changes in assumptions from the actuarial analyses in effect prior to the closing of the merger. KEDLI shall recognize: (a) the net transition obligation; (b) prior service cost; (c) net gains or losses; (d) the effects of assumptions changes, including the change in attribution age for the Retiree Welfare Plan; (e) updated plan asset information in both the Pension Plan and the Retiree Welfare Plan as of the date of the closing of the Transaction; and (f) updated plan liability information in both the Pension Plan and the Retiree Welfare Plan as of the date of the closing of the Transaction, but based on January 1, 2006 employee census data, and shall record an offsetting regulatory asset or liability on its accounts for all of the above items. Following the Commission's review, KEDLI will begin amortizing the regulatory asset or liability as of the Effective Date over ten years in equal monthly amounts. The amortization under this paragraph shall be included in KEDLI's actual pension and OPEB expenses for the reconciliation in paragraph 2, below. Amortization of this regulatory asset and the other regulatory assets created under this Attachment, together with amortizations from prior periods, shall be accounted for in an internal reserve for pensions and benefits as required under the Commission's Statement of Policy Concerning Pensions and OPEB's, Case 91-M-0890 (September 7, 1993).

2. Reconciliation of Pension and OPEB Expense during Rate Plan Period. KEDLI shall reconcile its actual Pension and OPEB expense recorded under FAS 87 and FAS 106, including the amortization of the regulatory asset or liability set forth in paragraph 1, above, and their allocated share of Pension and OPEB expense from ServiceCo, as defined in Exhibit 9 to the Petition, but excluding Pension and OPEB expense associated with Supplemental Executive Retirement Programs (SERP) or other executive plans, programs, or arrangements that would otherwise factor into FAS 87, FAS 88, or FAS 106, and unregulated operations. Capitalized FAS 87 and FAS 106 costs shall be excluded from actual FAS 87 and FAS 106 costs in the reconciliation, as will a synergy saving adjustment.

3. Costs to Achieve Merger Savings. In the first year after the Effective Date, KEDLI shall record an offsetting regulatory asset equal to the Separation and

PENSION AND OPEB EXPENSE

Early Retirement Costs,[1] if any, recorded in that period, and shall amortize that regulatory asset in accordance with the percentages set forth in the schedule below:

Rate Year Ended 3/31	Percent
2008	38.49%
2009	15.30%
2010	15.00%
2011	6.78%
2012	7.27%
2013	5.97%
2014	4.63%
2015	2.12%
2016	2.18%
2017	2.25%

Separation and Early Retirement Costs and the amortization of the associated regulatory asset shall be excluded from the reconciliation under Paragraph 2, above, but shall be added to the internal reserve as set forth in Paragraph 1, above.

Separation and Early Retirement Costs shall be offset by curtailment gains, if any. For example, the accumulated projected benefit obligation (APBO) for OPEBs will be adjusted on the effective date in connection with the change in attribution age for the Retiree Welfare Plan. During the first year of the Rate Plan, an employee Separation program may be offered in which employees will separate from the company without earning OPEB benefits that were previously accrued for in the calculation of the APBO, therefore resulting in a curtailment gain. In this example, a portion of this gain is associated with the calculation of the APBO prior to the merger, and the other portion will be attributable to the change in attribution age. The latter portion in this example will be deducted from the regulatory asset, or added to the regulatory liability established on the effective date of the merger.

[1] For purposes of this section, Separation and Early Retirement Costs shall include termination costs. Settlements and Curtailments (whether gains or losses) associated with the one time net charges under FAS 88 and 106 that are incurred by KEDLI directly, or indirectly through KeySpan's service companies within one year of merger due to any KeySpan Separation or Early Retirement Programs, or the effects of ServiceCo or National Grid Other Affiliates' Separation or Early Retirement Programs to the extent they include employees who worked for KeySpan prior to the merger. Separation or Early Retirement costs shall exclude the one time net charges under FAS 88 and 106 associated with SERP or other Executive plans, programs, or arrangements and unregulated operations that would otherwise factor into Separation or Early Retirement Costs.

Attachment 4

Illustration of Extraordinary Inflation Adjustment

(Million Dollars)

Description	Inflation Target 4.50%					Inflation Target 4.50% (GDPPI Est. for Years 6 & 7 in Year 5 + 2.3%)				
	Year One (2008)	Year Two (2009)	Year Three (2010)	Year Four (2011)	Year Five (2012)	Year Six (2013)	Year Seven (2014)	Year Eight (2015)	Year Nine (2016)	Year Ten (2017)
1) Base T & D Charges	$174.71	$174.21	$173.71	$173.21	$172.45	$171.68	$170.88	$170.06	$169.22	$168.35
2) Actual Inflation Rate (GDPPI)	4.75%	3.75%	5.25%	5.75%	4.00%	5.50%	4.50%	3.00%	5.75%	5.75%
3) Extraordinary Inflation Rate	0.25%	-0.75%	0.75%	1.25%	-0.50%	1.00%	0.00%	-1.50%	1.25%	1.25%
4) Cumulative Inflation Trigger	0.25%	-0.50%	0.25%	1.50%	1.00%	2.00%	2.00%	0.50%	1.75%	3.00%
5) Extraordinary Inflation Amount	$0.44	($1.31)	$1.30	$2.17	($0.86)	$1.72	$0.00	($2.55)	$2.12	$2.10
6) Cumulative Extraordinary Inflation Amount	$0.44	$0.00	$0.43	$2.60	$1.74	$3.45	$3.45	$0.90	$3.02	$5.12
7) Actual Departmental	$130.00	$135.00	$136.00	$135.00	$137.00	$142.00	$140.00	$145.00	$152.00	$155.00
8) Forecast Departmental Less Net Synergies	$137.68	$131.85	$132.78	$131.10	$134.78	$138.08	$141.41	$144.48	$148.48	$152.60
9) Difference	($7.68)	$3.15	$3.22	$3.90	$2.22	$3.92	($1.41)	$0.52	$3.52	$2.40
10) Extraordinary Inflation Amount (included in the Deferral Account)	$0.00	$0.00	$0.43	$2.60	$1.74	$3.45	$0.00	$0.61	$3.02	$2.65

1) Page 2, Line 12 / 1000
2) Estimated for this illustration
3) Line 2 less inflation target for the year
4) Line 3 plus prior year Line 4
5) Line 3 * Line 1
6) Prior year Line 6 plus current year Line 5 (Not less than zero), but no greater than Line 1 * Line 4
7) Estimated here, but will be actuals based on the agreed upon method
8) Page 2, Line 8
9) Line 7 - Line 8
10) Minumum of Line 6 or Line 9 * Line 1 / Line 8 but no less than Zero. No Deferral if Earnings are above 11%

Illustration of Extraordinary Inflation Adjustment

(Thousand Dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Departmental Expenses	160,845	160,609	163,603	165,305	169,878	174,368	178,934	183,447	188,513	193,725
2 Merger Savings	(3,938)	(5,382)	(6,896)	(8,482)	(8,694)	(8,911)	(9,134)	(9,363)	(9,597)	(9,837)
3 Merger Cost to Achieve	6,063	2,410	2,363	1,068	1,145	940	729	334	343	354
4 Subtotal	162,970	157,637	159,070	157,891	162,329	166,397	170,529	174,418	179,260	184,243
5 Pension Expense	(11,824)	(12,054)	(12,288)	(12,525)	(12,878)	(13,240)	(13,612)	(13,995)	(14,389)	(14,794)
6 OPEB Expense	(13,469)	(13,732)	(13,998)	(14,268)	(14,669)	(15,082)	(15,506)	(15,942)	(16,391)	(16,852)
7 Total	137,676	131,851	132,785	131,097	134,782	138,075	141,411	144,481	148,480	152,597
8 Inflation Base w/ Pension and OPEB Expenses	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
9 Pension Expense	(11,824)	(12,054)	(12,288)	(12,525)	(12,878)	(13,240)	(13,612)	(13,995)	(14,389)	(14,794)
10 OPEB Expense	(13,469)	(13,732)	(13,998)	(14,268)	(14,669)	(15,082)	(15,506)	(15,942)	(16,391)	(16,852)
11 Adjusted Inflation Base	174,707	174,214	173,714	173,206	172,453	171,678	170,881	170,063	169,220	168,355

1 Exhibit 8 KEDLI Page 5, Line 21
2 Exhibit 8 KEDLI Page 5, Line 17
3 Exhibit 8 KEDLI Page 5, Line 18
4 Sum Lines 1 through 3
5 - Exhibit 6, Attachment 2 KEDLI, Page 2, Line 23
6 - Exhibit 6, Attachment 2 KEDLI, Page 2, Line 24
7 Sum 4 through 6
8 Line 5
9 Line 6
10 Sum Line 6 through Line 9
11 Sum 8 through 10

Attachment 5

KEDLI Unbundled Rates

OVERVIEW

In a policy statement issued August 25, 2004 and other orders in the Unbundling Track of Case 00-M-0504, *Proceeding On Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets and Fostering Development of Retail Competitive Opportunities* (August 25, 2004) ("Competitive Opportunities Case"), the Commission directed utilities to file unbundled rates based on embedded cost of service studies and a mechanism for recovery of lost revenue in their next rate proceedings. Accordingly, pursuant to the Commission's decisions in the Competitive Opportunities Case, KEDLI proposes fully unbundled rates for competitive services based on appropriate allocations of actual costs for the year ended December 31, 2005, and consistent with the embedded cost of service study provided at Exhibit 5 to the Joint Petition.

KEDLI intends that the unbundled rates approved in this proceeding will replace its current back-out credits. Currently, KEDLI has a merchant function back-out credit of $.19/Dth that is due to expire on November 1, 2006. As part of its July 18, 2006 filing of tariff revisions, KEDLI proposes to extend this merchant function back-out credit until it is replaced by an unbundled supply rate approved by the Commission. KEDLI also has a billing back-out credit of $.78 per account per month. The billing back-out credit was set by Commission Order in Case 98-M-1343, *In the Matter of Retail Access Business Rules*. It remains in effect until it is replaced by an unbundled billing rate approved by the Commission.

UNBUNDLED RATES

Derivation of Unbundled Rates from Cost of Service Study

Using costs for the year ended December 31, 2005 from the embedded cost of service study provided at Exhibit 5 to the Joint Petition, costs were functionalized among competitive and non-competitive services based on the Commission's Orders in the Unbundling Track of the Competitive Opportunities Case.

Costs were functionalized among the following functions: (1) Supply (including Storage), (2) Transmission (3) Distribution, and (4) Billing and Payment Processing. Because KEDLI performs no competitive energy services, there are no costs allocated to this function.

Unbundled Supply Rate

As shown on Attachment 5, Schedule 1, we have calculated an unbundled supply rate of $.22/Dth.

Components of unbundled supply rate

The unbundled supply rate includes: (1) gas supply procurement costs; (2) credit and collections expense allocated to commodity; (3) advertising and sales promotion expense allocated to commodity; (4) uncollectible expense related to commodity; and (5) the return requirement on working capital associated with the lag on customer payments for gas costs

While KEDLI's unbundled supply rate is consistent with its existing merchant credit back-out rate, the unbundled supply rate would have been only $.05/Dth were it not for KEDLI's proposal in its Rate Plan to move uncollectible expense, the revenue requirement for gas working capital and the revenue requirement for gas storage inventory out of base rates and to recover these costs, following an 18-month deferral, through the Gas Adjustment Clause ("GAC"), as they are directly related to the supply function. The revenue requirement for gas storage inventory would also be recovered from the Transportation Adjustment Clause ("TAC") because the Company uses storage to provide daily balancing to both bundled sales and transportation customers, and will not be included in the unbundled supply rate.[1] Accordingly, the Company's approach should create

[1] In addition, ESCOs have the benefit of the storage pricing through the "Virtual Storage" program recently introduced by the Company.

opportunities for ESCOs to penetrate the residential gas sales market, and facilitates the Commission's objective of fostering retail access.

Credit and collection expense and advertising and sales promotion expense were allocated between delivery and commodity on the basis of revenue. The revenue-based split was 33% and 67%, representing the proportion of delivery and gas supply revenue to all revenue except "other" and off-system sales revenue for the year ending December 31, 2005. Once a purchase of receivables program is implemented, customers with participating ESCOs will not receive the TAC credit for credit and collections expense.

Customer care costs were allocated to the Supply function based on a special study that was conducted by interviewing supervisory personnel as to the amount of time spent on various customer care activities, including credit and collections and billing inquiries. This special study is provided at Exhibit 5 to the Joint Petition, Schedule 3.

The costs allocated to the Supply function were loaded with a proportionate amount of indirect costs, including, administrative and general expense ("A&G"), working capital and a return on rate base.

Means of crediting migrating customers with the unbundled supply rate

During the initial 18 months of the Rate Plan, the unbundled supply rate will be credited to migrating customers through the TAC. Following the 18-month deferral period, the costs associated with commodity-related uncollectible expense and the revenue requirement on purchased gas working capital will be reconciled annually in the GAC, and automatically avoided by migrating customers; the revenue requirement for storage inventory will be collected through the GAC/TAC.

Unbundled Billing and Payment Processing Rate

As shown on Attachment 5, Schedule 2, we have calculated an unbundled billing and payment processing rate of $.65/account/month.

Components of Uunbundled Billing and Payment Processing Rate

The unbundled billing and payment processing rate includes the direct costs of issuing and mailing bills, and responding to billing inquiries. In addition, the billing and payment processing function was assigned costs associated with billing inquiries based on the special study cited above. We added a loading of indirect costs, including A&G, working capital and a return on rate base.

Means of crediting migrating customers with the unbundled billing and payment processing rate

For transportation customers whose ESCO's charges are on KEDLI's consolidated bill, the unbundled billing rate will be credited to KEDLI's delivery charge. KEDLI will charge the ESCO the same unbundled billing rate for providing this service. Transportation customers whose ESCOs are not participating in the Company's consolidated billing program will not receive a credit for the unbundled billing rate.

LOST REVENUE RECOVERY MECHANISM

The Company proposes a lost revenue recovery mechanism for costs included in the unbundled supply rate that it is unable to avoid when customers migrate. The initial avoided cost curves associated with gas supply procurement, credit and collections, and advertising and sales promotion expense are provided at Attachment 6.[2] While these avoided cost curves represent our best estimate at this

[2] This Attachment is divided into two sections. The left side represents the unbundled supply rate and avoided costs associated with collection expenses allocated to commodity. As shown on this Attachment, the unbundled supply rate associated with collection expenses allocated to commodity is $.0331/thm. The migration percentage is calculated as firm transportation volumes for customers not in the POR program as a percent of total firm sales and transportation volumes. For each level of migration, the per therm and percent avoided collection expense are shown. Avoided costs are realized because agency collection fees associated with the cost of commodity are avoided when ESCOs provide supply. The table also shows the collection costs that are not avoided on a per therm and percentage basis. For example, at a 30% migration level, 2% of the costs or $0.0007/thm are avoided and 98% or $0.0324/thm are not avoided.

time of the pace at which we can avoid costs, we reserve the right to request that DPS Staff or the Commission review the avoided cost curve(s) in light of KEDLI's avoided cost experience and permit such changes as are warranted.

KEDLI will calculate the difference between the gas supply procurement cost, credit and collections expense, and advertising and sales promotion expense credited on the bills of transportation customers and KEDLI's short-term avoided cost based on the avoided cost curves and the proportionate volume of customers receiving the credit.

On a semi-annual basis, KEDLI will calculate the difference between the gas supply procurement cost, credit and collections expense, and advertising and sales promotion expense credited on the bills of transportation customers and KEDLI's short-term avoided cost based on the avoided cost curves and the proportionate volume of customers receiving the credit. The Company proposes to allocate the lost revenue between firm sales customers and firm transportation customers in the LDAC through a deferral in the KEDLI Balancing Account. Moreover, the Company will recover from the Balancing Account the amount used to fund the gas-related cost component of the unbundled supply rate during the eighteen months such costs are deferred.

BILL FORMAT

Pending the proposed Transaction the integration team is only beginning to develop plans for how National Grid and KeySpan should integrate their operations, including a potential integration of information technology systems.

In its "Order Directing Filing of Unbundled Bill Formats" issued February 18, 2005 in the Competitive Opportunities Case ("Bill Format Order"), the Commission directed utilities to propose bill format revisions that would separately state unbundled rates for competitive services in an effort to promote retail access in their next rate proceedings. In doing so, however, the Commission recognized the need to

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The right hand side of the table illustrates the avoided and unavoided costs for the total Collection, Gas supply procurement and promotional advertising expenses allocated to commodity.

coordinate utility resource planning efforts in a manner that minimizes costs to customers, and urged utilities to economize in every way possible to conserve expenses in carrying out the objectives of its order. (Bill Reformat Order at p.12).

To that end, KEDLI seeks to defer discussions on bill reformatting pending additional clarity as to the future of its billing system from the integration planning process with National Grid. In the meantime, the objective of promoting retail access will not be compromised. KEDLI's existing bill format clearly identifies the unbundled supply back-out credit and consolidated bill credit as savings available to customers migrating to competitive providers.

KeySpan Energy Delivery Long Island
Unbundled Supply Rates
(Thousands of Dollars except per Dth)

		Embedded Cost of Service December 2005		Per Dth
I	**Merchant Function**			
1	**Gas Procurement Costs**	**$ 351**	1	**$ 0.004**
2	**Collection Costs**			
	Collections	811		
	Collection Agency Fees	361		
	Collections-Other OutSide Services	302		
	Calll Center	141		
	Outbound Postage and Other	83		
	Total Direct Costs	1,698		
	Loadings	780		
	p Total Direct & Indirect	2,478		
	Return	111		
	Total Collection Costs	**$ 2,589**	1	**$ 0.033**
3	**Promotional Advertising Expense**			
	Direct Costs	905		
	Loadings	4		
	Total Direct & Indirect	909		
	Return	13		
	Total Promotional Expenses	**$ 922**	1	**$ 0.012**
	Subtotal	**$ 3,862**		**$ 0.049**
II	**Other Commodity-Related Costs**	**Rate Year March 2008**		
4	**Uncollectibles**	**6,244**	2	**$ 0.087**
5	**Working Capital Return - Lead/Lag**	**5,888**	2	**$ 0.082**
	Subtotal	**$ 12,132**		**$ 0.168**
	Total	**$ 15,994**		**$ 0.22**

* Unitization Based on :

1	2005 Firm Sales and Transportation (MDth)	78,124
2	12 Mos Ended 3/31/08 Firm Sales (MDth)	72,137

KeySpan Energy Delivery Long Island
Unbundled Billing and Payment Processing Rate
Cost of Service Study Year Ending December 31, 2005

COSTS:	Total		Per Account per Month	
Direct Costs				
Print & Mail Bills	$	2,045	$	0.33
Call Center	$	353	$	0.06
Remittance	$	441	$	0.07
Total Direct Costs	**$**	**2,839**	**$**	**0.45**
Allocated Loadings	$	1,077	$	0.17
Return on Rate Base	$	160	$	0.03
Total Revenue Requirement	**$**	**4,076**	**$**	**0.65**

Attachment 6

KeySpan Energy Delivery Long Island
Avoided Cost Curves

		Collection Costs		
Total Costs		$2,589,133		
$/Therm		$ 0.0331		
% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
1%	-	0%	0.0331	100%
2%	-	0%	0.0331	100%
3%	-	0%	0.0331	100%
4%	-	0%	0.0331	100%
5%	-	0%	0.0331	100%
6%	-	0%	0.0331	100%
7%	-	0%	0.0331	100%
8%	-	0%	0.0331	100%
9%	-	0%	0.0331	100%
10%	-	0%	0.0331	100%
11%	-	0%	0.0331	100%
12%	-	0%	0.0331	100%
13%	-	0%	0.0331	100%
14%	-	0%	0.0331	100%
15%	-	0%	0.0331	100%
16%	-	0%	0.0331	100%
17%	0.0001	0%	0.0331	100%
18%	0.0001	0%	0.0330	100%
19%	0.0002	0%	0.0330	100%
20%	0.0002	1%	0.0329	99%
21%	0.0003	1%	0.0329	99%
22%	0.0003	1%	0.0328	99%
23%	0.0004	1%	0.0328	99%
24%	0.0004	1%	0.0327	99%
25%	0.0005	1%	0.0327	99%
26%	0.0005	2%	0.0326	98%
27%	0.0006	2%	0.0326	98%
28%	0.0006	2%	0.0325	98%
29%	0.0007	2%	0.0325	98%
30%	0.0007	2%	0.0324	98%
31%	0.0008	2%	0.0324	98%
32%	0.0008	2%	0.0323	98%
33%	0.0009	3%	0.0323	97%
34%	0.0009	3%	0.0322	97%
35%	0.0010	3%	0.0322	97%
36%	0.0010	3%	0.0321	97%
37%	0.0011	3%	0.0321	97%
38%	0.0011	3%	0.0320	97%
39%	0.0012	4%	0.0320	96%
40%	0.0012	4%	0.0319	96%
41%	0.0013	4%	0.0319	96%
42%	0.0013	4%	0.0318	96%
43%	0.0014	4%	0.0318	96%
44%	0.0014	4%	0.0317	96%
45%	0.0015	4%	0.0317	96%
46%	0.0015	5%	0.0316	95%
47%	0.0016	5%	0.0316	95%
48%	0.0016	5%	0.0315	95%
49%	0.0017	5%	0.0315	95%
50%	0.0017	5%	0.0314	95%

Collection, Gas Supply Procurement and Advertising and Sales Promotion Expense				
	Total Cost		$ 3,861,937	
	$/Therm		$ 0.0494	
% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
1%	-	0%	$ 0.0494	100%
2%	-	0%	$ 0.0494	100%
3%	-	0%	$ 0.0494	100%
4%	-	0%	$ 0.0494	100%
5%	-	0%	$ 0.0494	100%
6%	-	0%	$ 0.0494	100%
7%	-	0%	$ 0.0494	100%
8%	-	0%	$ 0.0494	100%
9%	-	0%	$ 0.0494	100%
10%	-	0%	$ 0.0494	100%
11%	-	0%	$ 0.0494	100%
12%	-	0%	$ 0.0494	100%
13%	-	0%	$ 0.0494	100%
14%	-	0%	$ 0.0494	100%
15%	-	0%	$ 0.0494	100%
16%	-	0%	$ 0.0494	100%
17%	0.0001	0%	$ 0.0494	100%
18%	0.0001	0%	$ 0.0493	100%
19%	0.0002	0%	$ 0.0493	100%
20%	0.0002	0%	$ 0.0492	100%
21%	0.0003	1%	$ 0.0492	99%
22%	0.0003	1%	$ 0.0491	99%
23%	0.0004	1%	$ 0.0491	99%
24%	0.0004	1%	$ 0.0490	99%
25%	0.0005	1%	$ 0.0490	99%
26%	0.0005	1%	$ 0.0489	99%
27%	0.0006	1%	$ 0.0489	99%
28%	0.0006	1%	$ 0.0488	99%
29%	0.0007	1%	$ 0.0488	99%
30%	0.0007	1%	$ 0.0487	99%
31%	0.0008	2%	$ 0.0487	98%
32%	0.0008	2%	$ 0.0486	98%
33%	0.0009	2%	$ 0.0486	98%
34%	0.0009	2%	$ 0.0485	98%
35%	0.0010	2%	$ 0.0485	98%
36%	0.0010	2%	$ 0.0484	98%
37%	0.0011	2%	$ 0.0484	98%
38%	0.0011	2%	$ 0.0483	98%
39%	0.0012	2%	$ 0.0483	98%
40%	0.0012	2%	$ 0.0482	98%
41%	0.0013	3%	$ 0.0482	97%
42%	0.0013	3%	$ 0.0481	97%
43%	0.0014	3%	$ 0.0480	97%
44%	0.0014	3%	$ 0.0480	97%
45%	0.0015	3%	$ 0.0479	97%
46%	0.0015	3%	$ 0.0479	97%
47%	0.0016	3%	$ 0.0478	97%
48%	0.0016	3%	$ 0.0478	97%
49%	0.0017	3%	$ 0.0477	97%
50%	0.0017	4%	$ 0.0477	96%

KeySpan Energy Delivery Long Island
Avoided Cost Curves

Collection Costs

Total Costs	$ 2,589,133
$/Therm	$ 0.0331

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
51%	0.0018	5%	0.0313	95%
52%	0.0018	6%	0.0313	94%
53%	0.0019	6%	0.0312	94%
54%	0.0019	6%	0.0312	94%
55%	0.0020	6%	0.0311	94%
56%	0.0020	6%	0.0311	94%
57%	0.0021	6%	0.0310	94%
58%	0.0022	6%	0.0310	94%
59%	0.0022	7%	0.0309	93%
60%	0.0023	7%	0.0309	93%
61%	0.0023	7%	0.0308	93%
62%	0.0024	7%	0.0308	93%
63%	0.0024	7%	0.0307	93%
64%	0.0025	7%	0.0307	93%
65%	0.0025	8%	0.0306	92%
66%	0.0026	8%	0.0306	92%
67%	0.0026	8%	0.0305	92%
68%	0.0027	8%	0.0305	92%
69%	0.0027	8%	0.0304	92%
70%	0.0028	8%	0.0304	92%
71%	0.0028	9%	0.0303	91%
72%	0.0029	9%	0.0303	91%
73%	0.0029	9%	0.0302	91%
74%	0.0030	9%	0.0302	91%
75%	0.0030	9%	0.0301	91%
76%	0.0031	9%	0.0301	91%
77%	0.0031	9%	0.0300	91%
78%	0.0032	10%	0.0300	90%
79%	0.0032	10%	0.0299	90%
80%	0.0033	10%	0.0299	90%
81%	0.0033	10%	0.0298	90%
82%	0.0034	10%	0.0298	90%
83%	0.0034	10%	0.0297	90%
84%	0.0035	11%	0.0297	89%
85%	0.0035	11%	0.0296	89%
86%	0.0036	11%	0.0296	89%
87%	0.0036	11%	0.0295	89%
88%	0.0037	11%	0.0295	89%
89%	0.0037	11%	0.0294	89%
90%	0.0038	11%	0.0293	89%
91%	0.0038	12%	0.0293	88%
92%	0.0039	12%	0.0292	88%
93%	0.0039	12%	0.0292	88%
94%	0.0040	12%	0.0291	88%
95%	0.0040	12%	0.0291	88%
96%	0.0041	12%	0.0290	88%
97%	0.0042	13%	0.0290	87%
98%	0.0042	13%	0.0289	87%
99%	0.0043	13%	0.0289	87%
100%	0.0043	13%	0.0288	87%

Collection, Gas Supply Procurement and Advertising and Sales Promotion Expense

Total Cost	$ 3,861,937
$/Therm	$ 0.0494

% Migration Excluding POR	Total Avoided $/Therm	Percent Avoided	Total Unavoided $/Therm	Percent Unavoided
51%	0.0018	4%	$ 0.0476	96%
52%	0.0018	4%	$ 0.0476	96%
53%	0.0019	4%	$ 0.0475	96%
54%	0.0019	4%	$ 0.0475	96%
55%	0.0020	4%	$ 0.0474	96%
56%	0.0020	4%	$ 0.0474	96%
57%	0.0021	4%	$ 0.0473	96%
58%	0.0022	4%	$ 0.0473	96%
59%	0.0022	4%	$ 0.0472	96%
60%	0.0023	5%	$ 0.0472	95%
61%	0.0023	5%	$ 0.0471	95%
62%	0.0024	5%	$ 0.0471	95%
63%	0.0024	5%	$ 0.0470	95%
64%	0.0025	5%	$ 0.0470	95%
65%	0.0025	5%	$ 0.0469	95%
66%	0.0026	5%	$ 0.0469	95%
67%	0.0026	5%	$ 0.0468	95%
68%	0.0027	5%	$ 0.0468	95%
69%	0.0027	5%	$ 0.0467	95%
70%	0.0028	6%	$ 0.0467	94%
71%	0.0028	6%	$ 0.0466	94%
72%	0.0029	6%	$ 0.0466	94%
73%	0.0029	6%	$ 0.0465	94%
74%	0.0030	6%	$ 0.0465	94%
75%	0.0030	6%	$ 0.0464	94%
76%	0.0031	6%	$ 0.0464	94%
77%	0.0031	6%	$ 0.0463	94%
78%	0.0032	6%	$ 0.0463	94%
79%	0.0032	7%	$ 0.0462	93%
80%	0.0033	7%	$ 0.0462	93%
81%	0.0033	7%	$ 0.0461	93%
82%	0.0034	7%	$ 0.0461	93%
83%	0.0034	7%	$ 0.0460	93%
84%	0.0035	7%	$ 0.0459	93%
85%	0.0035	7%	$ 0.0459	93%
86%	0.0036	7%	$ 0.0458	93%
87%	0.0036	7%	$ 0.0458	93%
88%	0.0037	7%	$ 0.0457	93%
89%	0.0037	8%	$ 0.0457	92%
90%	0.0038	8%	$ 0.0456	92%
91%	0.0038	8%	$ 0.0456	92%
92%	0.0039	8%	$ 0.0455	92%
93%	0.0039	8%	$ 0.0455	92%
94%	0.0040	8%	$ 0.0454	92%
95%	0.0040	8%	$ 0.0454	92%
96%	0.0041	8%	$ 0.0453	92%
97%	0.0042	8%	$ 0.0453	92%
98%	0.0042	9%	$ 0.0452	91%
99%	0.0043	9%	$ 0.0452	91%
100%	0.0043	9%	$ 0.0451	91%

Exhibit 7

KEDNY

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Revenue Requirement
Rate Year Ending March 31, 2008
Stand Alone vs. Rate Plan
($000)

		(a) Stand-Alone	(b) Adjustments	(c) Rate Plan
		Mar-08		Mar-08
1	Gas Costs	1,607,526	-	1,607,526
2	Firm Margin	584,059	(2,586)	581,473
3	TC Margin	62,849	18,912	81,761
4	Power Generation Margins	-	13,100	13,100
5				
6	Other Revenues	18,589	-	18,589
7	Balancing Account Recovery	-	68,593	68,593
8	GAC Cost Recovery	-	-	-
9	GAC Cost Elimination	-	(68,593)	(68,593)
10	Property Tax Surcharge	-	-	-
11	SIT Surcharge	0	-	-
12	**Sub Total**	2,273,023	29,426	2,302,449
13	Sales Growth		-	-
14	Rate Increase		-	-
15	**Total**	2,273,023	29,426	2,302,449
16				
17	Gas Costs	1,607,526	-	1,607,526
18	Operation and Maintenance Expenses	348,258	(20,856)	327,402
19	Depreciation	110,074	(20,781)	89,293
20	Amortization	24,478	(14,909)	9,569
21	Deferred GAC Amortization	-	-	-
22	Balancing Account Amortization	-	68,593	68,593
23	Deferred Property Tax Amortization	-	-	-
24	Taxes Other Than Income Taxes	111,149	(45,486)	65,663
25	**Total**	2,201,485	(33,438)	2,168,047
26				
27	Operating Income Before Income Taxes	71,538	62,864	134,402
28				
29	State Income Taxes	838	6,089	6,927
30	Federal Income Taxes	5,155	20,799	25,954
31	**Total**	5,993	26,888	32,881
32				
33	Operating Income After Income Taxes	65,545	35,976	101,521
34				
35	**Rate Base**	1,974,006	(142,942)	1,831,064
36				
37	Return	3.32%	0	5.54%
38	Required Return	8.65%	(0)	8.65%
39	Shortfall	5.33%	(0)	3.11%
40			-	
41	Income Shortfall	105,241	(48,358)	56,883
42	Retention Factor	1.72	-	1.72
43	**Base Revenue Requirement**	180,691	(83,028)	97,663
44	Less: SIT Surcharge	-		(19,086)
45				
46	**Net Base Revenue Requirement**	180,691	(102,114)	78,577
47				
48	**GAC Increase**	51,860		
49	**SIT Surcharge Elimination**	(19,086)		
50				
51	**Total Required Increase**	213,465		

Column Notes
(a) Per Stand Alone Cost of Service, see Exhibit 4-KEDNY
(b) Adjustments listed below
(c) Per Rate Plan Exhibit 8-KEDNY, Page 3 of 12

Column (a)
Line 14 & 23 $84,589 of revenue taxes excluded from both margin and taxes other than income.
Column (b)
Line 2 Revenue from Load Growth reduced by $2,586 due to elimination of certain marketing programs
Line 3 Three year average (2003 - 2005) TC Margins (net of Hedging costs) to be fully reconciled through GAC/TAC
Line 4 Three year Average Power Generation Margins and Interruptible Margins to be fully normalized through GAC/TAC
Lines 7 & 9 Gas related costs removed from base rates and recovered through GAC. Base Rate costs replaced with Balancing Account amortization. See Exhibit 8-KEDNY, Page 4 of 12
Line 18 Elimination of non-mandated O&M Program changes (see Page 2 of 4) plus uncollectibles (1.50%) on net revenue change less net synergies allocable to KEDNY of -3579
Line 19 Elimination of Depreciation Rate change. See Stand Alone COS Exhibit 4-KEDNY (JSB-2) Schedule 2 plus depreciation on Capital Addition decrease (see Exhibit 8-KEDNY, Page 6 of 12)
Line 20 Amortization of Deferred Property Taxes and SIR costs eliminated. See Stand Alone COS Exhibit 4-KEDNY (JFB-2) Schedule 3
Line 22 Balancing Account Amortization. See Exhibit 8-KEDNY, Page 4 of 12. Initial amount equal to gas related costs shifted to GAC.
Line 24 Assumes 100% deferral of Special Franchise and Real Estate taxes above current base rate amount of $45,178 and rate year real estate tax estimate of $16,100. See Exhibit 8-KEDNY, Page 8 of 12
Lines 29 & 30 Calculated on Operating Income Change including Interest Deduction Change due to rate base change
Line 35 See Exhibit 7 - KEDNY, Page 4 of 4

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
O&M Program Changes Summary
Rate Year Ending March 31, 2008
NGRID 10 Year Rate Plan

		(a) Stand Alone Cost of Service	(b) Adjustment	(c) Rate Plan
1	**Direct GBU**	13,825,884	(3,312,483)	10,513,401
2				
3	**Marketing**	6,228,872	(6,228,872)	0
4				
5	**IT Projects and Support**	5,182,862	(5,182,862)	0
6				
7	**Customer Satisfaction**	8,121,391	(8,121,391)	0
8				
9	**Facilities**	1,829,768	(1,829,768)	0
10				
11	**Corporate Affairs**	202,702	(202,702)	0
12				
13	**Total O&M Prgram Changes**	35,391,479	(24,878,078)	10,513,401

Column Notes
(a) See Stand Alone COS Exhibit 4-KEDNY (JFB-11)
(b) Adjustments represents elimination of discretionary programs
(c) Line 13 brought forward to Exhibit 8-KEDNY, Page 5 of 12, Line 10.

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary
Capital Additions Summary
NGRID 10 Year Rate Plan

		(a) Stand Alone Cost of Service	(b) Adjustment	(c) Rate Plan	
1	**Total Capital Additions**				
2					
3	Growth	50,700,000	(4,896,000)	45,804,000	
4					
5	City/State Construction	72,023,239	(27,527,239)	44,496,000	*
6					
7	Other Direct Gas Non-Growth Expenditures	47,743,382	(18,223,382)	29,520,000	*
8					
9	Allocated Service Company Expenditures	33,104,601	(18,532,601)	14,572,000	
10					
11					
12	**Total Capital Additions**	203,571,221	(69,179,221)	134,392,000	

* Tracker - Base level set on the 3 year (2003, 2004 & 2005) average actual expenditures

Note: Tracker level subject to full annual reconciliation. The annual revenue requirements associated with variances in actual capital expenditures from the rate plan tracker set forth in Column C, Lines 5 and 7 to be deferred and included in Balancing Account.

Column Notes
(a) See Stand Alone COS Exhibit 4-KEDNY (JFB-12)
(b) Adjustments represents:
Growth - elimination of additional marketing campaigns & associated advertising
Mandated City/State Construction - 3 year actual average (tracker) versus forecasted expenditures
Other Direct Gas Non-Growth Expenditures - 3 year actual average (tracker) versus forecasted expenditures
Allocated Service Company Expenditures - 3 year actual average versus forecasted expenditures
(c) Line 12 brought forward to Page 4 of 4, Line 1.

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Changes to rate Base
Rate Year Ending March 31, 2008
10 Year Rate Plan
($000)

1	2008 Capital Additions - 10 Year rate Plan	134,392	
2	2008 Capital Additions - Stand Alone	203,571	
3			
4	Rate Base Decrease due Capital Additions Change		(69,179)
5			
6	Decrease in Capital Additions	(69,179)	
7	Book Depreciation rate	2.82%	
8		(1,947)	
9	Half Year convention	50.00%	
10			
11	Rate Base Increase due to decrease in depreciation reserve		974
12			
13	Tax Depreciation Rate	4.07%	
14	Book Depreciation Rate	2.82%	
15	Book/Tax rate differential	1.25%	
16	Decrease in Capital Additions	(69,179)	
17	Book Tax Timing Difference	(868)	
18	Half Year Convention	50.00%	
19		(434)	
20	Combined Federal and State effective Income Tax rate	40.87%	
21			
22	Rate Base Increase due to decrease in deferred tax reserve		177
23			
24	Elimination of After tax Average Deferred SIR costs (recovered in balancing account)		(53,613)
25			
26	Elimination of After tax Average Deferred Special Franchise Taxes (recovered in balancing account)		(21,301)
27			
28	Total Rate base Adjustments		(142,942)

Line Notes
1 Page 3 of 4
2 Page 3 of 4
7 Exhibit 8-KEDNY, Page 10 of 12
13 Exhibit 8-KEDNY, Page 10 of 12

KEDLI

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Revenue Requirement
Rate Year Ending March 31, 2008
Stand Alone vs. Rate Plan
($000)

		(a) Stand Alone	(b) Adjustments	(c) Rate Plan
		Mar-08		Mar-08
1	Gas Costs	1,007,021	-	1,007,021
2	Firm Margin	394,966	(3,511)	391,455
3	TC Margin	14,287	(7,487)	6,800
4	Power Generation and Interruptible Margins	-	1,800	1,800
5	GAC Cost Elimination	-	(28,671)	(28,671)
6	Balancing Account Recovery		28,671	28,671
7	Property Tax Surcharge	-	41,189	41,189
8	GAC Cost Recovery		-	-
9	SIT Surcharge		-	-
10	Other Gas Revenues	21,908	-	21,908
11	**Sub Total**	1,438,182	31,991	1,470,173
12	Sales Growth			-
13	Rate Increase			-
14	**Margin**	1,438,182	31,991	1,470,173
15				
16	Gas Costs	1,007,021		1,007,021
17	Operation and Maintenance Expenses	169,868	(9,022)	160,846
18	Depreciation	72,452	(21,321)	51,131
19	Amortizations	15,444	(13,473)	1,971
20	Deferred GAC Cost Amortization		-	-
21	Def Property Tax Amortization	-	-	-
22	Balancing Account Amortization		69,860	69,860
23	Taxes Other Than Income Taxes	101,081	(44,645)	56,436
24	**Total**	1,365,866	(18,601)	1,347,265
25				-
26	Operating Income Before Income Taxes	72,316	50,592	122,908
27				-
28	State Income Taxes	913	4,943	5,856
29	Federal Income Taxes	3,219	17,429	20,648
30	**Total**	4,132	22,372	26,504
31				-
32	Operating Income After Income Taxes	68,184	28,220	96,403
33				
34	**Rate Base**	1,658,624	(109,128)	1,549,496
35				
36	Return	4.11%	2.11%	6.22%
37				
38	Required Return	9.25%	0.00%	9.25%
39				
40	Shortfall	5.14%	-2.11%	3.03%
41				
42	Income Shortfall	85,243	(38,360)	46,883
43				
44	Retention Factor	1.70	0	1.70
45				
46	**Revenue Requirement**	145,060	(65,278)	79,783
47	Less: SIT Surcharge			(8,345)
48				
49	**Net Revenue Requirement**	145,060		71,438
50				
51	**GAC Increase**	21,978		
52	**SIT Surcharge Elimination**	(8,345)		
53				
54	**Total Required Increase**	158,693		

Column Notes
(a) Per Stand Alone Cost of Servive, see Exhibit 4-KEDLI.
(b) Adjustments listed below
(c) Per Rate Plan Exhibit 8-KEDLI, Page 3 of 12

Column (a)
Line 14 & 23 $16, 210 of revenue taxes excluded from both margin and taxes other than income.
Column (b)
Line 2 Revenue from load growth reduced by $3,511 due to elimination of certain marketing programs
Line 3 Three Year average (2003 - 2005) TC Margins (net of Hedging costs) to be fully reconciled through GAC/TAC
Line 4 Three Year average Power Generation and Interruptible Margins Currently retained by KEDLI to be fully reconciled through GAC/TAC
Lines 6 & 7 Gas related costs removed from base rates and recovered through GAC. Base Rate costs replaced with Balancing Account amortization. See Exhibit 8-KEDLI , Page 4 of 12
Line 17 Elimination of discrectionary O&M Program additions (see Page 2 of 4) plus uncollectibles (0.62%) on net revenue change less net synergies allocable to KEDLI of -2125
Line 18 Elimination of Depreciation Rate change (See Stand Alone COS Exhibit 4-KEDLI (JSB-2) Schedule 2) plus depreciation on Capital Addition decrease (see Exhibit 8-KEDLI, Page 6 of 12)
Line 19 Amortization of Deferred Pension & PBOP and SIR costs eliminated. See Stand Alone COS Exhibit 4-KEDLI (JFB-2) Schedule 3
Line 22 Balancing Account Amortization (see Exhibit 8-KEDLI, Page 4 of 12). Initial Amount equal to gas related costs shifted to GAC plus Prop. Tax Surchg
Line 23 Assumes 100% deferral of Property Taxes above current base rate amount of $54,821. See Exhibit 8-KEDLI, page 8 of 12
Lines 28 & 29 Calculated on Operating Income Change including Interest Deduction Change due to rate base change
Line 34 See Exhibit 7 - KEDLI, Page 4 of 4

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
O&M Program Changes Summary
Rate Year Ending March 31, 2008
10 Year Rate Plan

		(a) Stand Alone Cost of Service	(b) Adjustment	(c) Rate Plan
1	Direct GBU	2,131,697	(1,060,492)	1,071,205
2				
3	Marketing	6,228,872	(6,228,872)	0
4				
5	IT Projects and Support	2,503,843	(2,503,843)	0
6				
7	Customer Satisfaction	84,459	(84,459)	0
8				
9	Facilities	1,203,545	(1,203,545)	0
10				
11	Corporate Affairs	263,935	(263,935)	0
12				
13	Total O&M Program Changes	12,416,351	(11,345,146)	1,071,205

Column Notes
(a) See Stand Alone COS Exhibit 4-KEDLI (JFB-11)
(b) Adjustments represents elimination of discretionary programs
(c) Line 13 brought forward to Exhibit 8-KEDLI, Page 5 of 12, Line 10.

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Summary
Capital Additions Summary
NGRID 10 Year Rate Plan

		(a) Stand Alone Cost of Service	(b) Adjustment	(c) Rate Plan	
1	**Total Capital Additions**				
2					
3	Growth	42,400,000	(5,492,000)	36,908,000	
4					
5	Bare Steel Replacement Program	17,595,000	18,731,000	36,326,000	*
6					
7	Islander East Infrastructure	46,900,000	(46,900,000)	0	
8					
9	Other Direct Gas Non-Growth Expenditures	58,437,000	(1,288,000)	57,149,000	**
10					
11	Allocated Service Company Expenditures	19,776,464	(13,077,464)	6,699,000	
12					
13					
14	**Total Capital Additions**	185,108,464	(48,026,464)	137,082,000	

* Tracker - Based upon a forecasted level of expenditures necessary to replace 40 miles of bare steel per annum
** Tracker - Base level set on the 3 year (2003, 2004 & 2005) average actual expenditures

Note: Tracker level subject to full annual reconciliation. The annual revenue requirements associated with variances in actual capital expenditures from the rate plan trackers set forth in Column C, Lines 5 and 9 will be deferred and included in the Balancing Account.

Column Notes
(a) See Stand Alone COS Exhibit 4-KEDLI (JFB-12)
(b) Adjustments represents:
Growth - elimination of additional marketing campaigns & associated advertising
Bare Steel Replacement Program - forecasted expenditures increased to accommodate for 40 miles per year
Islander East - expenditure pending approvals. To be included in Non-Growth tracker if Project is completed.
Other Direct Gas Non-Growth Expenditures - forecasted expenditures versus tracker for other non-growth expenditures
Allocated Service Company Expenditures - Three year actual average versus forecasted expenditures
(c) Line 14 brought forward to Page 4 of 4, Line 1.

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Changes to rate Base
Rate Year Ending March 31, 2008
10 Year Rate Plan
($000)

1	2008 Capital Additions - 10 Year rate Plan	137,082	
2	2008 Capital Additions - Stand Alone	185,108	
3			
4	Rate Base Decrease due Capital Additions Change		(48,026)
5			
6	Decrease in Capital Additions	(48,026)	
7	Book Depreciation rate	2.02%	
8		(972)	
9	Half Year convention	50.00%	
10			
11	Rate Base Increase due to decrease in depreciation reserve		486
12			
13	Tax Depreciation Rate	4.07%	
14	Book Depreciation Rate	2.02%	
15	Book/Tax rate differential	2.05%	
16	Decrease in Capital Additions	(48,026)	
17	Book Tax Timing Difference	(983)	
18	Half Year Convention	50.00%	
19		(492)	
20	Combined Federal and State effective Income Tax rate	40.87%	
21			
22	Rate Base Increase due to decrease in deferred tax reserve		201
23			
24	Elimination of After tax Average Deferred SIR costs (Recovery in Balancing Account)		(35,543)
25			
26	Elimination of After tax Average Deferred Pension & PBOP costs (Recovery in Balancing Account)		(26,245)
27			
28	Total Rate base Adjustments		(109,128)

Line Notes
1 Page 3 of 4
2 Page 3 of 4
7 Exhibit 8-KEDLI, Page 10 of 12
13 Exhibit 8-KEDLI, Page 10 of 12

Exhibit 8

KEDNY

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Income Statement
Rate Year Ending March 31, 2008-2017
10 Year Rate Plan
($000)

		Reference	Rate Year Ending March 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Operating Revenues											
1	Delivery Revenues	Pg 3, Ln 2 less Pg 1, Ln 5	512,880	512,880	512,880	512,880	512,880	512,880	512,880	512,880	512,880	512,880
2	Commodity Revenues	Page 3, Line 1	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526
3	Other Misc. Revenues	Page 3, Ln 3 to Ln 6	113,450	113,450	113,450	113,450	113,450	113,450	113,450	113,450	113,450	113,450
4	SIT Surcharge	Exhibit 7, Page 1	19,086	19,086								
5	Deferral Revenues	Page 3, Line 7	68,593	68,593	74,825	74,825	81,058	81,058	87,290	87,290	93,522	93,522
6	GAC Margin Revenues	Page 3, Line 8		36,850	75,073	76,496	76,549	97,289	96,517	94,944	93,341	91,737
7	Base Rate Increase	per Plan			76,650	76,650	134,215	134,215	191,779	191,779	249,343	249,343
8	Sales Growth			4,206	11,393	19,626	27,606	36,444	45,399	55,224	65,179	76,018
9	Gross Receipt Tax	Assumed	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546
10	Total Operating Revenues	Sum 1 thru 9	2,407,081	2,448,137	2,557,344	2,567,000	2,638,829	2,668,408	2,740,387	2,748,640	2,820,788	2,830,023
11	Gas Purchases	Line 2	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526
12	Gross Margin	Line 10 - Line 11	799,555	840,611	949,818	959,474	1,031,303	1,060,882	1,132,861	1,141,114	1,213,262	1,222,497
13	Other Operating Expenses											
14	Departmental Expenses	Page 5	273,576	280,669	287,860	295,636	303,568	311,735	320,141	328,794	337,700	346,869
15	OPEB	Page 5, Line 12	21,926	22,540	23,171	23,820	24,487	25,172	25,877	26,602	27,347	28,112
16	Pension	Page 5, Line 11	17,898	18,399	18,914	19,444	19,988	20,548	21,123	21,715	22,323	22,948
17	Site Investigation and Remediation	Assumed	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514
18	Bad Debts	1.5% * (Ln 12 - Ln 9)	10,710	11,326	12,964	13,109	14,186	14,630	15,710	15,834	16,916	17,054
19	Real Estate Taxes	Page 8, Line 3	16,100	16,467	16,834	17,218	17,602	17,995	18,396	18,806	19,225	19,654
20	Special Franchase Tax	Page 8, Line 4	90,664	92,731	94,799	96,960	99,123	101,333	103,593	105,903	108,265	110,679
21	Payroll Taxes	Pg 8, Ln 12 & 17	4,385	4,507	4,631	4,760	4,892	5,027	5,167	5,310	5,457	5,608
22	Other Taxes	Line 9	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546	85,546
23	Merger Savings	Exhibit 2, Page 1	(13,266)	(18,130)	(23,229)	(28,571)	(29,286)	(30,018)	(30,768)	(31,537)	(32,326)	(33,134)
24	Merger Cost to Achieve	Exhibit 2, Page 2	20,424	8,119	7,959	3,598	3,858	3,168	2,457	1,125	1,157	1,194
25	GAC Costs	Page 4, Line 6	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593
26	GAC Deferral	Line 6 - Line 25	(68,593)	(31,742)	6,480	7,903	7,956	28,697	27,924	26,351	24,748	23,144
27	Deferral Increase	Page 12, Line 2	(62,000)	(64,434)	(66,869)	(69,414)	(71,961)	(74,563)	(77,224)	(79,945)	(82,726)	(85,569)
28	Amortization of Deferrals	Line 5	68,593	68,593	74,825	74,825	81,058	81,058	87,290	87,290	93,522	93,522
29	Total Other Operating Expenses	Sum 13 to 27	551,070	579,697	628,994	629,940	646,124	675,434	690,338	696,900	712,261	720,735
30	Depreciation	Page 6 & Page 7	98,862	91,277	94,234	97,278	100,408	103,628	106,941	110,350	113,856	117,461
31	Total Other Revenue Deductions	Line 28 + Line 29	649,932	670,973	723,228	727,219	746,532	779,062	797,280	807,250	826,117	838,196
32	Operating Income Before Amort. and Tax	Line 12 - Line 30	149,623	169,638	226,590	232,255	284,771	281,820	335,581	333,864	387,145	384,301
33												
34	GAC Increase	Change in Line 6	$ -	$ 36,850	$ 38,223	$ 1,423	$ 53	$ 20,740	$ (772)	$ (1,573)	$ (1,603)	$ (1,604)
35	Amortization Increase	Change in Line 5	$ -	-	6,232	-	6,232	-	6,232	-	6,232	-
36	Base Increase	Change in Line 7 (&SIT)	$ -	$ -	$ 57,564	$ -	$ 57,564	$ -	$ 57,564	$ -	$ 57,564	$ -
37	Total	Sum Line 34 to Line 36	$ -	$ 36,850	$ 102,019	$ 1,423	$ 63,850	$ 20,740	$ 63,025	$ (1,573)	$ 62,194	$ (1,604)
38												
39	Total Non GAC	Line 35 + Line 36	-	-	63,797	-	63,797	-	63,797	-	63,797	-
40	Percent of Revenue	Line 39 / Line 10	0.00%	0.00%	2.61%	0.00%	2.49%	0.00%	2.39%	0.00%	2.32%	0.00%

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
ROE Calculation
Rate Year Ending March 31, 2008-2017
10 Year Rate Plan
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Gas operating income before FIT	149,623	169,638	226,590	232,255	284,771	281,820	335,581	333,864	387,145	384,301
2											
3	Eliminate Shareholders' Portion Of Savings	6,633	9,065	11,614	14,286	14,643	15,009	15,384	15,769	16,163	16,567
4	Eliminate Shareholders' Portion Of Costs To Achieve	(10,212)	(4,059)	(3,980)	(1,799)	(1,929)	(1,584)	(1,228)	(562)	(578)	(597)
5	Settlement Levelization Debit/(Credit)	(77,399)	(71,447)	(22,472)	(26,905)	20,252	11,569	59,689	52,128	100,359	92,582
6	Interest Expense	57,696	59,082	60,435	61,763	63,061	64,332	65,574	66,787	67,969	69,120
7	Net Income	172,905	176,997	180,992	184,911	188,744	192,495	196,162	199,743	203,233	206,629
8	State Income Tax	15,613	15,983	16,344	16,697	17,044	17,382	17,713	18,037	18,352	18,659
9	Federal Income Taxes	56,583	57,886	59,158	60,406	61,627	62,821	63,988	65,128	66,239	67,321
10	Gas net income	100,709	103,128	105,490	107,808	110,074	112,292	114,460	116,578	118,641	120,649
11											
12	Adjusted capitalization	1,831,064	1,875,057	1,918,007	1,960,139	2,001,350	2,041,672	2,081,098	2,119,591	2,157,113	2,193,626
13	Equity Percent	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
14	Common equity	915,532	937,528	959,004	980,069	1,000,675	1,020,836	1,040,549	1,059,795	1,078,556	1,096,813
15											
16	Return on Equity	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**	**11.00%**

1 Page 1, Line 31
3 - Page 1, Line 22 / 2
4 - Page 1, Line 23 / 2
5 Credit to Levelize Return
6 Line 14 * Page 11, Line 2 (pre-tax Column)
7 Line 1 - Line 3 - Line 4 - Line 5 - Line 6
8 Line 7 * Page 9, Line 10
9 (Line 7 - Line 8 - Page 9, Line 15) * 0.35
10 Line 7 - Line 8 - Line 9
12 Page 10, Line 15
13 Page 11, Line 5 (capitalization ratio Column)
14 Line 12 * Line 13
16 Line 10 / Line 14

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Revenue Requirement
Rate Year Ending March 31, 2008-2017
10 Year Rate Plan
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Gas Costs	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526
2	Firm Margin	581,473	581,473	581,473	581,473	581,473	581,473	581,473	581,473	581,473	581,473
3	TC Margin	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761	81,761
4	Power Generation & Interruptible Margins	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100	13,100
5											
6	Other Revenues	18,589	18,589	18,589	18,589	18,589	18,589	18,589	18,589	18,589	18,589
7	Balancing Account Recovery	68,593	68,593	74,825	74,825	81,058	81,058	87,290	87,290	93,522	93,522
8	GAC Cost Recovery	-	36,850	75,073	76,496	76,549	97,289	96,517	94,944	93,341	91,737
9	GAC Cost Elimination	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)	(68,593)
10	Property Tax Surcharge	-	-	-	-	-	-	-	-	-	-
11	SIT Surcharge	-	-	-	-	-	-	-	-	-	-
12	**Sub Total**	2,302,449	2,339,299	2,383,754	2,385,178	2,391,463	2,412,203	2,417,663	2,416,090	2,420,720	2,419,116
13	Sales Growth		4,765	12,911	20,887	28,550	36,213	43,876	51,539	59,202	66,865
14	Rate Increase		78,577	73,068	98,948	104,000	114,073	124,195	134,330	144,302	155,323
15	**Total**	2,302,449	2,422,642	2,469,733	2,505,012	2,524,013	2,562,489	2,585,735	2,601,959	2,624,224	2,641,304
16											
17	Gas Costs	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526	1,607,526
18	Operation and Maintenance Expenses (pg 5of 12, line 21)	327,402	328,829	335,244	339,875	349,076	358,355	367,659	376,821	387,036	397,466
19	Depreciation (pg 6 of 12, line 12)	89,293	91,277	94,234	97,278	100,408	103,628	106,941	110,350	113,856	117,461
20	Amortization (pg 7 of 12, line 4)	9,569	-	-	-	-	-	-	-	-	-
21	Deferred GAC Amortization	-	36,850	75,073	76,496	76,549	97,289	96,517	94,944	93,341	91,737
22	Balancing Account Amortization (pg 12 of 12, line 3)	68,593	68,593	74,825	74,825	81,058	81,058	87,290	87,290	93,522	93,522
23	Deferred Property Tax Amortization	-	-	-	-	-	-	-	-	-	-
24	Taxes Other Than Income Taxes (pg 8 of 12, line 19)	65,663	65,785	65,909	66,038	66,170	66,305	66,445	66,588	66,735	66,886
25	**Total**	2,168,047	2,198,860	2,252,812	2,262,039	2,280,787	2,314,161	2,332,379	2,343,519	2,362,016	2,374,599
26											
27	Operating Income Before Income Taxes	134,402	223,782	216,922	242,974	243,226	248,328	253,356	258,441	262,207	266,705
28											
29	State Income Taxes (pg 9 f 12, line 12)	6,927	14,872	14,131	16,363	16,269	16,615	16,957	17,306	17,540	17,842
30	Federal Income Taxes (pg 9 of 12, line 22)	25,954	53,971	51,356	59,228	58,895	60,115	61,320	62,553	63,376	64,442
31	**Total**	32,881	68,843	65,487	75,591	75,164	76,730	78,277	79,859	80,915	82,284
32											
33	Operating Income After Income Taxes	101,521	154,939	151,435	167,382	168,062	171,598	175,079	178,581	181,292	184,422
34											
35	**Rate Base (pg 10 of 12, line 15)**	1,831,064	1,875,057	1,918,007	1,960,139	2,001,350	2,041,672	2,081,098	2,119,591	2,157,113	2,193,626
36											
37	Return	5.54%	8.26%	7.90%	8.54%	8.40%	8.40%	8.41%	8.43%	8.40%	8.41%
38											
39	Required Return (pg 11 of 12)	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%	8.65%
40											
41	Shortfall	3.11%	0.39%	0.76%	0.11%	0.25%	0.25%	0.24%	0.23%	0.25%	0.24%
42											
43	Income Shortfall	56,883	7,271	14,490	2,188	5,073	5,025	4,955	4,783	5,318	5,347
44											
45	Retention Factor (pg 11 of 12)	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72
46											
47	**Base Revenue Requirement**	97,663	12,484	24,879	3,756	8,710	8,628	8,508	8,212	9,131	9,181
48	Less: SIT Surcharge	(19,086)	(19,086)	-	-	-	-	-	-	-	-
49											
50	**Net Base Revenue Requirement**	78,577	(6,602)	24,879	3,756	8,710	8,628	8,508	8,212	9,131	9,181

Line Notes

1 Stand Alone Cost of Service Exhibit 4-KEDNY (JFB-3)
2 Stand Alone cost of Service Exhibit 4-KEDNY(JFB - 3) Wkp P. 5 of 17, Firm Margins of $584,059 adjusted for lower growth -2586 as a result of elimination of non-mandated program changes.
3 TC Margin Forecast adjusted equal to three year average, to be fully normalized through GAC/TAC
4 Forecasted Power Generation and Interruptible Margins to be fully normalized through GAC/TAC
6 Stand Alone Cost of Service Exhibit 4-KEDNY (JFB-3).
7 & 9 Gas costs shifted to GAC. See Page 4 of 12. Deferral recovery step increases per Page 12 of 12.
8 & 21 Recovery of deferred gas costs shifted to GAC. See Page 12 of 12, Line 11
13 Load growth on Firm margins of 0.82% in 2009, 1.39% in 2010, 1.37% in 2011 and 1.31% thereafter
14 Prior year cumulative rate increase (Line 14) with load growth plus prior year Net Base Revenue Requirement (Line 50).
17 Stand Alone Cost of Service Exhibit 4-KEDNY (JFB-4)

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Estimated Revenue Requirement
GAC/TAC/ Surcharges
($000)

Estimated Increases in GAC/ TAC/ Surcharges

Uncollectibles	24,113	(see Below)
Cash Working Capital	17,106	(see Below)
Storage Costs	27,374	(see Below)
Total	68,593	

GAC/TAC Surcharges - Uncollectibles

Total Gas Costs	1,607,526	Stand Alone COS Exhibit 4-KEDNY (JFB-9)
Uncollectible Rate	1.50%	Stand Alone COS Exhibit 4-KEDNY (JFB-4), Schedule 33
Gas Cost Uncollectibles	24,113	

GAC/TAC Surcharges - Carrying Charges

Total Gas Costs	1,607,526	Stand Alone COS Exhibit 4-KEDNY (JFB-4)
Cash Allowance at 30.84/365	8.45%	Stand Alone COS Exhibit 4-KEDNY (JFB-9), Schedule 1
Cash Working Capital Allowance	135,825	
Pre Tax Weighted Cost Of Capital	12.59%	See Page 11 of 12
Total Carrying Charges on CWC	17,106	

Estimated Rate Year Storage Balances	217,358	Stand Alone COS Exhibit 4-KEDNY (JFB-9), Schedule 1
Pre Tax Weighted Cost of Capital	12.59%	See Page 11 of 12
Total Carrying Charges on Storage Balance	27,374	

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary of Operating Expenses by Component
Rate Year Ending March 31, 2008 through 2017

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Labor	117,804,196	121,102,713	124,493,589	127,979,410	131,562,833	135,246,593	139,033,497	142,926,435	146,928,375	151,042,370
2	Health & Hospitalization	14,143,106	14,935,119	15,771,486	16,654,689	17,587,352	18,572,244	19,612,289	20,710,578	21,870,370	23,095,111
3	401k Match	2,810,709	2,889,409	2,970,312	3,053,481	3,138,978	3,226,870	3,317,222	3,410,104	3,505,587	3,603,744
4	Payroll Taxes	4,929,448	5,067,472	5,209,362	5,355,224	5,505,170	5,659,315	5,817,775	5,980,673	6,148,132	6,320,280
5	Contract Labor	9,433,000	9,648,072	9,863,224	10,088,106	10,313,071	10,543,052	10,778,162	11,018,515	11,264,228	11,515,420
6	Insurance	6,414,000	6,560,239	6,706,533	6,859,441	7,012,407	7,168,784	7,328,648	7,492,076	7,659,150	7,829,949
7	Materials & Supplies	5,812,000	5,944,514	6,077,076	6,215,634	6,354,242	6,495,942	6,640,801	6,788,891	6,940,283	7,095,052
8	NY Facilities	8,307,000	8,496,400	8,685,869	8,883,907	9,082,018	9,284,547	9,491,593	9,703,255	9,919,638	10,140,846
9	Postage	5,808,000	5,940,422	6,072,894	6,211,356	6,349,869	6,491,471	6,636,231	6,784,219	6,935,507	7,090,169
10	Program Changes	10,513,000	10,486,000	10,413,000	10,650,000	10,888,000	11,136,000	11,392,000	11,654,000	11,922,000	12,196,000
11	Pensions	17,898,000	18,399,144	18,914,320	19,443,921	19,988,351	20,548,025	21,123,369	21,714,824	22,322,839	22,947,878
12	OPEB's	21,926,000	22,539,928	23,171,046	23,819,835	24,486,791	25,172,421	25,877,249	26,601,812	27,346,662	28,112,369
13	Uncollectibles @ 1.5%	10,423,845	12,226,739	12,933,110	13,462,297	13,747,312	14,324,445	14,673,133	14,916,501	15,250,463	15,506,672
14	All Other	87,601,087	89,598,392	91,596,436	93,684,835	95,774,006	97,909,767	100,093,155	102,325,232	104,607,085	106,939,823
15											
16	Included										
17	Synergies	(6,632,819)	(9,064,898)	(11,614,394)	(14,285,642)	(14,642,783)	(15,008,853)	(15,384,074)	(15,768,676)	(16,162,893)	(16,566,965)
18	CTA	10,211,889	4,059,285	3,979,692	1,798,821	1,928,824	1,583,917	1,228,398	562,463	578,382	596,954
19											
20											
21		327,402,459	328,828,950	335,243,554	339,875,315	349,076,441	358,354,538	367,659,449	376,820,903	387,035,809	397,465,670

Line Notes

1 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at assumed labor increase rate of 3.8% less 1% productivity, or, 2.8%
2 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at twice the labor increase rate assumption, or, 5.6%
3 & 4 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at labor increase rate of 2.8%
5 through 9 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter
10 Stand Alone COS Exhibit 4-KEDNY (JFB-4) less non-mandated Program Changes of -24876 escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter
11 and 12 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at labor increase rate of 2.8%
13 Stand Alone COS Exhibit 4-KEDNY (JFB-4) less uncollectibles on Net Revenue change of 441
14 Stand Alone COS Exhibit 4-KEDNY (JFB-4) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary of Depreciation Expense
Rate Year Ending March 31, 2008 through 2017
($000)

Line		Rate Year Ending March 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Rate Case Depreciation	110,074	110,074	110,074	110,074	110,074	110,074	110,074	110,074	110,074	110,074
2	Rate Changes	19,807	19,807	19,807	19,807	19,807	19,807	19,807	19,807	19,807	19,807
3											
4	Rate Case Depreciation	90,267	90,267	90,267	90,267	90,267	90,267	90,267	90,267	90,267	90,267
5											
6	Decrease in 2008 Additions	974	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,947	1,947
7											
8	Net	89,293	88,320	88,320	88,320	88,320	88,320	88,320	88,320	88,320	88,320
9											
10	Add Increases in Rate Base		2,957	5,915	8,959	12,089	15,309	18,622	22,030	25,536	29,142
11											
12	Total	89,293	91,277	94,234	97,278	100,408	103,628	106,941	110,350	113,856	117,461
13											
14											
15											
16	2007-2008 Plant Additions Decrease										
17	2008 Plant Additions Rate Case	203,571									
18	2008 Plant Additions NGRID Case	134,392									
19	(Line 17 less line 18)	69,179									
20	Current Composite Depreciation Rate	2.82%									
21	Annual Change (line 20 * line 19)	1,947									
22	2008 Change - Half Year (Line 21 * 50%)	974									

Line Notes

1 Stand Alone COS Exhibit 4-KEDNY (JFB-2) Schedule 2
2 Elimination of Depreciation Rate change. See Stand Alone COS Exhibit 4-KEDNY (JSB-2) Schedule 2
6 2008 from Line 22 (half year), line 21 thereafter.
10 See Page 10 of 12, Line 26
17 Stand Alone COS Exhibit 4-KEDNY (JFB-12)
18 Exhibit 7-KEDNY, Page 3 of 4

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary of Amortizations
Rate Year Ending March 31, 2008 through 2017

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	BUG/LILCO Merger Costs	9,569,018	-	-	-	-					
2	Property Taxes	-	-	-	-	-	-	-	-	-	-
3	Environmental	-	-	-	-	-	-	-	-	-	-
4	**Total**	9,569,018	-	-	-	-	-	-	-	-	-

Line Notes

1 Stand Alone COS Exhibit 4-KEDNY (JFB-2) Schedule 3

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary of Taxes Other Than Income Taxes
Rate Year Ending March 31, 2008 through 2017

		Rate Year Ending March 31,									
	Taxes Other than Income Taxes (Account 408)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Petition Threshold	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000	45,178,000
2	Local										
3	Real Estate	16,100,000	16,467,080	16,834,296	17,218,118	17,602,082	17,994,608	18,395,888	18,806,116	19,225,493	19,654,221
4	Special Franchise	90,664,000	92,731,139	94,799,044	96,960,462	99,122,680	101,333,116	103,592,844	105,902,965	108,264,601	110,678,901
5	Total Local Taxes included in Base Rates	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000	61,278,000
6											
7	State										
8	NYS Excise Tax	23,000	23,524	24,049	24,597	25,146	25,707	26,280	26,866	27,465	28,077
9	Unemployment Insurance	318,000	326,904	336,057	345,467	355,140	365,084	375,306	385,815	396,618	407,723
10	Sales and Use	117,000	119,668	122,336	125,125	127,916	130,768	133,684	136,666	139,713	142,829
11	Other	88,000	90,006	92,014	94,111	96,210	98,356	100,549	102,791	105,083	107,427
12	Total State Taxes	546,000	560,102	574,456	589,301	604,412	619,914	635,819	652,137	668,879	686,056
13											
14	Federal										
15	FICA Tax	3,722,000	3,826,216	3,933,350	4,043,484	4,156,701	4,273,089	4,392,736	4,515,732	4,642,173	4,772,153
16	Unemployment Tax	117,000	120,276	123,644	127,106	130,665	134,323	138,084	141,951	145,925	150,011
17	Total Federal Taxes	3,839,000	3,946,492	4,056,994	4,170,590	4,287,366	4,407,412	4,530,820	4,657,683	4,788,098	4,922,165
18											
19	**Total Taxes Other than Income Taxes**	65,663,000	65,784,594	65,909,450	66,037,891	66,169,778	66,305,327	66,444,639	66,587,820	66,734,977	66,886,221

Line Notes

1 Current KEDNY Special Franchise Tax Petition amount
3 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter.
4 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter.
5 Special Franchise tax petition amount of 45178 plus 2008 Real Estate tax estimate of 16100. 100% of incremental amounts included in Deferral Account.
8 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter.
9 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at labor increase rate 2.8%
10 and 11 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter.
15 and 16 Stand Alone COS Exhibit 4-KEDNY (JFB-5) escalated at labor increase rate 2.8%

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Summary of Income Taxes
Rate Year Ending March 31, 2008 through 2017
($000)

		Rate Year Ending March 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	**Operating Income Before Interest and Income Taxes**	134,402	223,782	216,922	242,974	243,226	248,328	253,356	258,441	262,207	266,705
2											
3	**Interest Charges**										
4	Rate Base	1,831,064	1,875,057	1,918,007	1,960,139	2,001,350	2,041,672	2,081,098	2,119,591	2,157,113	2,193,626
5	Interest Component Of Return	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%
6	Interest Deduction (line 4 * line 5)	57,696	59,082	60,435	61,763	63,061	64,332	65,574	66,787	67,969	69,120
7											
8	**Operating Income Before Income Taxes**	76,707	164,700	156,487	181,211	180,165	183,996	187,782	191,654	194,238	197,586
9											
10	State Income Tax Rate	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%
11											
12	**State Income Tax Expense**	6,927	14,872	14,131	16,363	16,269	16,615	16,957	17,306	17,540	17,842
13											
14	**Flow Through Items**										
15	Book In Excess Of Tax	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375
16											
17	Total	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375	4,375
18											
19											
20	Income Subject To Federal Income Tax (line 15 - line 19)	74,155	154,203	146,731	169,223	168,271	171,756	175,200	178,722	181,074	184,119
21											
22	**Federal Income Tax (line 20 * 35%)**	25,954	53,971	51,356	59,228	58,895	60,115	61,320	62,553	63,376	64,442

Line Notes

1 Page 3 of 12, Line 27
4 Page 10 of 12, Line 15
5 Page 11 of 12
15 Stand alone COS Exhibit 4-KEDNY (JFB-6), flowthough item net of proposed depreciation rate adjustment.

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Rate Base Summary
Rate Year Ending March 31, 2008 through 2017
($000)

		Rate Year Ending March 31,									
	Rate Base	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Rate Base	1,905,978	1,831,064	1,875,057	1,918,007	1,960,139	2,001,350	2,041,672	2,081,098	2,119,591	2,157,113
2											
3	Plant Additions		134,392	134,392	137,456	140,522	143,725	147,031	150,413	153,872	157,411
4	Depreciation		91,277	94,234	97,278	100,408	103,628	106,941	110,350	113,856	117,461
5	Cost of Removal		5,124	4,838	4,553	4,267	3,982	3,696	3,411	3,125	2,840
6	Deferred Tax Increase (see line 35 below)		539	1,078	1,632	2,202	2,789	3,393	4,014	4,652	5,309
7	Net Rate Base Increase (line 3 and 5 less line 4 and 6)		47,700	43,918	43,099	42,179	41,290	40,393	39,460	38,489	37,481
8											
9	Other RB Items Incremental Change										
10	Deferred BUG/LILCO Merger Costs		(2,740)	0	0	0	0	0	0	0	0
11	Deferred SIR	(53,613)									
12	Senior Debt Unamortized Expense		(967)	(967)	(967)	(967)	(967)	(967)	(967)	(967)	(967)
13	Deferred Property Taxes	(21,301)									
14											
15	**Net Rate Base**	**1,831,064**	**1,875,057**	**1,918,007**	**1,960,139**	**2,001,350**	**2,041,672**	**2,081,098**	**2,119,591**	**2,157,113**	**2,193,626**
16											
17	Rate Base Additions		134,392	134,392	137,456	140,522	143,725	147,031	150,413	153,872	157,411
18	Retirements		29,336	29,336	29,336	29,336	29,336	29,336	29,336	29,336	29,336
19	Net		105,056	105,056	108,120	111,186	114,389	117,695	121,077	124,536	128,075
20	Tax Depreciation Rate		4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%
21	Increased Tax Depreciation		4,276	4,276	4,400	4,525	4,656	4,790	4,928	5,069	5,213
22	Cumulative Tax Depreciation			8,552	12,952	17,477	22,133	26,923	31,851	36,920	42,132
23											
24	Book Depreciation Rate		2.82%	2.82%	2.82%	2.82%	2.82%	2.82%	2.82%	2.82%	2.82%
25	Increased Book Depreciation		2,957	2,957	3,044	3,130	3,220	3,313	3,408	3,506	3,605
26	Cumulative Book Depreciation Increase			5,915	8,959	12,089	15,309	18,622	22,030	25,536	29,142
27											
28	Tax Over Book		1,318	2,637	3,993	5,389	6,824	8,301	9,821	11,383	12,991
29	State Tax Rate		9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%
30	Increase State Deferred Taxes		119	238	361	487	616	750	887	1,028	1,173
31											
32	Federal Tax Rate		35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
33	Increase Federal Taxes		420	840	1,272	1,716	2,173	2,643	3,127	3,624	4,136
34											
35	Increase Deferred Taxes		539	1,078	1,632	2,202	2,789	3,393	4,014	4,652	5,309

Line Notes

1 Adjusted 2008 Rate base per Exhibit 7-KEDNY, prior to line 11 and 13 adjustments. For 2009 through 2017, pior year line 15.
3 Adjusted Capital Forecast per Exhibit 7-KEDNY, Page 3 of 4
4 Page 6 of 12, Line 12
5 Forecasted Cost of Removal expenditures.
10 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 2, Page 2 net of tax.
11 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 2, Page 3 net of tax. Deferred SIR costs included in Deferral Account.
12 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 2, Page 4 annual amortization net of tax.
13 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 2, Page 5 net of tax. Deferred Property Tax costs included in Deferral Account.
18 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 1-1 Workpaper, page 6 of 7
20 Estimated overall composite tax depreciation rate.
24 Stand Alone COS Exhibit 4-KEDNY (JFB-8) Schedule 1-1 Worpaper Page 5.

National Grid and KeySpan
KEDNY Rate Plan
Exhibit - 8-KEDNY

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Cost of Capital

See Stand Alone COS Exhibit 4-KEDNY (JFB-15) Schedule 2:

		Capitalization Ratio	Effective Cost Rate	Weighted Average Cost Rate		Pre- Tax/Uncoll
1	Long Term Debt	48.70%	6.39%	3.11%		
2	Customer Deposits	1.30%	3.00%	0.04%		3.15%
3						
4						
5	Common Equity	50.00%	11.00%	5.50%	1.72	9.44%
6						
7	Weighted Average Cost of Capital			8.65%		12.59%
8						
9						
10						
11						
12						

13	Retention Factor Calculation		
14			
15	Revenues	100.0000	
16	Uncollectibles	1.5000	Exhibit 4-KEDNY (JFB-4) Schedule 33
17		98.5000	
18	State Income Tax	0.0903	
19		8.8946	
20			
21	FIT Taxable	89.6055	
22	Federal Income Taxes	0.3500	
23		31.3619	
24			
25	Net	58.2435	
26			
27	Retention Factor	1.7169	(Line 15 divided by Line 25)

KEYSPAN ENERGY DELIVERY NY (COMPANY 38)
Deferral Account Summary
Rate Year Ending March 31, 2008 through 2017
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Balancing Account										
1	Beginning Balance	94,147	94,320	97,030	96,003	97,540	95,368	95,734	92,423	91,687	87,316
2	Deferral Increase	62,000	64,434	66,869	69,414	71,961	74,563	77,224	79,945	82,726	85,569
3	Amortization of Deferrals	(68,593)	(68,593)	(74,825)	(74,825)	(81,058)	(81,058)	(87,290)	(87,290)	(93,522)	(93,522)
4	Interest	6,766	6,869	6,929	6,948	6,925	6,860	6,754	6,609	6,426	6,206
5	Ending Balance	94,320	97,030	96,003	97,540	95,368	95,734	92,423	91,687	87,316	85,569
6	Average Balance	90,851	92,240	93,052	93,298	92,991	92,121	90,701	88,750	86,289	83,340
7											
8	**GAC**										
9	Beginning Balance	-	71,147	109,369	110,793	110,846	110,848	89,337	67,026	44,685	22,342
10	Deferral Increase	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593
11	Amortization of Deferrals	-	(36,850)	(75,073)	(76,496)	(76,549)	(97,289)	(96,517)	(94,944)	(93,341)	(91,737)
12	Interest	2,554	6,480	7,903	7,956	7,958	7,186	5,613	4,010	2,406	802
13	Ending Balance	71,147	109,369	110,793	110,846	110,848	89,337	67,026	44,685	22,342	0
14	Average Balance	34,296	87,018	106,129	106,841	106,867	96,499	75,375	53,850	32,310	10,770
15											
16	Total Average Balance	125,147	179,258	199,181	200,139	199,859	188,620	166,076	142,600	118,599	94,110
17											
18	**Total Deferred Costs - KEDNY**										
19	Beginning Balance	$ 94,147	$ 165,467	$ 206,399	$ 206,796	$ 208,386	$ 206,216	$ 185,071	$ 159,449	$ 136,372	$ 109,659
20	Increase in deferrals:										
21	Actual Environmental Costs	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514	16,514
22	Excess Property Taxes	45,486	47,920	50,355	52,901	55,447	58,050	60,711	63,431	66,212	69,055
23	Commodity Costs Deferrals	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593	68,593
24		130,593	133,027	135,462	138,007	140,553	143,156	145,817	148,538	151,319	154,162
25	Earnings on deferrals	9,320	13,349	14,833	14,904	14,883	14,046	12,368	10,619	8,832	7,008
26	Amortization Expense	(68,593)	(105,443)	(149,898)	(151,321)	(157,607)	(178,347)	(183,807)	(182,234)	(186,864)	(185,260)
27											
28	Balance End of Year	$ 165,467	$ 206,399	$ 206,796	$ 208,386	$ 206,216	$ 185,071	$ 159,449	$ 136,372	$ 109,659	$ 85,569
29											

KEDLI

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Income Statement
Rate Year Ending March 31, 2008-2017
10 Year Rate Plan
($000)

			Rate Year Ending March 31,									
		Reference	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Operating Revenues											
1	Delivery Revenues	Pg 3, Ln 2 less Pg 1, Ln 5	362,784	362,784	362,784	362,784	362,784	362,784	362,784	362,784	362,784	362,784
2	Commodity Revenues	Page 3, Line 1	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021
3	Other Misc. Revenues	Page 3, Ln 3 to 6	30,508	42,758	55,008	55,008	55,008	55,008	55,008	55,008	55,008	55,008
4	SIT Surcharge	Exhibit 7, Page 1	8,345	8,345								
5	Deferral Revenues	Page 3, Line 7	69,860	69,860	70,731	70,731	71,602	71,602	72,473	72,473	73,343	73,343
6	GAC Margin Revenues	Page 3, Line 8		15,447	31,492	32,114	32,138	40,810	40,474	39,789	39,091	38,392
7	Base Rate Increase	per Plan			54,374	54,374	100,403	100,403	146,432	146,432	192,460	192,460
8	Sales Growth			5,991	14,146	23,687	33,121	43,742	54,589	66,654	78,977	92,549
9	Gross Receipt Tax	Assumed	-	-	-	-	-	-	-	-	-	-
10	Total Operating Revenues	Sum 1 thru 9	1,478,518	1,512,206	1,595,556	1,605,719	1,662,076	1,681,369	1,738,780	1,750,160	1,808,684	1,821,557
11	Gas Purchases	Line 2	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021
12	Gross Margin	Line 10 - Line 11	471,497	505,185	588,535	598,698	655,055	674,348	731,759	743,139	801,663	814,536
13	Other Operating Expenses											
14	Departmental Expenses	Page 5	129,912	133,391	136,999	140,744	144,567	148,504	152,557	156,729	161,027	165,453
15	OPEB	Page 5, Line 12	13,812	14,199	14,596	15,005	15,425	15,857	16,301	16,757	17,227	17,709
16	Pension	Page 5, Line 11	12,125	12,465	12,814	13,172	13,541	13,920	14,310	14,711	15,123	15,546
17	Site Investigation and Remediation	Assumed	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053
18	Bad Debts	.62% * (Ln 12 - Ln 9)	2,923	3,132	3,649	3,712	4,061	4,181	4,537	4,607	4,970	5,050
19	Real Estate Taxes	Page 8, Line 3										
20	Special Franchase Tax	Page 8, Line 4	99,466	101,734	104,002	106,374	108,746	111,171	113,650	116,184	118,775	121,424
21	Payroll Taxes	Pg 8, Ln 12 & 17	1,615	1,660	1,705	1,752	1,801	1,850	1,901	1,954	2,007	2,063
22	Other Taxes	Line 9	-	-	-	-	-	-	-	-	-	-
23	Merger Savings	Exhibit 2, Page 1	(7,876)	(10,764)	(13,792)	(16,964)	(17,388)	(17,823)	(18,268)	(18,725)	(19,193)	(19,673)
24	Merger Cost to Achieve	Exhibit 2, Page 2	12,127	4,820	4,726	2,136	2,290	1,881	1,459	668	687	709
25	GAC Costs	Page 4, Line 6	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671
26	GAC Deferral	Line 6 - Line 25	(28,671)	(13,225)	2,821	3,442	3,466	12,139	11,803	11,118	10,419	9,720
27	Deferral Increase	Page 12, Line 2	(54,698)	(56,966)	(59,235)	(61,606)	(63,978)	(66,403)	(68,882)	(71,417)	(74,008)	(76,656)
28	Amortization of Deferrals	Line 5	69,860	69,860	70,731	70,731	71,602	71,602	72,473	72,473	73,343	73,343
29	Total Other Operating Expenses	Sum 13 to 27	289,319	299,030	317,741	317,223	322,858	335,604	340,564	343,784	349,103	353,412
30	Depreciation	Page 6 & Page 7	53,102	54,593	55,926	58,630	61,396	64,229	67,130	70,101	73,144	76,259
31	Total Other Revenue Deductions	Line 28 + Line 29	342,421	353,623	373,667	375,853	384,255	399,833	407,695	413,885	422,246	429,671
32	Operating Income Before Amort. and Tax	Line 12 - Line 30	129,076	151,562	214,867	222,845	270,801	274,515	324,065	329,254	379,417	384,865
33												
34	GAC Increase	Change in Line 6	$ -	$ 15,447	$ 16,045	$ 622	$ 24	$ 8,672	$ (336)	$ (685)	$ (699)	$ (699)
35	Amortization Increase	Change in Line 5	$ -	-	871	-	871	-	871	-	871	-
36	Base Increase	Change in Line 7 (&SIT)	$ -	$ -	$ 46,029	$ -	$ 46,029	$ -	$ 46,029	$ -	$ 46,029	$ -
37	Total	Sum Line 34 to Line 36	$ -	$ 15,447	$ 62,945	$ 622	$ 46,924	$ 8,672	$ 46,564	$ (685)	$ 46,201	$ (699)
38												
39	Total Non GAC	Line 35 + Line 36	$ -	$ -	$ 46,900	$ -	$ 46,900	$ -	$ 46,900	$ -	$ 46,900	$ -
40	Percent of Revenue	Line 39 / Line 10	0.00%	0.00%	2.94%	0.00%	2.82%	0.00%	2.70%	0.00%	2.59%	0.00%

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
ROE Calculation
Rate Year Ending March 31, 2008-2017
10 Year Rate Plan
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Gas operating income before FIT	129,076	151,562	214,867	222,845	270,801	274,515	324,065	329,254	379,417	384,865
2											
3	Eliminate Shareholders' Portion Of Savings	3,938	5,382	6,896	8,482	8,694	8,911	9,134	9,363	9,597	9,837
4	Eliminate Shareholders' Portion Of Costs To Achieve	(6,063)	(2,410)	(2,363)	(1,068)	(1,145)	(940)	(729)	(334)	(343)	(354)
5	Settlement Levelization Debit/(Credit)	(70,989)	(64,437)	(13,106)	(18,358)	19,242	12,358	51,286	45,735	85,684	81,044
6	Interest Expense	58,064	61,176	64,167	67,139	70,074	72,997	75,922	78,827	81,696	84,527
7	Net Income	144,126	151,850	159,274	166,650	173,936	181,190	188,452	195,663	202,784	209,811
8	State Income Tax	13,015	13,712	14,382	15,048	15,706	16,361	17,017	17,668	18,311	18,946
9	Federal Income Taxes	45,889	48,348	50,712	53,060	55,380	57,690	60,002	62,298	64,565	66,803
10	Gas net income	85,222	89,790	94,179	98,541	102,849	107,138	111,432	115,696	119,907	124,062
11											
12	Adjusted capitalization	1,549,496	1,632,546	1,712,354	1,791,667	1,869,990	1,947,977	2,026,049	2,103,578	2,180,129	2,255,682
13	Equity Percent	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
14	Common equity	774,748	816,273	856,177	895,834	934,995	973,988	1,013,024	1,051,789	1,090,065	1,127,841
15											
16	Return on Equity	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%

1 Page 1, Line 31
3 - Page 1, Line 22 / 2
4 - Page 1, Line 23 / 2
5 Credit to Levelize Return
6 Line 14 * Page 11, Line 2 (pre-tax Column)
7 Line 1 - Line 3 - Line 4 - Line 5 - Line 6
8 Line 7 * Page 9, Line 10
9 (Line 7 - Line 8 - Page 9, Line 15) * 0.35
10 Line 7 - Line 8 - Line 9
12 Page 10, Line 15
13 Page 11, Line 5 (capitalization ratio Column)
14 Line 12 * Line 13
16 Line 10 / Line 14

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Revenue Requirements
Rate Year Ending March 31, 2008- March 31,2017
10 Year Rate Plan
($000)

		Rate Year Ending March 31, 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Gas Costs	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021
2	Firm Margin	391,455	391,455	391,455	391,455	391,455	391,455	391,455	391,455	391,455	391,455
3	TC Margin	6,800	7,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
4	Power Generation and Interruptible Margins	1,800	13,050	24,300	24,300	24,300	24,300	24,300	24,300	24,300	24,300
5	GAC Cost Elimination	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)	(28,671)
6	Balancing Account Recovery	28,671	28,671	70,731	70,731	71,602	71,602	72,473	72,473	73,343	73,343
7	Property Tax Surcharge	41,189	41,189								
8	GAC Cost Recovery	-	15,447	31,492	32,114	32,138	40,810	40,474	39,789	39,091	38,392
9	SIT Surcharge	-	-	-	-	-	-	-	-	-	-
10	Other Gas Revenues	21,908	21,908	21,908	21,908	21,908	21,908	21,908	21,908	21,908	21,908
11	Sub Total	1,470,173	1,497,870	1,527,036	1,527,658	1,528,552	1,537,225	1,537,759	1,537,074	1,537,246	1,536,547
12	Sales Growth		6,599	15,342	24,128	32,627	41,126	49,625	58,124	66,623	75,122
13	Rate Increase		71,438	65,830	67,847	73,885	83,144	92,394	101,801	111,157	121,014
14	Margin	1,470,173	1,575,906	1,608,207	1,619,632	1,635,064	1,661,495	1,679,778	1,696,999	1,715,026	1,732,683
15											
16	Gas Costs	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021	1,007,021
17	Operation and Maintenance Expenses (pg 5 of 12, line 21)	160,846	160,609	163,603	165,305	169,878	174,368	178,934	183,447	188,513	193,725
18	Depreciation(pg 6 of 12, line 12)	51,131	53,286	55,926	58,630	61,396	64,229	67,130	70,101	73,144	76,259
19	Amortizations (pg 7 of 12 line 5)	1,971	1,307	-	-	-	-	-	-	-	-
20	Deferred GAC Cost Amortization (pg 12 of 12, line 11)	-	15,447	31,492	32,114	32,138	40,810	40,474	39,789	39,091	38,392
21	Def Property Tax Amortization	-	-	-	-	-	-	-	-	-	-
22	Balancing Account Amortization (pg 12 of 12, line 3)	69,860	69,860	70,731	70,731	71,602	71,602	72,473	72,473	73,343	73,343
23	Taxes Other Than Income Taxes (pg 8 of 12, line 17)	56,436	56,481	56,526	56,573	56,622	56,671	56,722	56,775	56,828	56,884
24	Total	1,347,265	1,364,011	1,385,300	1,390,374	1,398,657	1,414,702	1,422,755	1,429,605	1,437,940	1,445,623
25											
26	Operating Income Before Income Taxes	122,908	211,896	222,907	229,258	236,407	246,793	257,024	267,394	277,087	287,060
27											
28	State Income Taxes (pg 9 of 12, line 19)	5,856	13,611	14,335	14,640	15,021	15,695	16,354	17,028	17,644	18,289
29	Federal Income Taxes (pg 9 of 12, line 23)	20,648	47,991	50,545	51,620	52,962	55,339	57,664	60,041	62,214	64,488
30	Total	26,504	61,601	64,880	66,260	67,983	71,033	74,019	77,069	79,858	82,777
31											
32	Operating Income After Income Taxes	96,403	150,294	158,028	162,998	168,424	175,760	183,005	190,324	197,228	204,283
33											
34	Rate Base (Pg 10 of 12, line 16)	1,549,496	1,632,546	1,712,354	1,791,667	1,869,990	1,947,977	2,026,049	2,103,578	2,180,129	2,255,682
35											
36	Return (line 32/line 34)	6.22%	9.21%	9.23%	9.10%	9.01%	9.02%	9.03%	9.05%	9.05%	9.06%
37											
38	Required Return (Pg 11 of 12)	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%
39											
40	Shortfall (line 38 less line 36)	3.03%	0.04%	0.02%	0.15%	0.24%	0.22%	0.21%	0.20%	0.20%	0.19%
41											
42	Income Shortfall (line 40 * line 34)	46,883	672	319	2,683	4,499	4,375	4,350	4,200	4,375	4,307
43											
44	Retention Factor (Pg 11 of 12)	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
45											
46	Revenue Requirement (line 42 * line 44)	79,783	1,144	542	4,566	7,656	7,445	7,402	7,147	7,445	7,329
47	Less: SIT Surcharge	(8,345)	(8,345)	-	-	-	-	-	-	-	-
48											
49	Net Revenue Requirement	71,438	(7,201)	542	4,566	7,656	7,445	7,402	7,147	7,445	7,329

Line Notes

1 Stand Alone Cost of Service Exhibit 4-KEDLI (JFB-3)
2 Stand Alone cost of Service Exhibit 4-KEDLI (JFB-3) Wkp P. 5 of 17, Firm Margins of $394,966 adjusted for lower growth of -3511 as a result of elimination of certain marketing programs
3 & 4 Three year average of TC, Power Generation and Interruptible margins aggregating $8.6 million, currently retained by KEDLI to be credited to base rates for the first 18 months of the rate plan. Commencing in month 19, 100% of forecasted (average of actual 2003 - 2005) TC margins of $8.8 million and Power Generation and Interruptible Margins of $24.3 million to be credited to base rate and fully reconciled through the GAC/TAC
5 & 6 Gas costs shifted to GAC. See Page 4 of 12. Deferral recovery step increases per Page 12 of 12, Line 3.
7 Forecasted Deferred Property Tax Balance at March 31, 2007.
8 & 20 Recovery of deferred gas costs shifted to GAC. See page 12 of 12, Line 11
10 Stand Alone Cost of Service Exhibit 4-KEDLI (JFB-3)
12 Load growth on Firm margins of 1.69% in 2009, 2.23% in 2010, 2.24% in 2011 and 2.17% thereafter
13 Prior year cumulative rate increase (Line 12) with load growth plus prior year Net Base Revenue Requirement (Line 48).
16 Stand Alone Cost of Service Exhibit 4-KEDLI (JFB-4)

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Estimated Revenue Requirement
GAC/TAC/ Surcharges
($000)

Estimated Increases in GAC/ TAC/ Surcharges		
Uncollectibles	6,244	(see Below)
Cash Working Capital (CWC)	5,887	(see Below)
Storage Costs	16,541	(see Below)
Total	28,671	
GAC/TAC Surcharges - Uncollectibles		
Total Gas Costs	1,007,021	Stand Alone COS Exhibit 4-KEDLI (JFB-9)
Uncollectible Rate	0.62%	Stand Alone COS Exhibit 4-KEDLI (JFB-4), Schedule 33
Gas Cost Uncollectibles	6,244	
GAC/TAC Surcharges - Return on Cash Working Capital and Storage Costs		
Total Gas Costs	1,007,021	Stand Alone COS Exhibit 4-KEDLI (JFB-4)
Cash Allowance at 30.84/365	0.04460274	Stand Alone COS Exhibit 4-KEDLI (JFB-9)
Cash Working Capital Allowance	44,916	
Pre Tax Weighted Cost of Capital	13.11%	See Page 11 of 12
Total Carrying Charges on CWC	5,887	
Estimated Rate Year Storage Balances	126,201	Stand Alone COS Exhibit 4-KEDLI (JFB-9), Schedule 1
Pre Tax Weighted Cost of Capital	13.11%	See Page 11 of 12
Total Carrying Charges on Storage Balance	16,541	

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Summary of Operating Expenses by Component
Rate Year Ending March 31, 2008 through 2017

						Rate Year Ending March 31,					
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Labor	60,176,000	61,860,928	63,593,034	65,373,639	67,204,101	69,085,816	71,020,218	73,008,785	75,053,031	77,154,515
2	Health & Hospitalization	7,223,000	7,627,488	8,054,627	8,505,686	8,982,005	9,484,997	10,016,157	10,577,062	11,169,377	11,794,862
3	401k Match	1,075,000	1,105,100	1,136,043	1,167,852	1,200,552	1,234,167	1,268,724	1,304,248	1,340,767	1,378,309
4	Payroll Taxes	3,070,000	3,155,960	3,244,327	3,335,168	3,428,553	3,524,552	3,623,240	3,724,690	3,828,982	3,936,193
5	Contract Labor	4,364,000	4,463,499	4,563,035	4,667,072	4,771,148	4,877,545	4,986,314	5,097,509	5,211,183	5,327,393
6	Insurance	3,404,000	3,481,611	3,559,251	3,640,402	3,721,583	3,804,574	3,889,416	3,976,150	4,064,818	4,155,464
7	Materials & Supplies	3,306,000	3,381,377	3,456,782	3,535,596	3,614,440	3,695,042	3,777,441	3,861,678	3,947,794	4,035,830
8	NY Facilities	3,152,000	3,223,866	3,295,758	3,370,901	3,446,072	3,522,920	3,601,481	3,681,794	3,763,898	3,847,833
9	Postage	3,283,000	3,357,852	3,432,733	3,510,999	3,589,294	3,669,335	3,751,162	3,834,812	3,920,329	4,007,752
10	Program Changes	1,071,000	1,038,000	1,061,000	1,085,000	1,109,000	1,135,000	1,161,000	1,187,000	1,215,000	1,243,000
11	Pensions	12,125,000	12,464,500	12,813,506	13,172,284	13,541,108	13,920,259	14,310,026	14,710,707	15,122,607	15,546,040
12	OPEB's	13,812,000	14,198,736	14,596,301	15,004,997	15,425,137	15,857,041	16,301,038	16,757,467	17,226,676	17,709,023
13	Uncollectibles	2,871,542	3,527,089	3,727,355	3,798,189	3,893,868	4,057,739	4,171,095	4,277,865	4,389,633	4,499,106
14	All Other	39,788,000	40,695,166	41,602,669	42,551,209	43,500,101	44,470,154	45,461,838	46,475,637	47,512,044	48,571,562
15											
16	Synergies Included										
17	Synergies	(3,938,202)	(5,382,237)	(6,895,987)	(8,482,026)	(8,694,077)	(8,911,429)	(9,134,214)	(9,362,570)	(9,596,634)	(9,836,550)
18	CTA	6,063,256	2,410,180	2,362,921	1,068,040	1,145,229	940,443	729,355	333,960	343,411	354,438
19											
20											
21		160,845,596	160,609,116	163,603,355	165,305,010	169,878,115	174,368,155	178,934,291	183,446,795	188,512,916	193,724,770

Line Notes

1 Stand Alone Cos Exhibit 4-KEDLI (JFB-4) escalated at labor increase rate of 3.8% less productivity of 1%, or, 2.8%
2 Stand Alone Cos Exhibit 4-KEDLI (JFB-4) escalated at twice the labor increase rate, or, 5.6%
3 & 4 Stand Alone Cos Exhibit 4-KEDLI (JFB-4) escalated at labor increase rate of 2.8%
5 through 9 Stand Alone COS Exhibit 4-KEDLI (JFB-4) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter
10 Stand Alone COS Exhibit 4-KEDLI (JFB-4) less non-mandated Program Changes (see Exhibit - 7-KEDLI, Page 2) escalated at 2.23% in 2010, 2.28% in 2011 and 2.23% thereafter
11 and 12 Stand Alone Cos Exhibit 4-KEDLI (JFB-4) escalated at the labor increase rate of 2.8%
13 Stand Alone COS Exhibit 4-KEDLI (JFB-4) less uncollectibles on Net Revenue change of 31991
14 Stand Alone COS Exhibit 4-KEDLI (JFB-4) escalated at 2.28% in 2009, 2.23% in 2010 2.28% in 2011 and 2.23% thereafter
17 Exhibit 2 - Page 1, Synergies line 12 * 50%

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Summary of Operating Expenses by Component
Rate Year Ending March 31, 2008 through 2017
($000)

Rate Year Ending March 31,

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Rate Case Depreciation	72,452	72,452	72,452	72,452	72,452	72,452	72,452	72,452	72,452	72,452
2	Depreciation Changes	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835
3											
4		51,617	51,617	51,617	51,617	51,617	51,617	51,617	51,617	51,617	51,617
5											
6	2007-2008 Plant Additions Decrease	486	972	972	972	972	972	972	972	972	972
7											
8	Net	51,131	50,645	50,645	50,645	50,645	50,645	50,645	50,645	50,645	50,645
9											
10	Add Increases in Rate Base		2,640	5,281	7,984	10,751	13,584	16,485	19,456	22,498	25,613
11											
12	Total	51,131	53,286	55,926	58,630	61,396	64,229	67,130	70,101	73,144	76,259
13											
14											
15											
16	2007-2008 Plant Additions Decrease										
17	2008 Plant Additions Rate Case	185,108									
18	2008 Plant Additions NGRID Case	137,082									
19	(Line 17 less Line 18)	48,026									
20	Current Composite Depreciation Rate	2.02%									
21	(Line 19 *Line 20)	972									
22	2008 Change (Line 21 *50%)	486									

Line Notes

1 Stand Alone COS Exhibit 4-KEDLI (JFB-2) Schedule 2
2 Elimination of Depreciation Rate change. See Stand Alone COS Exhibit 4-KEDLI (JSB-2) Schedule 2
6 2008 from Line 22 (half year), line 21 thereafter.
10 See Page 10 of 12, Line 27
17 Stand Alone COS Exhibit 4-KEDLI (JFB-12)
18 Exhibit 7-KEDLI, Page 3 of 4

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Summary of Amortizations
Rate Year Ending March 31, 2008 through 2017

		Rate Year Ending March 31,									
		2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1	BUG/LILCO Merger Costs	1,971,000	1,307,000	-	-	-					
2	Pensions & OPEBs	-	-	-	-	-	-	-	-	-	-
3	Environmental	-	-	-	-	-	-	-	-	-	-
4		-	-	-	-	-	-	-	-	-	-
5	Total	1,971,000	1,307,000	-	-	-	-	-	-	-	-

Line Notes

1 Stand Alone COS Exhibit 4-KEDLI (JFB-2) Schedule 3. Amortization completed in 2009.

Summary of Taxes Other Than Income Taxes

Rate Year Ending March 31, 2008 through 2017

		Rate Year Ending March 31,									
		2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1	Taxes Other than Income Taxes (account 408)	99,466,000	101,733,825	104,002,489	106,373,746	108,745,880	111,170,914	113,650,025	116,184,420	118,775,333	121,424,023
2											
3	Total Local Taxes	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000	54,821,000
4											
5	State										
6	NYS Excise Tax	5,000	5,114	5,228	5,347	5,466	5,588	5,713	5,840	5,971	6,104
7	Unemployment Insurance	156,000	160,368	164,858	169,474	174,220	179,098	184,113	189,268	194,567	200,015
8	Sales and Use										
9	Other	124,000	126,827	129,655	132,612	135,569	138,592	141,683	144,842	148,072	151,374
10	Total State Taxes	285,000	292,309	299,742	307,433	315,255	323,278	331,508	339,950	348,610	357,493
11			126,728	126,827							
12	Federal										
13	FICA Tax	1,273,000	1,308,644	1,345,286	1,382,954	1,421,677	1,461,484	1,502,405	1,544,473	1,587,718	1,632,174
14	Unemployment Tax	57,000	58,596	60,237	61,923	63,657	65,440	67,272	69,155	71,092	73,082
15	Total Federal Taxes	1,330,000	1,367,240	1,405,523	1,444,877	1,485,334	1,526,923	1,569,677	1,613,628	1,658,810	1,705,256
16											
17	**Total Taxes Other than Income Taxes**	**56,436,000**	**56,480,549**	**56,526,265**	**56,573,311**	**56,621,589**	**56,671,201**	**56,722,185**	**56,774,578**	**56,828,420**	**56,883,749**

Line Notes

1 Stand Alone COS Exhibit 4-KEDLI (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011, and 2.23% thereafter.
3 Curent Property Tax Petition value. Assumes 100% deferral of amounts in excess of petition amount.
6 & 9 Stand Alone COS Exhibit 4-KEDLI (JFB-5) escalated at 2.28% in 2009, 2.23% in 2010, 2.28% in 2011, and 2.23% thereafter.
7 Stand Alone COS Exhibit 4-KEDLI (JFB-5) escalated at labor increase rate of 2.8%
13 & 14 Stand Alone COS Exhibit 4-KEDLI (JFB-5) escalated at labor increase rate of 2.8%

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Summary of Income Taxes
Rate Year Ending March 31, 2008 through 2017
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	**Operating Income Interest and Income Taxes**	122,908	211,896	222,907	229,258	236,407	246,793	257,024	267,394	277,087	287,060
2											
3	**Interest Charges**										
4	Rate Base	1,549,496	1,632,546	1,712,354	1,791,667	1,869,990	1,947,977	2,026,049	2,103,578	2,180,129	2,255,682
5	Interest Component Of Return	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
6	Interest Deduction (line 4 * line 5)	58,064	61,176	64,167	67,139	70,074	72,997	75,922	78,827	81,696	84,527
7											
8	**Operating Income Before Income Taxes**	64,843	150,719	158,740	162,119	166,333	173,797	181,101	188,566	195,391	202,533
9											
10	**Flow Through Items**										
11	Book In Excess Of Tax										
12	Meals Entertainment Lobbing.	8	8	8	8	8	8	8	8	8	8
13	Total	8	8	8	8	8	8	8	8	8	8
14											
15	**Income Subject to State Income Tax**	64,851	150,727	158,748	162,127	166,341	173,805	181,109	188,574	195,399	202,541
16											
17	State Income Tax Rate	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%
18											
19	**State Income Tax**	5,856	13,611	14,335	14,640	15,021	15,695	16,354	17,028	17,644	18,289
20											
21	Income Subject To Federal Income Tax (Line 15 - line 19)	58,995	137,117	144,413	147,487	151,321	158,110	164,755	171,546	177,754	184,252
22											
23	**Federal Income Tax (line 21 * 35%)**	20,648	47,991	50,545	51,620	52,962	55,339	57,664	60,041	62,214	64,488

Line Notes

1 Page 3 of 12, Line 25
4 Page 10 of 12, Line 16
5 Page 11 of 12
12 Stand alone COS Exhibit 4-KEDLI (JFB-6).

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Rate Base Summary
Rate Year Ending March 31, 2008 through 2017
($000)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Rate Year Ending March 31,					
1	Rate Base	1,611,285	1,549,496	1,632,546	1,712,354	1,791,667	1,869,990	1,947,977	2,026,049	2,103,578	2,180,129
2											
3	Plant Additions		137,082	137,082	140,207	143,334	146,602	149,974	153,423	156,952	160,562
4	Depreciation		53,286	55,926	58,630	61,396	64,229	67,130	70,101	73,144	76,259
5	Cost of Removal		3,489	3,284	3,078	2,872	2,666	2,460	2,254	2,048	1,843
6	Deferred Tax Increase (line 36 below)		1,092	2,184	3,302	4,446	5,618	6,818	8,047	9,305	10,593
7	Net Rate Base Increase (line 3 and 5 less lines 4 and 6)		86,193	82,256	81,353	80,363	79,420	78,485	77,529	76,551	75,553
8											
9	**Other Rate Base Items - Incremental Change**										
10	Deferred BUG/LILCO Merger Costs		(969)	(386)	-	-	-	-	-	-	-
11	Unamortized Senior Debt Exp		(135)	(21)	-	-	-	-	-	-	-
12	Pensions/PBOBs Transition Obligation		(2,040)	(2,040)	(2,040)	(2,040)	(1,434)	(414)	-	-	-
13	Deferred Environmental (net of Tax)	(35,543)									
14	Deferred Pens & PBOP (net of Tax)	(26,245)									
15											
16	**Net Rate Base**	**1,549,496**	**1,632,546**	**1,712,354**	**1,791,667**	**1,869,990**	**1,947,977**	**2,026,049**	**2,103,578**	**2,180,129**	**2,255,682**
17											
18	Rate Base Additions (line 3)		137,082	137,082	140,207	143,334	146,602	149,974	153,423	156,952	160,562
19	Retirements		6,561	6,561	6,561	6,561	6,561	6,561	6,561	6,561	6,561
20	Net Rate Base Additions		130,521	130,521	133,646	136,773	140,041	143,413	146,862	150,391	154,001
21	Tax Depreciation Rate		4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%
22	Increases Tax Depreciation (line 20* line 21)		5,312	5,312	5,439	5,567	5,700	5,837	5,977	6,121	6,268
23	Cumulative Tax Depreciation			10,624	16,064	21,630	27,330	33,167	39,144	45,265	51,533
24											
25	Book Depreciation Rate		2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%
26	Increased Book Depreciation (line 25 * line 20)		2,640	2,640	2,704	2,767	2,833	2,901	2,971	3,042	3,115
27	Cumulative Book Depreciation Increase		2,640	5,281	7,984	10,751	13,584	16,485	19,456	22,498	25,613
28											
29	Tax Over Book (line 23 - line 27)		2,672	5,344	8,080	10,879	13,746	16,682	19,688	22,767	25,920
30	State Tax Rate		9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%	9.03%
31	Increase State Deferred Taxes		241	483	730	982	1,241	1,506	1,778	2,056	2,341
32											
33	Federal Tax Rate		35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
34	Increase Federal Taxes ((line 29 - line 31) * line 33)		851	1,701	2,573	3,464	4,377	5,311	6,269	7,249	8,253
35											
36	Increase Deferred Taxes (line 31 + line 34)		1,092	2,184	3,302	4,446	5,618	6,818	8,047	9,305	10,593

Line Notes

1 Adjusted 2008 Rate base per Exhibit 7-KEDLI, prior to line 13 and 14 adjustments. For 2009 through 2017, prior year line 16.
3 Adjusted Capital Forecast per Exhibit 7-KEDLI, Page 3 for 2008, increased for inflation 2009 - 2017
4 Page 6 of 12, Line 12
5 Forecasted Cost of Removal expenditures.
10 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 2, Page 2 net of tax.
11 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 2, Page 4 net of tax.
12 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 2-1 Workpaper for Transition Obligation deferral and annual amortization
13 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 2, Page 3 net of tax. Deferred SIR costs included in Deferral Account.
14 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 2, Page 5 net of Transition Obligation and net of tax. See also Exhibit 4 (JFB-8) Schedule 2-1 Workpaper
19 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 1-1 Workpaper, page 6 of 6
21 Estimated overall composite tax depreciation rate
25 Stand Alone COS Exhibit 4-KEDLI (JFB-8) Schedule 1-1 Worpaper Page 5.

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
WEIGHTED AVERAGE COST OF CAPITAL

See Stand Alone COS Exhibit 4-KEDLI (JFB-15) Schedule 2:

		Capitalization Ratio	Effective Cost Rate	Weighted Average Cost Rate		Pre Tax
1	Long Term Debt	49.50%	7.54%	3.73%		3.73%
2	Customer Deposits	0.50%	3.00%	0.02%		0.02%
3	Total			**3.75%**		
4						
5	Common Equity	50.00%	11.00%	5.50%	1.70	9.36%
6						
7	Weighted Average Cost of Capital			$\boxed{9.25\%}$		13.11%
8						
9						
10						

11	**Retention Factor Calculation**		
12			
13	Revenues	100.0000	
14	Uncollectibles	0.62	Exhibit 4-KEDLI (JFB-4) Schedule 33
15		99.38	
16	State Income Tax	9.03%	
17		8.97	
18			
19	FIT Taxable	90.41	
20	Federal Income Taxes	35.00%	
21		31.64	
22			
23	Net	58.76	
24			
25	Retention Factor	1.7017	(Line 13 divided by Line 23)

Updated 5/22/06

KEYSPAN ENERGY DELIVERY LI (COMPANY 37)
Deferral Account Summary
Rate Year Ending March 31, 2008 through 2017
($000)

		Rate Year Ending March 31,									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Balancing Account										
1	Beginning Balance	88,804	79,937	72,738	66,434	62,103	58,997	58,170	58,949	62,421	67,948
2	Deferral Increase	54,698	56,966	59,235	61,606	63,978	66,403	68,882	71,417	74,008	76,656
3	Amortization of Deferrals	(69,860)	(69,860)	(70,731)	(70,731)	(71,602)	(71,602)	(72,473)	(72,473)	(73,343)	(73,343)
4	Interest	6,295	5,696	5,192	4,795	4,518	4,371	4,369	4,528	4,863	5,394
5	Ending Balance	79,937	72,738	66,434	62,103	58,997	58,170	58,949	62,421	67,948	76,656
6	Average Balance	81,223	73,490	66,990	61,871	58,292	56,398	56,375	58,421	62,753	69,605
7											
8	**GAC Deferrals**										
9	Beginning Balance	-	29,782	45,828	46,450	46,474	46,475	37,467	28,111	18,741	9,370
10	Deferral Increase	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671
11	Amortization of Deferrals	-	(15,447)	(31,492)	(32,114)	(32,138)	(40,810)	(40,474)	(39,789)	(39,091)	(38,392)
12	Interest	1,111	2,821	3,442	3,466	3,467	3,131	2,446	1,748	1,049	350
13	Ending Balance	29,782	45,828	46,450	46,474	46,475	37,467	28,111	18,741	9,370	(0)
14	Average Balance	14,336	36,395	44,418	44,728	44,740	40,405	31,566	22,552	13,531	4,510
15											
16	Total Average Balance	95,559	109,885	111,407	106,599	103,032	96,803	87,941	80,973	76,284	74,115
17											
18	**Total Deferred Costs - KEDLI**										
19	Beginning Balance	$ 88,804	$ 109,719	$ 118,566	$ 112,883	$ 108,577	$ 105,472	$ 95,637	$ 87,060	$ 81,162	$ 77,319
20	Increase in deferrals:										
21	Actual Environmental Costs	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053	10,053
22	Excess Property Taxes	44,645	46,913	49,181	51,553	53,925	56,350	58,829	61,363	63,954	66,603
23	Commodity Costs Deferrals	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671	28,671
24		83,370	85,638	87,906	90,278	92,650	95,075	97,554	100,088	102,679	105,328
25	Earnings on deferrals	7,406	8,516	8,634	8,262	7,985	7,502	6,815	6,275	5,912	5,744
26	Amortization Expense	(69,860)	(85,307)	(102,223)	(102,845)	(103,740)	(112,412)	(112,947)	(112,262)	(112,434)	(111,735)
27											
28	Balance End of Year	$ 109,719	$ 118,566	$ 112,883	$ 108,577	$ 105,472	$ 95,637	$ 87,060	$ 81,162	$ 77,319	$ 76,656

Exhibit 9

KEDNY

KEDNY Typical Bills - Annual Bill Impacts
Current vs October 1, 2008 Proposed (Month 19)

Description	Service Class	Annual Usage (dth)	Current /1	October 1, 2008 Proposed /2	% Change
Residential Non-Heating	1A	10	$295.61	$302.47	2.3%
Residential Heating	1B	90	$1,665.09	$1,726.82	3.7%
Residential Heating	1B	140	$2,493.51	$2,589.53	3.9%
Residential Heating	1B	200	$3,469.99	$3,607.17	4.0%
Non-Residential Non-Heating	2-1	500	$8,727.85	$9,070.80	3.9%
Non-Residential Non-Heating	2-1	1,000	$16,935.00	$17,620.90	4.1%
Non-Residential Heating	2-2	500	$8,211.86	$8,554.81	4.2%
Non-Residential Heating	2-2	1,000	$16,141.70	$16,827.60	4.2%
Multi-Family	3	850	$12,826.13	$13,409.14	4.5%
Multi-Family	3	1,500	$22,538.89	$23,567.74	4.6%
High Load Factor	4A	15,000	$192,973.30	$203,261.80	5.3%
Yr Round Air Conditioning	4B	2,000	$28,788.12	$30,159.92	4.8%

1/ Current Rates include Base Delivery rates (including the LDAC) and the projected cost of gas for the 12-months beginning October 1, 2008.
2/ October 1, 2008 (Month 19) Proposed includes GAC increase of $74.4 million for recovery of the Return on Gas in Storage ($27.4 million), Uncollectible Expenses Associated with Gas Costs ($24.1 million), Return on Working Capital ($17.1 million) and the Return on the Balance of these costs ($5.8 million) deferred during the period April 1, 2007 through September 30, 2008.

KEDNY Typical Bills - Annual Bill Impacts
October 1, 2008 Proposed vs April 1, 2009 Proposed (Month 25)

Description	Service Class	Annual Usage (dth)	October 1, 2008 Proposed	April 1, 2009 Proposed /1	% Change
Residential Non-Heating	1A	10	$302.47	$319.23	5.5%
Residential Heating	1B	90	$1,726.82	$1,776.59	2.9%
Residential Heating	1B	140	$2,589.53	$2,657.44	2.6%
Residential Heating	1B	200	$3,607.17	$3,695.47	2.4%
Non-Residential Non-Heating	2-1	500	$9,070.80	$9,307.51	2.6%
Non-Residential Non-Heating	2-1	1,000	$17,620.90	$18,044.29	2.4%
Non-Residential Heating	2-2	500	$8,554.81	$8,727.23	2.0%
Non-Residential Heating	2-2	1,000	$16,827.60	$17,145.02	1.9%
Multi-Family	3	850	$13,409.14	$13,599.85	1.4%
Multi-Family	3	1,500	$23,567.74	$23,894.95	1.4%
High Load Factor	4A	15,000	$203,261.80	$205,616.34	1.2%
Yr Round Air Conditioning	4B	2,000	$30,159.92	$30,816.47	2.2%

1/ April 1, 2009 (Month 25) Proposed includes a base rate increase of $57.6 million and an LDAC increase of $6.2 million. Also assumes the projected cost of gas for the 12-months beginning October 1, 2008.

KEDLI

KEDLI Typical Bills - Annual Bill Impacts
Current vs October 1, 2008 Proposed (Month 19)

Description	Service Class	Annual Usage (dth)	Current /1	October 1, 2008 Proposed /2	% Change
Residential Non-Heating	1A	10	$287.79	$294.47	2.3%
Residential Heating	1B	90	$1,673.00	$1,733.12	3.6%
Residential Heating	1B	140	$2,520.20	$2,613.71	3.7%
Residential Heating	1B	200	$3,536.31	$3,669.89	3.8%
Non-Residential Non-Heating	2A	500	$8,347.28	$8,681.23	4.0%
Non-Residential Non-Heating	2A	1,000	$16,494.88	$17,162.78	4.0%
Non-Residential Heating	2B	400	$6,892.47	$7,159.63	3.9%
Non-Residential Heating	2B	1,000	$16,921.41	$17,589.31	3.9%
Multiple-Dwelling	3	1,500	$22,856.50	$23,858.35	4.4%
Multiple-Dwelling	3	3,040	$45,290.43	$47,320.84	4.5%
High Load Factor	15	5,000	$69,224.88	$72,564.38	4.8%
Yr Round Space Conditioning	16	3,500	$53,478.64	$55,816.29	4.4%

1/ Current Rates include Base Delivery rates (including the LDAC) and the projected cost of gas for the 12-months beginning October 1, 2008.
2/ October 1, 2008 (Month 19) Proposed includes GAC increase of $55.7 million for recovery of the Return on Gas in Storage ($16.5 million), Uncollectible Expenses Associated with Gas Costs ($6.2 million), Return on Working Capital ($5.9 million) and the Return on the Balance of these costs ($2.5 million) deferred during the period April 1, 2007 through September 30, 2008. Also includes the removal of the GAC/TAC credits for non-core margins of $24.5 million which are transferred to base rate recoveries.

KEDLI Typical Bills - Annual Bill Impacts
October 1, 2008 Proposed vs April 1, 2009 Proposed (Month 25)

Description	Service Class	Annual Usage (dth)	October 1, 2008 Proposed	April 1, 2009 Proposed /1	% Change
Residential Non-Heating	1A	10	$294.47	$312.94	6.3%
Residential Heating	1B	90	$1,733.12	$1,790.05	3.3%
Residential Heating	1B	140	$2,613.71	$2,692.96	3.0%
Residential Heating	1B	200	$3,669.89	$3,775.86	2.9%
Non-Residential Non-Heating	2A	500	$8,681.23	$8,914.28	2.7%
Non-Residential Non-Heating	2A	1,000	$17,162.78	$17,605.79	2.6%
Non-Residential Heating	2B	400	$7,159.63	$7,350.89	2.7%
Non-Residential Heating	2B	1,000	$17,589.31	$18,032.58	2.5%
Multiple-Dwelling	3	1,500	$23,858.35	$24,253.51	1.7%
Multiple-Dwelling	3	3,040	$47,320.84	$48,005.11	1.4%
High Load Factor	15	5,000	$72,564.38	$73,371.69	1.1%
Yr Round Space Conditioning	16	3,500	$55,816.29	$56,950.25	2.0%

1/ April 1, 2009 (Month 25) Proposed includes a base rate increase of $46 million and an LDAC increase of $0.9 million.
Also assumes the projected cost of gas for the 12-months beginning October 1, 2008.

Exhibit 10

PRO FORMA *PRO FORMA* *PRO FORMA*

PSC NO: 12 GAS LEAF: 79.1
COMPANY: THE BROOKLYN UNION GAS COMPANY REVISION: 0
INITIAL EFFECTIVE DATE: 00/00/00 SUPERSEDING REVISION:
STAMPS:

GENERAL INFORMATION - Continued

Local Distribution Adjustment Charge

The Local Distribution Adjustment Charge ("LDAC") is a mechanism that applies to all core sales and transportation customers and allows the Company to adjust, on an annual basis, its charges to recover costs associated with delivery service, such as special franchise and property taxes, environmental investigation and remediation costs, and any other costs deferred through the Company's Balancing Account, as the NYS PSC may approve for recovery through such mechanism from time to time.

The collection of these charges will be reconciled annually with actual volumes recorded by core sales and transportation customers for the prior year. This charge will be filed annually with the PSC on the Local Distribution Adjustment Charge Statement.

Issued by: John J. Bishar, Jr., Executive Vice President, General Counsel, and Secretary, Brooklyn, NY

Exhibit 11

CORPORATE STRUCTURE AND AFFILIATE RULES

1. PROPOSED CORPORATE STRUCTURE

1.1 Corporate Structure Following The Transaction

Following the Transaction, National Grid plc, a public limited company incorporated under the laws of England and Wales, through its wholly-owned subsidiary, National Grid USA, will merge a merger subsidiary with and into KeySpan Corporation, leaving KeySpan Corporation as the surviving corporation, a wholly owned subsidiary of National Grid USA (the "Transaction"). None of KeySpan's current subsidiaries will be affected by the Transaction, and, following the Transaction, all will exist as the separate corporate entities they are today. However, at some point following the Transaction, all corporate and administrative services in the National Grid USA holding company system, including those now provided by KeySpan Corporate Services LLC and KeySpan Utility Services LLC, may be provided by ServiceCo, defined below, using the cost allocation methodology set forth in §2.1.4.

Specifically, National Grid USA intends to combine or reorganize the existing service company subsidiaries of National Grid and KeySpan. National Grid USA also intends to adopt the KeySpan allocators for ServiceCo costs that are not otherwise charged to affiliates. The combination of service companies and the change in allocation method will occur when they can be implemented most effectively following the receipt of necessary regulatory approvals.

1.2 Definitions

Commission – means the New York State Public Service Commission.

Corporate and Administrative Services – means all services performed by KeySpan Corporate Services LLC and KeySpan Utility Services LLC, as well as any services performed by ServiceCo or not otherwise prohibited from being performed by ServiceCo. Corporate and Administrative Services will include, without limitation, all administrative and office support for the benefit of US HoldCo and any of its subsidiaries.

Customer Information - means any of the following information about an individual customer or any aggregation of individual customers collected or compiled by RegCo: name, address, telephone number, identifying information, consumption history, individual usage characteristics, payment history, complaint history and the contents of any application for service.

DPS – means the New York State Department of Public Service.

ESCO – means an entity authorized by the Commission to engage in the sale of natural gas or electricity at retail in the State of New York.

KeySpan – means KeySpan Corporation.

LIPA – means the Long Island Lighting Company d/b/a LIPA, a wholly-owned subsidiary of the Long Island Power Authority, a corporate municipal instrumentality of the State of New York, and a party to the Management Services Agreement, the Energy Management Agreement, the Power Supply Agreement, the Generation Purchase Right Agreement, and the Option and Purchase and Sale Agreement, collectively, and as the same may be amended and/or restated from time to time, the "LIPA Agreements."

National Grid Other Affiliates – means affiliates of HoldCo, including affiliates in the United States and throughout the world, but excluding ServiceCo, RegCo, Unregulated Competitive Energy Affiliates and Regulated Affiliates.

PSL – means New York State Public Service Law.

RegCo – means each of KeySpan Energy Delivery New York ("KEDNY") and KeySpan Energy Delivery Long Island ("KEDLI"), or any corporate successors thereto.

Regulated Affiliates – means the subsidiaries (excepting RegCo) of US HoldCo, including future subsidiaries, that provide the full range of regulated gas and/or electric transmission or distribution services, including Niagara Mohawk Power Corporation, New England Power Company, Massachusetts Electric Company, New England Electric Transmission Corporation, Nantucket Electric Company, Granite State Electric Company, The Narragansett Electric Company, Boston Gas Company, Essex Gas Company, Colonial Gas Company, EnergyNorth Gas Company, New England Hydro-Transmission Corporation, New England Hydro-Transmission Electric Company, Inc., and each of their successors, and any affiliate to the extent that such affiliate provides services to LIPA pursuant to the LIPA Agreements.

Regulated Money Pool – means the money pool established for RegCo, the Regulated Affiliates, US HoldCo, and ServiceCo pursuant to §2.5 below.

ServiceCo – means National Grid USA Service Company, Inc., KeySpan Corporate Services LLC, and KeySpan Utility Services LLC (or any corporate successor), which provides a variety of traditional corporate and administrative services for the National

Grid USA system, and to LIPA pursuant to the LIPA Agreements.

System Information – means non-public information or data regarding the operation of or capacity constraints on and/or expansion plans relating to the energy delivery system of RegCo.

Unregulated Affiliate – means any affiliate of HoldCo that is neither RegCo nor a Regulated Affiliate.

Unregulated Competitive Energy Affiliate – means any of US HoldCo's current or future affiliates that directly provides competitive electric or gas commodity sales or service or heating, ventilation and air conditioning ("HVAC") sales or service in New York State, *i.e.*, KeySpan Energy Services and KeySpan Home Energy Services.

UK HOLDCO – means National Grid plc or its successor – the top-level holding company in the National Grid group.

US HOLDCO – means National Grid USA or its successor – the immediate parent and holding company for National Grid plc's United States utility operations. Immediate wholly-owned subsidiaries of National Grid USA will, on completion of the Transaction, include KeySpan, Niagara Mohawk Holdings, Inc., National Grid USA Service Company, Inc., and National Grid's New England utility affiliates.

Where in the document the expression "HoldCo" is used, it refers to either or both of UK HoldCo and US HoldCo. Where explicit reference to one of the HoldCos is required, the term "UK HoldCo" or "US HoldCo" will be used in full. Other capitalized terms are as defined in the Rate Plans, Exhibit 6 to the Petition.

2. RULES GOVERNING AFFILIATE TRANSACTIONS

2.1 Organization and Accounting

2.1.1 Separation and Location

HoldCo, RegCo, and all affiliates will each be operated as separate entities and will maintain separate books and records of account. RegCo, HoldCo, ServiceCo, Regulated Affiliates, and National Grid Other Affiliates may occupy the same building. An Unregulated Competitive Energy Affiliate may share a building with RegCo for no longer than 180 days after its formation.

2.1.2 Accounting Issues and Dividend Limitations

Because the conditions for pooling of interest accounting are not met in the Transaction, purchase accounting must be used. Under Generally Accepted Accounting Principles (GAAP) for purchase accounting, the premium, together with transaction costs, are recorded as goodwill on the acquired company's accounts. UK HoldCo plans to "push down" and allocate the acquisition premium among KeySpan Corporation and its subsidiaries. This approach is fully consistent with US GAAP and with the practice adopted in the National Grid acquisition of Niagara Mohawk Holdings and its other US acquisitions. Under FASB standards for accounting for goodwill, goodwill is not amortized against earnings. Instead, goodwill is reviewed for impairment and written down and expensed only in a period in which the goodwill's recorded value exceeds its fair value. In the case of the rate plan proposed in this filing, UK HoldCo does not anticipate any ratemaking implications associated with this accounting methodology for RegCo.

As of the Rate Effective Date, RegCo's fiscal year will be changed to a year ending March 31st. In any calendar year, RegCo will limit the dividends paid to US HoldCo in accordance with the following provisions.

Each RegCo will register with nationally and internationally recognized bond rating agencies and intends to maintain at least an investment grade credit rating. Provided such rating is maintained, RegCo will be permitted to pay dividends in any year up to an amount equal to the sum of the following: i) income available for common dividends generated in that year; ii) the cumulative amount of retained earnings accrued in prior years; and iii) that portion of paid-in capital that was recorded on the books of RegCo as unappropriated retained earnings, unappropriated undistributed earnings, and accumulated other comprehensive income just prior to the consummation of the Transaction to the extent such earnings were not already paid out as dividends in years subsequent to the closing of the Transaction. Should at any time a RegCo's credit rating fall below investment grade, the affected RegCo will, before making dividend payments, seek and obtain consent from the Commission.

Excluded from the calculation of "income available for common dividends" for the purposes of this provision will be non-cash charges to income resulting from accounting changes, charges to income resulting from significant, unanticipated events, or impairment of goodwill. In no event will the balance of retained earnings go negative.

In addition, the foregoing restrictions will not apply to dividends necessary to transfer to HoldCo revenues from major transactions, such as asset sales, divestiture or securitization or to dividends reducing the RegCo's capital ratio to a level appropriate to the RegCo's business risk.

The Commission's approval of the RegCo Rate Plans signifies that such Rate Plans meet the accounting requirements of Statement of Financial Accounting Standards No. 71, and will do so throughout their terms.

2.1.3 Cost Allocation and Audit

Cost allocation procedures will assure an appropriate allocation on a fully distributed basis to HoldCo, RegCo, and each Affiliate of the costs of any HoldCo or ServiceCo personnel, property, or services used by them.

HoldCo intends to implement ServiceCo cost allocations for its HoldCo subsidiaries that reflect the methodology approved for use by KeySpan, when this conversion can be implemented efficiently and following receipt of required regulatory approvals. Specifically, rather than using operating and maintenance expenses as the basis for the general allocation of ServiceCo expenses, the three part allocator currently used by KeySpan Corporate Services LLC, based on revenues, operational and maintenance expenses, and assets, will be used by ServiceCo. This change may require approval of the regulatory commissions having jurisdiction over the rates of the Regulated Affiliates, and is conditioned on the receipt of such regulatory approvals. Following consummation of the Transaction, the receipt of required approvals, and the implementation of necessary accounting systems and controls, KeySpan's allocation methods will be adopted and KeySpan's service companies, KeySpan Corporate Services LLC and KeySpan Utility Services LLC, will be phased out and consolidated with ServiceCo to the extent permissible and when this conversion can be implemented efficiently.

Any future revisions to the cost allocation methodology will be filed with the Commission's Director of Finance and Accounting and will become effective after 60 days, unless an objection is raised.

DPS Staff will have the right to audit ServiceCo, including the examination of authorized cost allocation calculations and review of internal audit policies, procedures, and reports, to receive assurance that applicable transactions and /or allocations are being carried out properly.

2.2 ServiceCo Services

Following the close of the Transaction, ServiceCo will be authorized to perform Corporate and Administrative Services. In the course of providing such Services, ServiceCo employees will not disclose Customer Information or System Information to any Unregulated Competitive Energy Affiliate or act as a conduit for such Information, excepting disclosures that are in compliance with these rules, Commission orders, rules or regulations.

2.2.1 Prohibition on Disclosing Certain Information: The provision of Corporate and Administrative Services by ServiceCo to Unregulated Competitive Energy Affiliates and National Grid Other Affiliates will not allow such entities to gain access to or receive any Customer Information or System Information from RegCo, except as otherwise permitted herein or by applicable Commission orders, rules or regulations. While ServiceCo may perform call center operations for any US HoldCo subsidiary, if ServiceCo provides call center operations to Unregulated Competitive Energy Affiliates and National Grid Other Affiliates, it will have policies and procedures in place, including technological safeguards, to ensure that Customer Information or System Information is not disclosed to them.

2.3 Provision of Services

2.3.1 KeySpan Corporate Services LLC and KeySpan Utility Services LLC may continue to provide the services they currently provide to US HoldCo and any US HoldCo subsidiary, and to LIPA pursuant to the LIPA Agreements for a transition period pending the assumption of such services by ServiceCo or in the event that the approvals under Section 2.1.4 are not received.

2.3.2 RegCo may provide any affiliate with regulated utility services pursuant to the applicable tariff.

2.3.3 Non-tariffed services provided between and among RegCo, Regulated Affiliates, ServiceCo, HoldCo, KeySpan Utility Services LLC and KeySpan Corporate Services LLC will be priced on a fully-loaded cost basis. Non-tariffed services provided by RegCo to other affiliates will be priced at the greater of fully-loaded cost or market value.

2.3.4 Any services provided to RegCo by an affiliate other than RegCo, Regulated Affiliates, ServiceCo, HoldCo, KeySpan Utility Services LLC and KeySpan Corporate Services LLC will be priced at the lower of fully-loaded cost or market value.

2.4 Human Resources

2.4.1 Separation of Employees and Officers

RegCo and the Unregulated Competitive Energy Affiliates will have separate operating employees, which restriction will not be deemed to preclude shared Corporate and Administrative Services. The Secretary and/or Treasurer and/or Controller, and any Assistant Secretary and/or Treasurer and/or Controller of RegCo may serve in the equivalent position for HoldCo or an affiliate, but no other officer of RegCo may serve as an officer of an Unregulated Competitive Energy Affiliate.

2.4.2 Employee Transfers

Employees may be transferred from RegCo to an Unregulated Competitive Energy Affiliate. Such transferred employees will be required to resign from RegCo unless there is a conflict with the collective bargaining agreement, in which case the collective bargaining agreement would control. Transferred employees may not be reemployed by RegCo for a minimum of one year. Employees returning to RegCo may not be transferred back to the Unregulated Competitive Energy Affiliate for a minimum of one year. Similarly, employees may be transferred from an Unregulated Competitive Energy Affiliate to RegCo. Such transferred employees will be required to resign from the Unregulated Competitive Energy Affiliate unless there is a conflict with the collective bargaining agreement, in which case the collective bargaining agreement would control. Transferred employees may not be reemployed by the Unregulated Competitive Energy Affiliate for a minimum of one year after transfer. Employees returning to the Unregulated Competitive Energy Affiliate may not be transferred back to RegCo for a minimum of one year. Any transferred employee will be prohibited from sharing, copying or taking any Customer Information or System Information from RegCo. Otherwise, employees may be transferred between RegCo and HoldCo and any of its subsidiaries without restriction.

RegCo's annual reports to the Commission will show employee transfers between RegCo and Unregulated Competitive Energy Affiliates.

2.4.3 Emergency Access To Employees

The foregoing provisions will not restrict HoldCo or any of its subsidiaries from making its employees available to RegCo to assist in an emergency that threatens the safety or reliability of service to RegCo customers. In such event, RegCo will pay the fully-loaded costs for the services of such employees.

2.4.4 Compensation for Transfers to other than HoldCo or a Regulated Affiliate

An employee transfer credit equal to 20% of the employee's base salary will be applied to the respective RegCo's Balancing Account for all transfers from RegCo to an Unregulated Competitive Energy Affiliate. The requirement to pay such transfer credit will be waived for a period of four years immediately following the close of the Transaction.

2.4.5 Employee Compensation and Benefits

The compensation of RegCo employees and officers may not be tied to the financial and/or stock performance of any Unregulated Competitive Energy Affiliate or National Grid Other Affiliate, but may be tied to the financial and/or stock performance of HoldCo.

Employees of HoldCo and all or any subset of its subsidiaries may participate in common pension and benefit plans, and the costs of such common plans will be equitably allocated in accordance with the approved cost allocation procedures.

2.5 Maintaining Financial Integrity

US HoldCo agrees to the following financial restrictions: In general, (i) RegCo will not make loans to HoldCo or an Unregulated Affiliate, nor will RegCo guarantee or otherwise provide credit support for the obligations (notes, debentures, debt or other obligations) of HoldCo or an Unregulated Affiliate; and (ii) the utility assets of RegCo will not be pledged as collateral for the obligations of HoldCo or an Unregulated Affiliate.

As part of the implementation of these financial restrictions, US HoldCo intends to create separate unregulated and Regulated Money Pools, subject to the receipt of necessary regulatory approvals and when they can be implemented efficiently. RegCo will be authorized to participate, as a borrower and a lender, in the Regulated Money Pool to be established by US HoldCo. Participation in the Regulated Money Pool will be limited to RegCo, Regulated Affiliates, ServiceCo, and US HoldCo. RegCo, Regulated Affiliates, and ServiceCo may participate in the Regulated Money Pool as both borrowers and lenders. US HoldCo may participate as a lender only.

2.6 Access to Books, Records and Reports

DPS Staff will have full access, on reasonable notice, and subject to resolution of issues relative to confidentiality and privilege (e.g., attorney client, attorney work product, self critical), to: i) the books and records of HoldCo and its majority owned subsidiaries;

and ii) the books and records of all other HoldCo subsidiaries or affiliates, in English, to the extent necessary to audit and monitor any transactions that have occurred between the RegCo and such subsidiaries or affiliates. Such access to books and records will be provided at RegCo's New York headquarters; provided, however, that if such access is not practicable, access will be provided at another location in RegCo's service territory.

3. STANDARDS OF COMPETITIVE CONDUCT

3.1 Use of Corporate Name and Royalties

RegCo's agreement to these Standards of Conduct will be in lieu of any and all royalty payments that could or might be asserted to be payable by HoldCo or any HoldCo subsidiary or imputed to the RegCo or credited to RegCo customers at any time, including after the expiration of RegCo's Rate Plan. No provision herein will be deemed to restrict any HoldCo subsidiary from using the same name, trade names, trademarks, service names, service marks or a derivative of a name of HoldCo or RegCo, or in identifying itself as being affiliated with the HoldCo or RegCo or any other affiliate.

Promotional material may identify any HoldCo subsidiary as being affiliated with RegCo or HoldCo.

3.2 Sales Leads

Except as set forth in §3.3 below or as otherwise approved by the Commission, RegCo will not provide sales leads involving customers in its service territory to any Unregulated Affiliate.

3.3 Customer Inquiries

RegCo will respond to customer inquiries as to non-utility services in conformance with these Standards of Competitive Conduct.

If a customer requests information from RegCo about securing commodity sales service from an ESCO, RegCo will provide a list of all ESCOs authorized to do business in its service territory.

If a customer requests information from RegCo about oil-to-gas heating system conversions, RegCo will provide contact information of licensed contractors pursuant to a program substantially the same as RegCo's ValuePlus Program.

If a customer requests information from RegCo about appliance service contracts, RegCo will provide, on a rotational basis, contact information of licensed contractors offering service contracts in the customer's vicinity.

If a customer requests information from RegCo about gas-to-gas equipment replacement, RegCo will provide, on a rotational basis, contact information of licensed contractors performing such services in the customer's vicinity.

RegCo may include, in a non-discriminatory manner, any HoldCo subsidiary, including Unregulated Affiliates, in the aforementioned rotations of contractor contact information.

All information made available pursuant to the foregoing will also be made available on RegCo's website.

3.4 No Advantage Gained by Dealing with Affiliate

RegCo will refrain from giving any appearance that it speaks on behalf of an Unregulated Affiliate or that an Unregulated Affiliate speaks on behalf of the RegCo. RegCo will not engage in any joint promotion or joint marketing with its Unregulated Competitive Energy Affiliates, provided, however, that this will not prohibit the use of a common corporate web site that delineates regulated and unregulated entities and services.

RegCo will not represent to any customer, supplier or third party that an advantage may accrue to such customer, supplier or third party in the use of RegCo's services as a result of that customer, supplier or third party transacting with any US HoldCo subsidiary.

US HoldCo subsidiaries will not represent to any customer, supplier or third party that an advantage may accrue to such customer, supplier or third party in the use of the RegCo's services as a result of that customer, supplier or third party transacting with such subsidiary.

3.5 No Rate Discrimination

All similarly situated customers will pay the same rates for the same tariffed services provided by RegCo. If there is discretion in the application of any tariff provision, RegCo will not offer any affiliate more favorable terms and conditions than it offers to all similarly situated competitors of the affiliate.

3.6 Complaint Procedures

Any competitor or customer of RegCo or any affiliate who believes that RegCo or an affiliate has violated these Standards of Conduct may file a written complaint with

RegCo or the subject affiliate, which will respond in writing within fourteen business days. Thereafter, the complainant and RegCo/the affiliate will meet to resolve the complaint informally. If no resolution can be reached within thirty days following complainant's receipt of RegCo's/the affiliate's response, either party may request the assistance of DPS Staff. If DPS Staff is unable to assist the parties in resolving the complaint within a reasonable time, either party may seek an order of the Commission.

If the Commission determines, at any time, whether as a result of the procedure outlined above or otherwise, that RegCo or an affiliate has violated the Standards of Conduct or Affiliate Rules, it will provide RegCo or the affiliate an opportunity to remedy such conduct or explain why such conduct is not a violation. If the RegCo/affiliate fails to remedy such conduct within a reasonable time after receiving such notice, the Commission may take such remedial action as is warranted and for which it has authority under the PSL.

4. MISCELLANEOUS

4.1 Annual Meeting

Senior management of RegCo and US HoldCo will meet annually with senior DPS Staff to discuss RegCo's plans related to capital attraction and financial performance.

4.2 Adherence to Standards

If the Commission at any time makes a finding that compliance with these provisions has been lacking, the Commission may order an independent audit of all applicable transactions, at RegCo's expense.

4.3 Insurance

RegCo and HoldCo subsidiaries may be covered by common property/casualty and other business insurance policies. The costs of such policies will be equitably allocated in accordance with the approved cost allocation procedures.

4.4 Research and Development

4.4.1 Commercialization of Products and Technologies

RegCo may invest in commercialization of R&D products and technologies developed by RegCo consistent with these Standards of Competitive Conduct. If an affiliate elects to invest in the same, it will fairly compensate RegCo, assume the applicable business risk, and will be entitled to the benefits associated with that investment.

4.5 Regulatory Approvals Pursuant To PSL §§ 69 and 70 for Transfers or Leases of Property

4.5.1 Transfer or Lease of Personal Property

Transfers of personal property (or rights to use such property) from RegCo to an Unregulated Competitive Energy Affiliate, or any National Grid Other Affiliate, will be priced at the higher of book value or fair market value.

Transfers of personal property (or rights to use such property) from KeySpan Corporate Services LLC, or KeySpan Utility Services LLC to RegCo, Regulated Affiliates, ServiceCo, or HoldCo will be priced at book value.

Transfers of personal property (or rights to use such property) between and among RegCo, Regulated Affiliates, ServiceCo, and HoldCo will be priced at book value.

Gains or losses associated with the transfer or lease of personal property in RegCo's rate base by RegCo will be credited or charged to RegCo's depreciation reserve. RegCo will retain gains or losses on the transfer or lease of personal property not included in RegCo's rate base.

Based on RegCo's adherence to the foregoing parameters, the Commission's consent pursuant to PSL §§ 69 or 70 is granted as being in the public interest if the transfer or lease of personal property is for $5 million or less. RegCo will petition the Commission for its consent pursuant to §§69 or 70 for the transfer or lease of personal property that exceeds $5 million.

4.5.2 Transfer or Lease of Utility Real Property

RegCo will observe the following procedures in connection with the sale, lease, or sale-leaseback of real property and structures used for utility purposes ("facilities") to third parties and Unregulated Affiliates:

- If and when a facility is no longer needed to provide regulated gas services, RegCo will evaluate commercially reasonable disposition alternatives for the facility, including, but not limited to, sale to an affiliate or sale or lease to a third party.

- In the event it decides to sell or lease a facility, RegCo will use commercially reasonable efforts to obtain fair market value for the facility based on independent appraisals and market conditions. RegCo may utilize brokers or other service providers to identify prospective buyers or tenants, or may utilize other means designed to realize fair market value from the sale or lease.

- Under no circumstances will the sale or lease of a facility prevent RegCo from providing gas services to its customers, or from otherwise being able to discharge its public service responsibilities.

- Gains or losses associated with the sale of real property in RegCo's rate base will be credited or charged to RegCo's Balancing Account. RegCo will retain gains or losses on the sale of real property not included in RegCo's rate base.

- All contract documents relative to the sale of facilities will include provisions limiting, to the extent commercially practicable, RegCo's liabilities, including environmental liabilities. In the case of lease transactions, tenants will be required, *inter alia*, to maintain commercially reasonable insurance coverage, to protect the leased property, and to observe RegCo's requirements regarding the use of the premises. Any initial lease term will not exceed five (5) years.

- Any sale-leaseback transaction involving a RegCo facility will not increase RegCo's annual cost of occupying or utilizing the subject property.

Based on RegCo's adherence to the foregoing parameters, to the extent that efficient management of RegCo's property portfolio warrants the sale or lease of a RegCo facility subject to the Commission's consent pursuant to PSL §§69 or 70, that consent is granted as being in the public interest if the sale or lease or sale/leaseback of facilities is for $10 million or less. RegCo will petition the Commission for its consent pursuant to §§69 or 70 for facility sales, leases, or sales/leasebacks for over $10 million.

5. MERGERS AND ACQUISITIONS

5.1 Future Combinations

Nothing in this Agreement will limit HoldCo's ability to acquire, merge with or be acquired by another entity.

5.2 Expedited Review

DPS Staff and the Commission will give expedited review and decision to any petition by RegCo or HoldCo in connection with any such combination subject to the Commission's jurisdiction.

06-M-0878
Petition
(Part 2)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

NATIONAL GRID
and
KEYSPAN

Joint Petition
for
Approval of Stock Acquisition
and
Other Regulatory Authorizations

APPENDICES

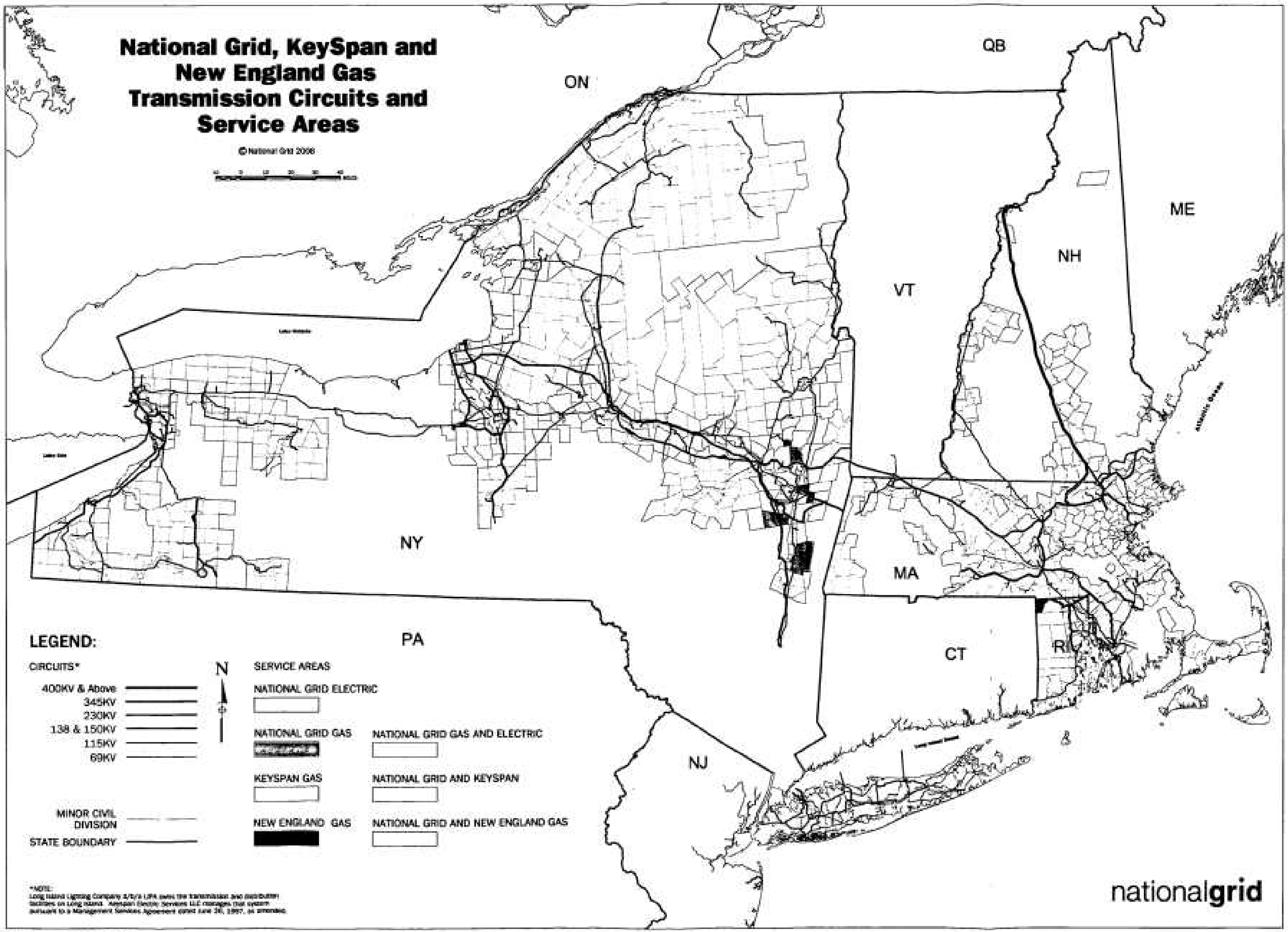
JULY, 2006

nationalgrid

KEYSPAN

LIST OF APPENDICES

Appendix 1


National Grid, KeySpan and New England Gas Transmission Circuits and Service Areas
© National Grid 2008
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CIRCUITS*
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MINOR CIVIL DIVISION
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NATIONAL GRID GAS AND ELECTRIC
KEYSPAN GAS
NATIONAL GRID AND KEYSPAN
NEW ENGLAND GAS
NATIONAL GRID AND NEW ENGLAND GAS
*NOTE:
nationalgrid

Appendix 2

Agreement and Plan of Merger
Dated
February 25, 2006

Exhibits and schedules described or referenced in the Merger Agreement that would not assist the Commission in understanding or analyzing the Transaction has been omitted. To the extent submission of such supplementary information may be required, Applicants respectfully request waiver of this requirement.

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

DATED AS OF FEBRUARY 25, 2006

between

NATIONAL GRID PLC,

NATIONAL GRID US8 INC.

and

KEYSPAN CORPORATION

571984.05-New York Server 6A - MSW

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571984.05-New York Server 6A - MSW

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of February 25, 2006 (this "Agreement"), by and among NATIONAL GRID PLC, a public limited company incorporated under the laws of England and Wales with registration number 4031152 ("Parent"), NATIONAL GRID US8 INC. a New York corporation ("Merger Sub") and KEYSPAN CORPORATION, a New York corporation ("KeySpan").

WITNESSETH:

WHEREAS, the Boards of Directors of Parent, Merger Sub and KeySpan have each approved, and deem it advisable and in the best interests of their respective stockholders to consummate, the business combination transaction provided for herein pursuant to which Merger Sub would merge with and into KeySpan (the "Merger"), with KeySpan as the surviving entity, as a result of which Parent will, directly or indirectly, own all of the issued and outstanding common shares of KeySpan; and

WHEREAS, Parent, Merger Sub and KeySpan desire to make certain representations, warranties covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1. Effective Time of the Merger. Subject to the provisions of this Agreement, a certificate of merger (the "Certificate of Merger") shall be duly prepared and executed by KeySpan as the Surviving Corporation (as defined in Section 1.3) and thereafter delivered to the Secretary of State of the State of New York for filing, in such form as is required by and executed in accordance with the New York Business Corporation Law (the "NYBCL"), on the Closing Date (as defined in Section 1.2). The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of New York or at such subsequent time thereafter as is provided in the Certificate of Merger (the "Effective Time").

1.2. Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m. (New York City time) on the date (the "Closing Date") that is the fifth business day after the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VI (excluding conditions that, by their terms, are to be satisfied on the Closing Date), unless another time or date is agreed to by the parties hereto. The Closing shall be held at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017, unless another place is agreed to by the parties hereto.

1.3. Effects of the Merger. At and after the Effective Time, Merger Sub shall be merged with and into KeySpan and the separate existence of Merger Sub shall cease. The

Merger will have the effects set forth in §906 of the NYBCL. As used in this Agreement, "Constituent Corporations" shall mean each of Merger Sub and KeySpan, and "Surviving Corporation" shall mean KeySpan, at and after the Effective Time, as the surviving corporation in the Merger.

1.4. Certificate of Incorporation and By-Laws. The Certificate of Incorporation of Merger Sub as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation (the "Surviving Corporation Certificate of Incorporation") except that the name of the Surviving Corporation shall be changed to KeySpan. The By-laws of Merger Sub as in effect immediately prior to the Effective Time, shall be the By-laws of the Surviving Corporation (the "Surviving Corporation By-laws") except that the name of the Surviving Corporation shall be changed to KeySpan.

1.5. Directors and Officers. The directors of Merger Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation. At the Effective Time, the officers of the Surviving Corporation shall be the officers of Merger Sub immediately prior to the Effective Time, together with any additional officers as may be agreed upon prior thereto by Parent and KeySpan or as may be appointed thereafter.

ARTICLE II

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; SURRENDER OF CERTIFICATES

2.1. Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof:

(a) Merger Consideration. Each share of common stock par value $0.01 per share of KeySpan ("KeySpan Common Stock"), including, without limitation, each restricted share of KeySpan Common Stock granted under the KeySpan Benefit Plans, that is issued and outstanding immediately prior to the Effective Time (other than shares of KeySpan Common Stock to be cancelled in accordance with Section 2.1(c)), shall automatically be converted into the right to receive $42.00 in cash per share (such per share amount, as adjusted pursuant to the following sentence, the "Merger Consideration"), without interest, payable to the holder of such shares of KeySpan Common Stock, upon surrender, in the manner provided in Section 2.2, of the certificate that formerly evidenced such share of KeySpan Common Stock. All such shares of KeySpan Common Stock, when so converted, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of KeySpan Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor, without interest, upon the surrender of such certificate in accordance with Section 2.2.

(b) Conversion of Merger Sub Common Stock. Each share of common stock par value $0.01 per share of Merger Sub ("Merger Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into one duly authorized, fully paid and nonassessable share of KeySpan Common Stock.

(c) Cancellation of Certain KeySpan Capital Stock. Each share of KeySpan Common Stock that is owned as treasury stock by KeySpan or owned by any wholly-owned Subsidiary of KeySpan, and all shares of KeySpan Common Stock that are owned by Parent, Merger Sub or any other wholly-owned subsidiary of Parent shall be canceled and retired and shall cease to exist and no cash or other consideration shall be delivered in exchange therefor.

2.2. Surrender of Certificates.

(a) Exchange Agent. Prior to the Effective Time, Parent shall select a bank or trust company reasonably acceptable to KeySpan to act as the exchange agent (the "Exchange Agent") for the holders of shares of KeySpan Common Stock in connection with the Merger and shall enter into an agreement with the Exchange Agent which is reasonably acceptable to KeySpan. As of the Effective Time, Parent shall deposit, or shall cause to be deposited, with the Exchange Agent, in trust for the benefit of the holders of certificates or evidence of shares in book entry form which immediately prior to the Effective Time evidenced shares of KeySpan Common Stock (collectively, the "KeySpan Certificates"), cash in an aggregate amount equal to the product of (i) the number of shares of KeySpan Common Stock issued and outstanding at the Effective Time (other than shares of KeySpan Common Stock to be cancelled in accordance with Section 2.1(c)) and (ii) the Merger Consideration. Any funds deposited with the Exchange Agent shall hereinafter be referred to as the "Exchange Fund."

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates (the "Certificates") which represented shares of KeySpan Common Stock immediately prior to the Effective Time and whose shares were converted into the right to receive the Merger Consideration pursuant to Section 2.1: (i) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the KeySpan Certificates shall pass, only upon delivery of the KeySpan Certificates to the Exchange Agent, and which letter shall be in such form and have such other provisions as KeySpan may reasonably specify prior to the Effective Time and (ii) instructions for use in effecting the surrender of the KeySpan Certificates in exchange for the Merger Consideration to which such holder is entitled pursuant to Section 2.1. Upon surrender of a KeySpan Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed, completed in accordance with the instructions thereto, and such other documents as the Exchange Agent may reasonably require, the holder of such KeySpan Certificate shall be entitled to receive in exchange therefor the aggregate Merger Consideration which such holder has the right to receive pursuant to Section 2.1 (after taking into account all shares of KeySpan Common Stock surrendered by such holder) and the Certificate so surrendered shall forthwith be cancelled. Until so surrendered, each Certificate will represent, from and after the Effective Time, only the right to receive the Merger Consideration in cash as contemplated by this Article II. No interest shall accrue or be paid on the amounts payable pursuant to this Article II upon surrender of a Certificate.

(c) No Further Ownership Rights in KeySpan Common Stock. From and after the Effective Time, the holders of KeySpan Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of KeySpan Common Stock except as otherwise provided herein or by applicable law. The Merger Consideration paid in exchange for shares of KeySpan Common Stock in accordance with the terms hereof shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of KeySpan Common Stock previously represented by such Certificates. As of the Effective Time, the stock transfer books of KeySpan shall be closed and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of KeySpan Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Exchange Agent for any reason, such Certificates shall be cancelled and exchanged as provided for in this Article II.

(d) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of KeySpan Certificates for twelve months after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holders of KeySpan Certificates who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation for payment, as general creditors thereof, of their claim for the Merger Consideration, without interest, to which such holders would be entitled pursuant to Section 2.1.

(e) No Liability. None of Parent, Merger Sub, KeySpan or the Surviving Corporation shall be liable to any Person in respect of any Merger Consideration for any amount properly delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(f) Lost, Stolen or Destroyed Certificates. If any KeySpan Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such KeySpan Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against claim that may be made against it with respect to such KeySpan Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed KeySpan Certificate the Merger Consideration to which the holder thereof is entitled pursuant to this Article II.

(g) Withholding. Each of the Exchange Agent, KeySpan, Parent, Merger Sub and the Surviving Corporation shall be entitled to deduct and withhold from payments otherwise payable pursuant to this Agreement to any holder of shares of KeySpan Common Stock such amounts as they are respectively required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended, (the "Code") and the rules and regulations promulgated thereunder, or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of KeySpan Common Stock in respect of which such deduction and withholding was made.

(h) Transfers of Ownership. If the Merger Consideration is to be paid to a Person other than the Person in whose name the surrendered Certificate formerly evidencing shares of KeySpan Common Stock is registered, it will be a condition of payment that the Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the Person requesting such payment will have paid to Parent or any agent designated by it any transfer or other Taxes required by reason of the payment of the amount specified in

Section 2.1(a) to a Person other than the registered holder of the Certificates surrendered, or established to the satisfaction of the Parent or any agent designated by it that such Tax has been paid or is not payable.

(i) Further Action. After the Effective Time, the officers and directors of Parent and the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of KeySpan and Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of KeySpan and Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.1. Representations and Warranties of KeySpan. Except as set forth in the Disclosure Schedule delivered by KeySpan to Parent prior to the execution of this Agreement (the "KeySpan Disclosure Schedule") and except as set forth in the KeySpan SEC Reports (as defined in Section 3.1(e)) filed prior to the date of this Agreement (only to the extent the qualifying nature of such disclosure is readily apparent from the face of such KeySpan SEC Reports):

(a) Organization, Standing and Power. (i) Each of KeySpan and each of its Subsidiaries (as defined in Section 8.12) is a corporation or other entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, except in each case as would not reasonably be expected to result in a Material Adverse Effect (as defined in Section 8.12) on KeySpan. The copies of the certificate of incorporation and by-laws of KeySpan which were previously furnished to Parent are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) Each of the Joint Ventures of KeySpan (as defined below) is a corporation or other entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, except in each case as would not reasonably be expected to result in a Material Adverse Effect on KeySpan. As used in this Agreement, "Joint Venture" with respect to any person shall mean any corporation or other entity (including partnerships and other business associations and joint ventures) in which such person or one or more of its Subsidiaries owns an equity interest that is less than a majority of any class of the outstanding voting securities or equity, other than equity interests held for investment purposes that (a) are less than 10% of any class of the outstanding voting securities or equity or (b) with respect to which the net book value as of December 31, 2005 of such person's interest does not exceed $35,000,000.

(b) Subsidiaries. Section 3.1(b) of the KeySpan Disclosure Schedule contains a description as of the date hereof of all Subsidiaries and Joint Ventures of KeySpan, including the name of each such entity, the state or jurisdiction of its incorporation or organization and KeySpan's interest therein.

(c) Capital Structure.

(i) As of February 23, 2006, the authorized capital stock of KeySpan consisted of (A) 450,000,000 shares of KeySpan Common Stock, of which 174,573,840 shares were outstanding, (B) 16,000,000 shares of Preferred Stock, par value $25 per share, of which no shares were outstanding, (C) 1,000,000 shares of Preferred Stock, par value $100 per share, of which no shares were outstanding and (D) 83,000,000 shares of Preferred Stock, par value $.01 per share, of which no shares were outstanding. From February 23, 2006 to the date of this Agreement, there have been no issuances of shares of the capital stock of KeySpan or any other securities of KeySpan other than issuances of shares pursuant to options or rights outstanding as of February 23, 2006 under the KeySpan Benefit Plans (as defined in Section 3.1(o)) and shares of the capital stock of KeySpan or any other securities of KeySpan issued pursuant to The KeySpan Investor Program. All issued and outstanding shares of the capital stock of KeySpan are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock is entitled to preemptive rights. There were outstanding as of February 23, 2006 no options, warrants or other rights to acquire capital stock from KeySpan, and no options or warrants or other rights to acquire capital stock from KeySpan have been issued or granted from February 23, 2006 to the date of this Agreement. There are no outstanding or authorized deferred stock units, stock appreciation rights, security-based performance units, "phantom" stock, profit participation or other similar rights or other agreements, arrangements or commitments of any character (contingent or otherwise) pursuant to which any Person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of KeySpan or any of its Subsidiaries or assets or calculated in accordance therewith. There are no contractual obligations for KeySpan or any of its Subsidiaries to file a registration statement under the Securities Act or which otherwise relate to the registration of any securities of KeySpan or its Subsidiaries under the Securities Act.

(ii) As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of KeySpan having the right to vote on any matters on which stockholders may vote are issued or outstanding.

(iii) All of the outstanding shares of capital stock of, or other equity interests in, each of KeySpan's Subsidiaries and to the Knowledge of KeySpan all of the shares of capital stock or other equity interests which KeySpan owns in all of its Joint Ventures have been duly authorized and validly issued and are fully paid and nonassessable and are owned directly or indirectly by KeySpan, free and clear of all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens") (other than any customary provisions contained in the applicable investment, stockholder, joint venture or similar agreements governing any Joint Venture of KeySpan which have been provided to Parent prior to the date hereof).

(iv) Except as otherwise set forth in this Section 3.1(c) or as contemplated by Section 5.6, as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which KeySpan or any of its Subsidiaries is a party, or by which any of them is bound, obligating KeySpan or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of KeySpan or any of its Subsidiaries or obligating KeySpan or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of KeySpan or any of its Subsidiaries containing any right of first refusal with respect to, or obligations to repurchase, redeem or otherwise acquire, any shares of capital stock of KeySpan or any of its Subsidiaries.

(v) Neither KeySpan nor any of its Subsidiaries is a party to any voting agreement with respect to the voting of any shares of capital stock or other voting securities or other equity interests in KeySpan or any of its Subsidiaries.

(vi) There are no outstanding contractual obligations of KeySpan or any of its Subsidiaries to make any loan to, or any equity or other investment (in the form of a capital contribution or otherwise) in, any Subsidiary of KeySpan or any other Person, other than guarantees by KeySpan of any indebtedness (pursuant to agreements that have been made available to Parent) or of any other obligations of any wholly-owned Subsidiary of KeySpan.

(d) Authority; No Conflicts.

(i) KeySpan has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Required KeySpan Vote (as defined in Section 3.1(j)). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of KeySpan, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Required KeySpan Vote. This Agreement has been duly executed and delivered by KeySpan and constitutes a valid and binding agreement of KeySpan, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by KeySpan do not, and the consummation by KeySpan of the Merger and the other transactions contemplated hereby will not, result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest, charge or other encumbrance on any assets (any such conflict, violation, default, right of termination, amendment, cancellation or acceleration, loss or creation, a "Violation") pursuant to: (A) any provision of the certificate of incorporation or by-laws of KeySpan or (B) except as would not reasonably be expected to result in a Material Adverse Effect on KeySpan, subject to obtaining or making the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings referred to in paragraph (iii) below, any loan or credit agreement, note, contract, mortgage, bond, indenture, lease, Benefit Plan (as defined below) or other agreement, obligation, instrument, permit, concession, franchise, license, or judgment, order, writ or decree (collectively "Order"), statute, law, ordinance, rule or regulation (collectively "Law") of any kind to which KeySpan or any of its Subsidiaries is now subject to, a party to or by which any of them or any of their respective properties or assets may be bound or affected.

(iii) No material consent, approval, order, license, permit or authorization of, or registration, declaration, notice or filing with, any supranational, national, state, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority (a "Governmental Entity") is necessary or required to be obtained or made by or with respect to KeySpan or any Subsidiary of KeySpan in connection with the execution and delivery of this Agreement by KeySpan or the performance and consummation by KeySpan of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (A) the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (B) state securities or "blue sky" laws (the "Blue Sky Laws"), (C) the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (the "Exchange Act"), (D) the NYBCL with respect to the filing of the Certificate of Merger, (E) rules and regulations of the NYSE and the Pacific Stock Exchange, (F) applicable state public utility Laws, rules and regulations promulgated by the New York Public Service Commission ("NYPSC"), and the New Hampshire Public Utilities Commission ("NHPUC"), (G) Section 203 of the Federal Power Act, as amended and the rules and regulations promulgated thereunder (the "Federal Power Act"), (H) Federal Communications Commission ("FCC"), (I) antitrust or other competition laws of other jurisdictions, and (J) the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings set forth in Section 3.1(d)(iii) of the KeySpan Disclosure Schedule. Consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings required under or in relation to any of the foregoing clauses (A) through (H) are hereinafter referred to as the "KeySpan Required Approvals".

(e) Reports and Financial Statements.

(i) KeySpan and its Subsidiaries have filed each form, report, schedule, registration statement, registration exemption, if applicable, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) required to be filed by KeySpan or any of its Subsidiaries pursuant to the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "Securities Act") or the Exchange Act with the Securities and Exchange Commission ("SEC") since January 1, 2003 (as such documents have since the time of their filing been amended or supplemented, the "KeySpan SEC Reports"). As of their respective dates, the KeySpan SEC Reports (A) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, if applicable, as the case may be, and, to the extent in effect and applicable, the Sarbanes-Oxley Act of 2002 ("SOX"), and (B) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) KeySpan has provided to Parent copies of all correspondence sent to or received from the SEC by or on behalf of KeySpan and its Subsidiaries since December 31, 2003.

(iii) Each of the principal executive officers of KeySpan and the principal financial officer of KeySpan (or each former principal executive officer of KeySpan and each former principal financial officer of KeySpan, as applicable) has made all certifications required by Rule 13a-14 or 15d-14 under the Exchange Act or Sections 302 and 906 of SOX and the rules and regulations of the SEC promulgated thereunder with respect to the KeySpan SEC Reports. For purposes of the preceding sentence, "principal executive officer" and "principal financial officer" shall have the meanings given to such terms in SOX. Since the effectiveness of SOX, neither KeySpan nor any of its Subsidiaries has arranged any outstanding "extensions of credit" to directors or executive officers within the meaning of Section 402 of SOX.

(iv) The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the KeySpan SEC Reports (the "KeySpan Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by rules and regulations promulgated by the SEC) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments that have not or are not reasonably expected to result in a Material Adverse Effect on KeySpan) the consolidated financial position of KeySpan and its consolidated Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. No restatement of the KeySpan Financial Statements has occurred or is reasonably likely to occur.

(v) All filings (other than immaterial filings) required to be made by KeySpan or any of its Subsidiaries since January 1, 2003 and in the case of any filing made pursuant to the Public Utility Holding Company Act of 1935, as amended and in effect prior to its repeal effective February 8, 2006 (the "PUHCA"), prior to February 8, 2006, under the Federal Power Act, the Communications Act of 1934, as amended by the Telecommunications Act of 1996, the Natural Gas Act of 1938, as amended, the PUHCA and applicable state laws and regulations, have been filed with the Federal Energy Regulatory Commission ("FERC"), the Department of Energy, the SEC and the FCC or any applicable state public utility commissions (including, to the extent required, the NYPSC, the Massachusetts Department of Telecommunications and Energy, and the NHPUC), as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of the applicable statute and the rules and regulations thereunder, except for filings the failure of which to make or the failure of which to make in compliance with all applicable requirements of the applicable statute and the rules and regulations thereunder, have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan.

(vi) KeySpan maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since December 31, 2003, KeySpan has not received any oral or written notification of a (x) "reportable condition" or (y) "material weakness" in its internal controls. The terms "reportable condition" and "material weakness" shall have the meanings assigned to them in the Statements of Auditing Standards 60, as in effect on the date hereof.

(vii) The management of KeySpan has (x) designed disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), or caused such disclosure controls and procedures to be designed under their supervision, to ensure that material information relating to KeySpan, including its consolidated Subsidiaries, is made known to the management of KeySpan by others within those entities and (y) has disclosed, based on its most recent evaluation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), to KeySpan's outside auditors and the audit committee of the Board of Directors of KeySpan (A) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect KeySpan's ability to record, process, summarize and report financial information and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in KeySpan's internal control over financial reporting. KeySpan has disclosed to Parent all matters set forth in clauses (A) and (B) above discovered or disclosed since December 31, 2003. Since December 31, 2003, any material change in internal control over financial reporting required to be disclosed in any KeySpan SEC Report has been so disclosed.

(viii) Since December 31, 2003, (x) neither KeySpan nor any of its Subsidiaries nor, to the Knowledge of the Executive Officers (for the purposes of this Section 3.1(e)(viii), as such term is defined in Section 3b-7 of the Exchange Act) of KeySpan, any director, officer, employee, auditor, accountant or representative of KeySpan or any of its Subsidiaries has received or otherwise obtained Knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of KeySpan or any of its Subsidiaries or their respective internal accounting controls relating to periods after December 31, 2003, including any material complaint, allegation, assertion or claim that KeySpan or any of its Subsidiaries has engaged in questionable accounting or auditing practices (except for any of the foregoing after the date hereof which have no reasonable basis), and (y) to the Knowledge of the Executive Officers of KeySpan, no attorney representing KeySpan or any of its Subsidiaries, whether or not employed by KeySpan or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation, relating to periods after December 31, 2003, by KeySpan or any of its officers, directors, employees or agents to the Board of Directors of KeySpan or any committee thereof or to any director or Executive Officer of KeySpan.

(f) Compliance; Permits. KeySpan and its Subsidiaries hold all permits, licenses, certificates, franchises, consents, authorizations and approvals of all Governmental Authorities ("Permits") necessary for the lawful conduct of their respective businesses as currently conducted, except where failures to so hold has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. KeySpan and its Subsidiaries are in compliance with the terms of such Permits, except where failure to so comply has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. KeySpan, and its Subsidiaries and the Joint Ventures of KeySpan are not in violation of or default under any Law or Order of any Governmental Entity, except for such violations or defaults that have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. Without limitation to the foregoing, KeySpan is, and has been, in compliance in all material respects with the applicable listing standards and corporate governance rules and regulations of the NYSE and the Pacific Stock Exchange. This Section 3.1(f) does not relate to matters with respect to Taxes, such matters being the subject of Section 3.1(n), benefits plans, such matters being the subject of Section 3.1(o), labor matters, such matters being the subject of Section 3.1(p) and Environmental Laws, such matters being the subject of Section 3.1(r).

(g) Information Supplied. None of the information to be contained in the Proxy Statement (as defined in Section 5.1) or any proxy supplement will, at the date it is first mailed to KeySpan's stockholders or at the time of the KeySpan Stockholders Meeting (as defined in Section 5.1), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by KeySpan with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of Parent or Merger Sub for inclusion or incorporation by reference in the Proxy Statement. None of the information supplied or to be supplied by KeySpan for inclusion or incorporation by reference in the Circular (as defined in Section 5.1) will, at the date it is first mailed to Parent's Shareholders or at the time of the Parent Shareholders Meeting (as defined in Section 5.1), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) Absence of Certain Changes or Events; Absence of Undisclosed Liabilities.

(i) Since December 31, 2005, KeySpan and its Subsidiaries have conducted their business in the ordinary course of business and no event has occurred which has had, and no fact or circumstance exists that has resulted in or would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(ii) Neither KeySpan nor any of its Subsidiaries has any liabilities or obligations (whether absolute, contingent, accrued or otherwise) of a nature required by GAAP to be reflected in a consolidated corporate balance sheet, except liabilities, obligations or contingencies that are accrued or reserved against in the consolidated financial statements of KeySpan or are reflected in the notes thereto for the year ended December 31, 2005, that were incurred in the ordinary course of business since December 31, 2005. Neither KeySpan nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar contract or arrangement (including any contract relating to any transaction or relationship between or among KeySpan and any of its Subsidiaries, on the one hand, and any unconsolidated affiliate, including any structured finance, special purpose or limited purpose entity or person, on the other hand or any "off-balance sheet arrangements" (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such contract is to avoid disclosure of any material transaction involving, or material liabilities of, KeySpan or any of its Subsidiaries, in KeySpan's or any of its Subsidiary's audited financial statements or other KeySpan SEC Reports.

(i) Board Approval. The Board of Directors of KeySpan, by resolutions duly adopted at a meeting duly called and held and not subsequently rescinded or modified in any way (the "KeySpan Board Approval"), has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of KeySpan and its stockholders, (ii) adopted this Agreement and approved the Merger and (iii) recommended that the stockholders of KeySpan adopt this Agreement and approve the Merger.

(j) Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of KeySpan Common Stock is the only vote of the holders of any class or series of KeySpan capital stock necessary to adopt this Agreement and approve the transactions contemplated hereby (the "Required KeySpan Vote").

(k) Takeover Statutes. No "fair price," "moratorium," "control share acquisition" or other similar antitakeover statute or regulation enacted under state or federal laws in the United States applicable to KeySpan is applicable to the Merger or the other transactions contemplated hereby.

(l) Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement based on arrangements made by or on behalf of KeySpan, except Lazard Freres & Co. LLC (the "KeySpan Financial Advisor"), whose fees and expenses will be paid by KeySpan in accordance with KeySpan's agreement with such firm, based upon arrangements made by or on behalf of KeySpan and previously disclosed to Parent.

(m) Opinion of KeySpan Financial Advisor. KeySpan has received the opinion of KeySpan Financial Advisor, dated the date of this Agreement, to the effect that, as of such date, the Merger Consideration is fair to the holders of KeySpan Common Stock from a financial point of view, a copy of which opinion has been made available to Parent.

(n) Taxes. Each of KeySpan and each of its Subsidiaries have timely filed with the relevant taxing authority all material Tax Returns required to be filed by any of them, and have timely paid (or KeySpan has timely paid on their behalf), or have set up an adequate reserve for the payment of, all material Taxes in accordance with GAAP. Such Tax Returns are true, correct and complete in all material respects. No material deficiencies or other claims for any Taxes have been proposed, asserted or assessed against KeySpan or any of its Subsidiaries that are not adequately reserved for in accordance with GAAP. There are no Liens with respect to Taxes upon any of the assets or properties of either KeySpan or its Subsidiaries, other than with respect to Taxes not yet due and payable, or for Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided. There is no outstanding audit, assessment, dispute, claim or administrative or judicial proceeding concerning any material Tax liability of KeySpan or any of its Subsidiaries either within KeySpan's knowledge or claimed, pending or raised by any Governmental Entity in writing. All material Taxes required to be withheld, collected or deposited by or with respect to KeySpan and each of its Subsidiaries have been timely withheld, collected or deposited as the case may be, and to the extent required, have been paid to the relevant taxing authority. The tax years in the principal jurisdictions in which KeySpan and each of its Subsidiaries pay income Tax are closed through the dates enumerated in Section 3.1(n) of the KeySpan Disclosure Schedule. Neither KeySpan nor any of its Subsidiaries is a party to, bound by or has any material obligation under any Tax allocation, Tax sharing, Tax indemnity or similar agreement, arrangement or understanding. The income Tax Returns delivered to Parent for inspection are true and complete copies. All material written communications to or from any federal, New York State or New York City taxing authority have been delivered to Parent for inspection. Neither KeySpan nor any of its Subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger. Neither KeySpan nor any of its Subsidiaries has participated in a "reportable transaction" as defined in Treasury Regulation Section 1.6011-4 (as in effect at the relevant time) (or any comparable regulations of jurisdictions other than the United States). Neither KeySpan nor any of its Subsidiaries (A) has ever been a member of a consolidated, combined, unitary or aggregate group filing a consolidated federal income Tax Return (other than a group the common parent of which was KeySpan) or (B) has any material liability arising from the application of Treasury Regulation Section 1.1502-6 or any analogous provision of state, local or foreign law, or as a transferee or successor, by contract or otherwise. All closing agreements with the Internal Revenue Service have been provided to Parent for inspection. For the purpose of this Agreement, the term "Tax" (including, with correlative meaning, the terms "Taxes" and "Taxable") shall mean all Federal, state, local and foreign income, profits, franchise, gross receipts, payroll, sales, employment, use, property, withholding, excise, occupancy and other Taxes, duties or assessments of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts, and "Tax Return" shall mean any return, report, information return or other document (including any related or supporting information) required to be filed with any taxing authority with respect to Taxes, including information returns, claims for refunds of Taxes and any amendments or supplements to any of the foregoing.

(o) Benefit Plans. (i) With respect to each material employee benefit plan (including, without limitation, any "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including, without limitation, multiemployer plans within the meaning of ERISA Section 3(37)) and all stock purchase, stock option, severance, employment, change-in-control, fringe benefit, collective bargaining, bonus, incentive, deferred compensation and other material employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA, (all the foregoing being herein called "Benefit Plans"), under which any employee, former employee, consultant, former consultant or director of KeySpan or any of its Subsidiaries has any present or future right to benefits, maintained or contributed to by KeySpan or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that together with KeySpan would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA, or under which KeySpan or any of its Subsidiaries has any present or future liability or potential liability (the "KeySpan Benefit Plans"), KeySpan has made available, or within 30 days after the execution hereof will make available, to Parent a true and correct copy of (A) the most recent annual report (Form 5500) filed with the IRS, (B) such KeySpan Benefit Plan, (C) each trust agreement relating to such KeySpan Benefit Plan, (D) the most recent summary plan description for each KeySpan Benefit Plan for which a summary plan description is required by ERISA, (E) the most recent actuarial report or valuation relating to a KeySpan Benefit Plan subject to Title IV of ERISA and (F) the most recent determination letter issued by the IRS with respect to any KeySpan Benefit Plan qualified under Section 401(a) of the Code.

(ii) With respect to the KeySpan Benefit Plans, individually and in the aggregate, no event has occurred and there exists no condition or set of circumstances, in connection with which KeySpan or any of its Subsidiaries could be subject to any liability that would reasonably be expected to have a Material Adverse Effect on KeySpan under ERISA, the Code or any other applicable law. Without limiting the generality of the foregoing, except as would not reasonably be expected to have a Material Adverse Effect on KeySpan, (i) no liability under Title IV or section 302 of ERISA has been incurred by KeySpan or any ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a risk to KeySpan or any ERISA Affiliate of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation ("PBGC") (which premiums have been paid when due), (ii) the PBGC has not instituted proceedings to terminate any KeySpan Benefit Plan that is subject to Title IV of ERISA (a "Title IV Plan") and no condition exists that presents a risk that such proceedings will be instituted and (iii) no Title IV Plan or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 or ERISA and Section

412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each Title IV Plan ended prior to the Closing Date.

(iii) Prior to the date of this Agreement, KeySpan has delivered to Parent a report that sets forth KeySpan's good faith estimate, as of the date of such report, of (x) the amount to be paid under all KeySpan Benefit Plans (subject to the exceptions described in such report and based upon the assumptions described in such report) to the current officers and key employees of KeySpan and its Subsidiaries who have contractual entitlements under any KeySpan Benefit Plan to receive "gross-up" payments for golden parachute excise taxes that may be imposed pursuant to Section 280G of the Code (or the amount by which any of their benefits may be accelerated or increased) as a result of (i) the execution of this Agreement, (ii) the obtaining of stockholder approval of the Merger, (iii) the consummation of the Merger or (iv) the termination or constructive termination of the employment of such officers or key employees following one of the events set forth in clauses (i) through (iii) above and (y) the ramifications of such payments under Sections 280G and 4999 of the Code.

(p) Labor Matters. As of the date hereof, neither KeySpan nor any of its Subsidiaries is a party to, bound by or in the process of negotiating any collective bargaining agreement or other labor agreement with any union or labor organization. As of the date of this Agreement (i) there are no disputes, grievances or arbitrations pending or, to the Knowledge of KeySpan, threatened between KeySpan or any of its Subsidiaries and any trade union or other representatives of its employees, (ii) there is no charge or complaint pending or threatened in writing against KeySpan or any of its Subsidiaries before the National Labor Relations Board (the "NLRB"), the Equal Employment Opportunity Commission or any similar Governmental Entity, (iii) there are no litigations, lawsuits, claims, charges, complaints, arbitrations, actions, investigations or proceedings pending or, to the Knowledge of KeySpan, threatened between or involving KeySpan or any of its Subsidiaries and any of their respective current or former employees, independent contractors, applicants for employment or classes of the foregoing, except in each case as have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan and, (iv) to the Knowledge of KeySpan, as of the date of this Agreement, there are no material organizational efforts presently being made involving any of the employees of KeySpan or any of its Subsidiaries. No labor union, labor organization or group of employees of KeySpan or any of its Subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed with the NLRB or any other Governmental Entity. From January 1, 2003, to the date of this Agreement, there has been no work stoppage, strike, slowdown or lockout by or affecting the employees of KeySpan or any of its Subsidiaries and, to the Knowledge of KeySpan, no such action has been threatened in writing. KeySpan and its Subsidiaries are in compliance with all material applicable Laws respecting employment and employment practices, including, without limitation, all material legal requirements respecting terms and conditions of employment, equal opportunity, affirmative action, workplace health and safety, wages and hours, child labor, immigration, discrimination, disability rights or benefits, facility closures and layoffs, workers' compensation, labor relations, employee leaves and unemployment insurance. Since January 1, 2003, neither KeySpan nor any of its Subsidiaries has engaged in any "plant closing" or "mass layoff", as defined in the Worker Adjustment Retraining and Notification Act or any comparable state or local Law (the "WARN Act"), without complying with the notice requirements of such

Laws. To the Knowledge of KeySpan (i) none of the employees of KeySpan or any of its Subsidiaries is in any material respect in violation of any term of any employment agreement, nondisclosure agreement, common law nondisclosure obligation, fiduciary duty, non-competition agreement, restrictive covenant or other obligation to a former employer relating to the right of such employee to be employed by KeySpan or any of its Subsidiaries or the employee's knowledge or use of trade secrets or proprietary information, and (ii) no employees of KeySpan or any of its Subsidiaries earning $100,000 or more per year intend to terminate his or her employment with KeySpan or any of its Subsidiaries.

(q) Litigation. Except for claims, actions, suits, proceedings or investigations that would not reasonably be expected to result in a Material Adverse Effect on KeySpan, there are no claims, actions, suits, proceedings, audits, arbitrations or investigations pending or, to the Knowledge of KeySpan, threatened against, relating to or affecting KeySpan or any of its Subsidiaries, or any of their respective assets or properties, before or by any Governmental Entity. As of the date hereof, neither KeySpan nor any of its Subsidiaries nor any of their respective properties is or are subject to any order, writ, judgment, injunction, decree or award having, or which would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(r) Environmental Matters. Except as would not reasonably be expected to result in a Material Adverse Effect on KeySpan: (i) KeySpan and each of its Subsidiaries (x) comply, and at all times have complied, with all applicable Environmental Laws (as defined below), and possess and comply with all Environmental Permits (as defined below) required under any applicable Environmental Laws to operate as they presently operate, which Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed with and is pending approval by all applicable Governmental Entities, and (y) possess all air emission allowances and air emissions reduction credits required under any applicable Environmental Laws to operate as they presently operate; (ii) to the Knowledge of KeySpan, there are no Materials of Environmental Concern (as defined below) at any current or former assets, facilities or properties owned or operated by KeySpan or any of its predecessors or Subsidiaries, or under circumstances that are reasonably likely to result in liability of KeySpan or any Subsidiary or any of their predecessors under any applicable Environmental Laws; (iii) neither KeySpan nor any of its Subsidiaries has received any written notification alleging that it is liable for, or has received any request for information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation and Liability Act or similar state statute or any other similar applicable Environmental Laws concerning, any release or threatened release of Materials of Environmental Concern at any location; (iv) to the Knowledge of KeySpan, no capital expenditures are or will be required of KeySpan or any of its Subsidiaries to achieve or maintain compliance with any applicable Environmental Laws; and (v) to the Knowledge of KeySpan, neither KeySpan nor any of its Subsidiaries is subject to or has contractually assumed or retained from any person or entity (including any Governmental Entity), liability for any matters arising under or pursuant to any Environmental Laws or arising from or relating to Materials of Environmental Concern. For purposes of this Agreement, the following terms shall have the following meanings: (x) "Environmental Laws" shall mean all foreign, federal, state, or local statutes, regulations, ordinances, common law, codes, or decrees and any binding administrative or judicial interpretation thereof relating to the protection of the environment, including protection of the ambient air, soil, natural resources, surface water or groundwater and protection of human health or safety as affected by the environment, (y) "Environmental Permits" shall mean all permits, licenses, registrations, and other authorizations under applicable Environmental Laws; and (z) "Materials of Environmental Concern" shall mean any hazardous, dangerous, radioactive, acutely hazardous, or toxic substance or waste defined, characterized, regulated or as to which liability could reasonably be expected to be imposed under any applicable Environmental Laws, including without limitation the federal Comprehensive Environmental Response, Compensation and Liability Act and the federal Clean Air Act, Clean Water Act, Toxic Substances Control Act, Resource Conservation and Recovery Act and any analogous state and local laws and regulations.

(s) Intellectual Property. KeySpan and its Subsidiaries own or have a valid license to use all trademarks, service marks and trade names (including any registrations or applications for registration of any of the foregoing) (collectively, the "KeySpan Intellectual Property") necessary to carry on their business substantially as currently conducted, except where such failures to own or validly license such KeySpan Intellectual Property would not reasonably be expected to have a Material Adverse Effect on KeySpan. Neither KeySpan nor any such Subsidiary has received any notice of infringement of or conflict with, and there are no infringements of or conflicts with, the rights of others with respect to the use of any KeySpan Intellectual Property that, in either such case, would reasonably be expected to have a Material Adverse Effect on KeySpan.

(t) Insurance. Except for failures to maintain insurance or self-insurance that have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan, from January 1, 2003, through the date of this Agreement, each of KeySpan and its Subsidiaries has been continuously insured with financially responsible insurers or has self-insured, in each case in such amounts and with respect to such risks and losses as are customary for companies in the United States conducting the business conducted by KeySpan and its Subsidiaries during such time period. Neither KeySpan nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any insurance policy of KeySpan or any of its Subsidiaries, except with respect to any cancellation or termination that, has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan.

(u) Interested Party Transactions. Since January 1, 2005, no event has occurred that would be required to be reported as a Certain Relationship or Related Transaction pursuant to Statement of Financial Accounting Standards No. 57 or Item 404 of Regulation S-K of the SEC.

(v) Material Contracts.

(i) All "material contracts" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) ("KeySpan Material Contracts") required to be have been filed with the SEC have been filed, so and no such material contract has been amended or modified, except for such amendments or modifications which have been filed as an exhibit to a subsequently dated and filed SEC document or are not required to be filed with the SEC.

(ii) No Breach. All KeySpan Material Contracts are valid and in full force and effect and enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law), except to the extent that (x) they have previously expired in accordance with their terms or (y) the failure to be in full force and effect, individually or in the aggregate, would not reasonably be likely to have a Material Adverse Effect. Neither KeySpan nor any of its Subsidiaries, nor, to KeySpan's Knowledge, any counterparty to any KeySpan Material Contract, has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time or both, would constitute a default under the provisions of any KeySpan Material Contract, except in each case for those violations or defaults which, individually or in the aggregate, would not reasonably be likely to have a Material Adverse Effect.

(w) Foreign Corrupt Practices and International Trade Sanctions. To the Knowledge of KeySpan, neither KeySpan, nor any of its Subsidiaries, nor any of their respective directors, officers, agents, employees or any other Persons acting on their behalf has, in connection with the operation of their respective businesses, (i) used any corporate or other funds for unlawful contributions, payments, gifts or entertainment, or made any unlawful expenditures relating to political activity to government officials, candidates or members of political parties or organizations, or established or maintained any unlawful or unrecorded funds in violation of Section 104 of the Foreign Corrupt Practices Act of 1977, as amended, or any other similar applicable foreign, Federal or state law, (ii) paid, accepted or received any unlawful contributions, payments, expenditures or gifts, or (iii) violated or operated in noncompliance with any export restrictions, anti-boycott regulations, embargo regulations or other applicable domestic or foreign laws and regulations.

3.2. Representations and Warranties of Parent and Merger Sub. Except as set forth in the Disclosure Schedule delivered by Parent and Merger Sub to KeySpan prior to the execution of this Agreement (the "Parent Disclosure Schedule"), Parent and Merger Sub, jointly and severally, represent and warrant to KeySpan as follows:

(a) Organization, Standing and Power. (i) Each of Parent and Merger Sub is a corporation duly incorporated, validly existing and, with respect to Merger Sub only, in good standing under the laws of its respective jurisdiction of incorporation, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary except in each case as would not reasonably be expected to result in a Material Adverse Effect on Parent or Merger Sub, as the case may be. The copies of the certificate of incorporation and by-laws (or similar organizational documents) of Parent and Merger Sub which were previously furnished to KeySpan are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Authority; No Violations.

(i) Each of Parent and Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject to approval of the consummation of the Merger set forth in this Agreement by the Required Parent Vote (as defined in Section 3.2(j)). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent and Merger Sub, subject in the case of the consummation of the Merger to the approval of this Agreement by the Required Parent Vote. This Agreement has been duly executed and delivered by each of Parent and Merger Sub and constitutes a valid and binding agreement enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement by each of Parent and Merger Sub does not, and the consummation by each of Parent and Merger Sub of the Merger and the other transactions contemplated hereby will not, result in a Violation pursuant to: (A) any provision of the certificate of incorporation or by-laws (or similar organizational documents) of Parent or Merger Sub or (B) except (x) as would not reasonably be expected to result in a Material Adverse Effect on Parent or Merger Sub or (y) would or would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

(iii) No material consent, approval, order, license, permit or authorization of, or registration, declaration, notice or filing with, any Governmental Entity is necessary or required to be obtained or made by or with respect to Parent, Merger Sub or any other Subsidiary of Parent in connection with the execution and delivery of this Agreement by Parent and Merger Sub or the performance and consummation by Parent and Merger Sub of the Merger and the other transactions contemplated hereby except for those required under or in relation to (A) the HSR Act, (B) the Blue Sky Laws, (C) the Exchange Act, (D) the NYBCL with respect to the filing of the Certificate of Merger, (E) rules and regulations of the NYSE and the London Stock Exchange plc (the "LSE") and the UK Listing Rules (as defined in 3.2(e)), (F) applicable state public utility Laws, rules and regulations promulgated by the NYPSC, and the NHPUC, (G) Section 203 of the Federal Power Act, (H) if required, the Atomic Energy Act, (I) the FCC, (J) notice to the Committee on Foreign Investment (CFIUS) pursuant to the Exon-Florio Act, (K) antitrust or other competition laws of other jurisdictions, and (L) the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings set forth in Section 3.2(b)(iii) of the Parent Disclosure Schedule. Consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings required under or in relation to any of the foregoing clauses (A) through (J) are hereinafter referred to as the "Parent Required Approvals".

(c) Compliance. Parent and Merger Sub and the Subsidiaries of Parent are not in violation of or default under any Law or Order of any Governmental Entity, except for such violations or defaults that have not had and could not reasonably be expected to have a Material Adverse Effect on Parent or Merger Sub.

(d) Litigation. Except for claims, actions, suits, proceedings or investigations that would not reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement, there are no claims, actions, suits, proceedings, audits, arbitrations or investigations pending or, to the Knowledge of Parent, threatened against, relating to or affecting Parent or any of Parent's Subsidiaries, or any of their respective assets or properties, before or by any Governmental Entity. As of the date hereof, neither Parent nor any of Parent's Subsidiaries nor any of their respective properties is or are subject to any order, writ, judgment, injunction, decree or award having, or which would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

(e) Information Supplied. None of the information to be contained in the Circular or any supplementary circular will, at the date it is first mailed to Parent's Shareholders or at the time of the Parent Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Circular will comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act 1985, as amended, (the "Companies Act"), the Financial Services and Markets Act 2000, as amended, and the rules and regulations made thereunder, the listing rules (the "UK Listing Rules") promulgated by the United Kingdom Listing Authority (the "UKLA") and the rules and requirements of the LSE except that no representation is made by Parent or Merger Sub with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of KeySpan for inclusion or incorporation by reference in the Circular. None of the information supplied or to be supplied by Parent or Merger Sub for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to KeySpan's stockholders or at the time of the KeySpan Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(f) Operations of Merger Sub. Merger Sub is an indirect, wholly owned subsidiary of Parent, was formed solely for the purpose of engaging in the Transactions, has engaged in no other business activities and has conducted its operations only as contemplated by this Agreement.

(g) Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement based on arrangements made by or on behalf of Parent or Merger Sub, except Rothschild, Inc., whose fees and expenses will be paid by Parent or Merger Sub in accordance with Parent or Merger Sub's agreement with such firm, based upon arrangements made by or on behalf of Parent or Merger Sub and previously disclosed to KeySpan.

(h) Availability of Funds. Parent and Merger Sub will have at the Effective Time sufficient immediately available funds to pay the Merger Consideration, consummate the transactions contemplated hereby and to pay all related fees and expenses.

(i) Board Approval. The Board of Directors of Parent, by resolutions duly adopted at a meeting duly called and held and not subsequently rescinded or modified in any way (the "Parent Board Approval"), has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of Parent and its shareholders, (ii) approved this Agreement and approved the Merger and (iii) will recommend that the shareholders of Parent approve this Agreement and the Merger in connection with the mailing of the Circular.

(j) Vote Required. The only vote of the holders of any class of shares of Parent that is required to approve the consummation of the Merger set out in this Agreement and the other transactions contemplated thereby, but not, for the avoidance of doubt, any fee payable by Parent pursuant to Article VII herein, (in respect of which no vote shall be required) is the affirmative vote of a majority of such ordinary shareholders of Parent as (being entitled to do so) are present in person and vote (or, in the case of a vote taken on a poll, the affirmative vote by shareholders representing a majority of the Parent Ordinary Shares in respect of which votes were validly exercised) at the Parent Shareholders' Meeting in relation to this Agreement, the Merger and other transactions contemplated hereby (the "Required Parent Vote").

(k) Ownership of KeySpan Common Stock. Neither Parent nor any of its subsidiaries or other affiliates beneficially owns any KeySpan Common Stock.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

4.1. Covenants of KeySpan. During the period from the date of this Agreement and continuing until the Effective Time, KeySpan agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on Section 4.1 of the KeySpan Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or by applicable law, rule or regulation, or to the extent that Parent shall otherwise consent in writing (which consent not to be unreasonably delayed or withheld)):

(a) Ordinary Course of Business. KeySpan shall, and shall cause its Subsidiaries to, carry on its and their businesses in the usual, regular and ordinary course consistent with past practice and good utility practice and use reasonable best efforts to preserve intact in all material respects their present business organizations and relationships with customers, suppliers, Governmental Entities and others having significant business dealings with them and, subject to prudent management of their workforces and business needs, keep available the services of their present officers and employees.

(b) Dividends and Distributions, etc. KeySpan shall not, and shall not permit any of its Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of their capital stock other than (A) by a wholly owned Subsidiary or by a partially owned Subsidiary (provided that KeySpan or a Subsidiary of KeySpan receives its proportionate share of such dividend or distribution), (B) dividends required to be paid on preferred stock of any Subsidiaries in accordance with their terms, (C) regular dividends on KeySpan Common Stock with usual record and payment dates at a rate not in excess of $0.465 per share per quarter and (D) with respect to any quarter in which the Effective Time occurs, a special dividend with respect to KeySpan Common Stock in an amount consisting of the pro rata portion of the dividend permitted under clause (C), for the period from and including the ex-dividend date (as referred to in Rule 235 of the New York Stock Exchange Constitution and Rules) through, but not including, the day of the Effective Time; (ii) split, combine or reclassify any of their capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock; or (iii) directly or indirectly redeem, repurchase or otherwise acquire any shares of their capital stock other than (x) in the ordinary course of business consistent with past practice in connection with: (1) repurchases, redemptions and other acquisitions in connection with the administration of the KeySpan Benefit Plans in the ordinary course of operation of such plans, (2) redemptions, purchases or acquisitions required by the terms of any series of preferred stock of any Subsidiary or (3) in connection with the refunding of the preferred stock of any Subsidiary through the issuance of additional preferred stock of any Subsidiary or indebtedness either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-Tax basis) or through the incurrence of indebtedness permitted under Section 4.1(h) and (y) intercompany redemptions, repurchases or acquisitions, of capital stock.

(c) Issuance of Securities. KeySpan shall not, and shall not permit any of its Subsidiaries to, issue, sell, pledge, dispose of, grant, transfer, encumber, or authorize the issuance, sale, pledge, disposition, grant, transfer or encumbrance of any shares of capital stock of, or other equity interests in, KeySpan or any of its Subsidiaries of any class, or securities convertible or exchangeable or exercisable for any shares of such capital stock or other equity interests, or any options, warrants or other rights of any kind to acquire any shares of such capital stock or other equity interests or such convertible or exchangeable securities, or any other ownership interest, of KeySpan or any of its Subsidiaries, except for (x) in the ordinary course of business consistent with past practice in connection with: (1) the refunding of the preferred stock of any Subsidiary through the issuance of additional preferred stock of any Subsidiary either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-Tax basis) or through the incurrence of indebtedness permitted under Section 4.1(h), (2) the issuance of KeySpan Common Stock pursuant to the terms of the KeySpan 401(k) Plans and the KeySpan Employee Discount Stock Purchase Plan, (3) the issuance of KeySpan Common Stock upon exercise or settlement of KeySpan stock options and Other KeySpan Stock Awards, (4) the granting of awards of performance shares, restricted shares, stock options, stock appreciation or similar rights, as the case may be, pursuant to the KeySpan Benefit Plans in the ordinary course of the operation of such plans, provided that the aggregate number of shares of KeySpan Common Stock issuable upon the exercise or settlement, as the case may be, of any such awards granted after the date of this Agreement shall not exceed 450,000 shares, (5) the issuance by a Subsidiary of shares of its capital stock to KeySpan or a Subsidiary of KeySpan, and (6) the issuance of securities by KeySpan pursuant to The KeySpan Investor Program.

(d) Charter Documents. KeySpan shall not amend or propose to amend its certificate of incorporation or its bylaws or the certificate of incorporation or the bylaws (or other organizational document) of any of its Subsidiaries.

(e) Acquisitions. Except for acquisitions of the entities, assets and facilities identified in Section 4.1(e) of the KeySpan Disclosure Schedule, KeySpan shall not, nor shall it permit any of its Subsidiaries to, acquire or agree to acquire (whether by merger, consolidation, purchase or otherwise) any person or assets or make any investment in any entity in excess of $150,000,000 in the aggregate. For the purposes of this Section 4.1(e), the value of any acquisition or series of related acquisitions shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such acquisition or capital expenditure, including liabilities assumed. Notwithstanding anything to the contrary in this Agreement, KeySpan shall not make any acquisition involving, or otherwise enter into, in any manner, any line of business that is not conducted by KeySpan, its Subsidiaries or Joint Ventures as of the date of this Agreement.

(f) Capital Expenditures. Except for (x) capital expenditures relating to matters identified in Section 4.1(f) of the KeySpan Disclosure Schedule, and (y) capital expenditures (1) required by law or Governmental Authorities or (2) incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance) necessary to provide or maintain safe, adequate and reliable electric and natural gas service (after consultation with Parent), KeySpan shall not, nor shall it permit any of its Subsidiaries to, make any capital expenditures in excess of $15,000,000 in the aggregate. For the purposes of this Section 4.1(f), the value of any capital expenditure or series of related capital expenditures shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such capital expenditure, including liabilities assumed.

(g) No Dispositions. Except for (x) dispositions set forth in Section 4.1(g) of the KeySpan Disclosure Schedule, (y) dispositions of obsolete equipment or assets or dispositions of assets being replaced and (z) dispositions by KeySpan or its Subsidiaries of its assets in accordance with the terms of restructuring and divestiture plans required by applicable local or state regulatory agencies prior to the date hereof and previously disclosed to Parent, KeySpan shall not, nor shall it permit any of its Subsidiaries to, pledge, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties in excess of $5,000,000 individually or $25,000,000 in the aggregate. For the purposes of this Section 4.1(g), the value of any disposition or series of related dispositions shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such disposition, including liabilities assigned.

(h) Indebtedness. KeySpan shall not, and shall not permit any of its Subsidiaries to, incur or guarantee any indebtedness or enter into any "keep well" or other agreement to maintain the financial condition of another person or enter into any arrangement having the economic effect of any of the foregoing (including any capital leases, "synthetic" leases or conditional sale or other title retention agreements) other than (i) indebtedness set forth in Section 4.1(h) of the KeySpan Disclosure Schedule, (ii) indebtedness incurred in connection with the refinancing of existing indebtedness either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-Tax basis) and (iii) indebtedness and guarantees among KeySpan and its Subsidiaries.

(i) Compensation and Benefits. During the period from the date of this Agreement and continuing until the Effective Time, KeySpan agrees as to itself and its Subsidiaries that it will not, without the prior written consent of Parent, (i) other than in the ordinary course of business, enter into, adopt, amend (except for such amendments as may be required by law or reasonably necessary to avoid adverse tax consequences to KeySpan or its employees) or terminate any KeySpan Benefit Plan, or any other employee benefit plan or any agreement, arrangement, plan or policy or any equity-based award (or agreement governing the terms of such award) between KeySpan or a Subsidiary of KeySpan and one or more of its directors or officers, (ii) except for normal payments, awards and increases in the ordinary course of business or as required by any plan or arrangement as in effect as of the date hereof, increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan or arrangement as in effect as of the date hereof or enter into any contract, agreement, commitment or arrangement to do any of the foregoing or (iii) enter into or renew any contract, agreement, commitment or arrangement (other than a renewal occurring in accordance with the terms thereof) providing for the payment to any director, officer or employee of such party of compensation or benefits contingent, or the terms of which are materially altered, upon the occurrence of any of the transactions contemplated by this Agreement.

(j) Accounting. KeySpan shall not, and shall not permit any of its Subsidiaries to, make any changes in their accounting methods materially affecting the reported consolidated assets liabilities or results of operations of KeySpan, except as required by law or GAAP or permitted by GAAP and consented to by its independent auditors.

(k) Collective Bargaining Agreements. KeySpan shall not, and shall not permit any of its Subsidiaries to negotiate the renewal or extension of any of the collective bargaining agreements listed in Section 3.1(p) of the KeySpan Disclosure Schedule without providing Parent with access to all information relating to the renewal or extension of any such collective bargaining agreement and permitting Parent to consult with KeySpan or its Subsidiaries and their counsel on the progress thereof from time to time.

(l) Regulatory Status. Except as disclosed in Section 4.1(k) of the KeySpan Disclosure Schedule, KeySpan shall not, nor shall it permit any of its Subsidiaries to, agree or consent to any material agreements or material modifications of existing agreements or course of dealings with any Governmental Entity in respect of the operations of their businesses, except as required by law to obtain or renew Permits or agreements in the ordinary course of business consistent with past practice.

(m) Insurance. KeySpan shall, and shall cause its Subsidiaries, to maintain with financially responsible insurance companies (or through self-insurance not inconsistent with such party's past practice), insurance in such amounts and against such risks and losses as are customary for companies engaged in the utility industry.

(n) Certain Consents. If requested by Parent, KeySpan shall use reasonable best efforts to obtain the consents identified in Sections 3.2(b)(ii) and 3.2(b)(iii) of the Parent Disclosure Schedule (provided that such consents and any obligations thereunder shall not be effective until the Closing).

(o) Taxes. Neither KeySpan nor its Subsidiaries shall (i) change any Tax accounting methods, policies or practices of KeySpan or its Subsidiaries, (ii) make, revoke or amend any material Tax election of KeySpan or its Subsidiaries, (iii) file any amended Tax Return of KeySpan or its Subsidiaries, (iv) enter into any closing agreement affecting any Tax liability or refund of KeySpan or its Subsidiaries, (v) settle or compromise any material Tax liability or refund of KeySpan or its Subsidiaries, or (vi) extend or waive the application of any statute of limitations regarding the assessment or collection of any material Tax of KeySpan or its Subsidiaries (except with respect to regular and routine extensions of Tax Returns); provided, however, that Parent shall be deemed to have consented to any request with respect to clauses (i) and (iii) above to the extent that Parent does not notify KeySpan or any of its Subsidiaries of its consent or withholding of consent within ten (10) Business Days of receipt of the request made by KeySpan or its Subsidiaries.

(p) Claims Settlement. KeySpan shall not settle any claim, action, proceeding or investigation, whether civil, criminal, administrative or investigative, except (A) in the ordinary course of business consistent with past practice, (B) settlements to the extent subject to reserves existing as of the date hereof in accordance with GAAP or (C) the settlement of any Claim that would not reasonably be expected to have a Material Adverse Effect, except in the case of clauses (A) and (C) for such claims as are set forth in Section 4.1(p) of the KeySpan Disclosure Schedule, which shall require the consent of Parent.

(q) Waiver of Rights. KeySpan shall not modify, amend or terminate, or waive, release or assign any material rights or claims with respect to any confidentiality or standstill agreement to which KeySpan or any Subsidiary is a party.

(r) No Restrictions on Future Business Activities. KeySpan shall not enter into any agreements or arrangements that limit or otherwise restrict KeySpan or any of its Subsidiaries or any of their respective Affiliates or any successor thereto or that could, after the Effective Time, limit or restrict Parent or any of its Affiliates (including the Surviving Corporation) or any successor thereto, from engaging or competing in any line of business or product line or in any geographic area.

(s) Actions to Impede Merger. KeySpan shall not take any action that is intended or is reasonably likely to result in any of the conditions to the Merger set forth in Article VI not being satisfied.

(t) Agreement to do the Foregoing. KeySpan shall not authorize or enter into any agreement or otherwise make any commitment to do any of the foregoing in this Section 4.1.

4.2. Covenants of Parent. During the period from the date of this Agreement and continuing until the Effective Time, Parent and Merger Sub each agree as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the Parent Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or by applicable law, rule or regulation, or to the extent that KeySpan shall otherwise consent in writing (which consent not to be unreasonably delayed or withheld)):

(a) Conduct of Business of Merger Sub. Parent shall cause Merger Sub to (i) perform its obligations under this Agreement, (ii) not engage directly or indirectly in any business or activities of any type or kind and not enter into any agreements or arrangements with any person, or be subject to or bound by any obligation or undertaking, which is inconsistent with this Agreement.

(b) Conduct of Business of Parent. Parent agrees that, during the period from the date hereof and continuing until the earlier of the termination of this Agreement or the Effective Time, except as expressly contemplated or permitted by this Agreement or as required by applicable law, and except as may be consented to in writing by KeySpan (such consent not to be unreasonably withheld or delayed), Parent shall not, and shall not permit any of its Subsidiaries to enter into or consummate any agreements or transactions for an acquisition (via stock purchase, merger, consolidation, purchase of assets or otherwise), merger or joint venture or other agreement or otherwise if, in any such cases, such agreement or transaction would or would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

4.3. Advice of Changes; Governmental Filings. KeySpan shall file all reports required to be filed by it with the SEC (and all other Governmental Entities) between the date of this Agreement and the Effective Time and shall (to the extent permitted by law or regulation or any applicable confidentiality agreement) deliver to Parent copies of all such reports, announcements and publications promptly after the same are filed. Subject to applicable laws relating to the exchange of information, each of Parent and KeySpan shall have the right to review in advance, and will consult with the other with respect to, all the information relating to the other party and each of their respective Subsidiaries, which appears in any filings, announcements or publications made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as practicable. Each party agrees that, to the extent practicable and as timely as practicable, it will consult with, and provide all appropriate and necessary assistance to, the other party with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other party apprised of the status of matters relating to completion of the transactions contemplated hereby.

4.4. Transition Planning. KeySpan and Parent shall each appoint one or more representatives to a committee that will be responsible for coordinating transition planning and implementation relating to the Merger.

4.5. Control of Other Party's Business. Nothing contained in this Agreement shall be deemed to give Parent or Merger Sub, directly or indirectly, the right to control or direct KeySpan's operations prior to the Effective Time. Prior to the Effective Time, KeySpan shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

ARTICLE V

ADDITIONAL AGREEMENTS

5.1. Preparation of Proxy Statement and Circular; Stockholders Meetings. (a) As promptly as practicable following the date hereof, KeySpan shall, in cooperation with Parent, prepare and file with the SEC preliminary proxy materials (such proxy statement, and any amendments or supplements thereto, the "Proxy Statement"). The Proxy Statement shall comply as to form in all material respects with the applicable provisions of the Exchange Act. KeySpan shall, as promptly as practicable after receipt thereof, provide copies of any written comments received from the SEC with respect to the Proxy Statement to Parent and advise Parent of any oral comments with respect to the Proxy Statement received from the SEC. KeySpan agrees that none of the information supplied or to be supplied by KeySpan for inclusion or incorporation by reference in the Proxy Statement or any supplemental proxy, at the time of mailing thereof and at the time of the KeySpan Stockholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent agrees that none of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Proxy Statement or any supplemental proxy, at the time of mailing thereof and at the time of the KeySpan Stockholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of the foregoing, it is understood and agreed that information concerning or related to KeySpan and the KeySpan Stockholders Meeting will be deemed to have been supplied by KeySpan and information concerning or related to Parent or Merger Sub shall be deemed to have been supplied by Parent. KeySpan will provide Parent with a reasonable opportunity to review and comment on the Proxy Statement and any amendment or supplement to the Proxy Statement prior to filing such with the SEC, and will provide Parent with a copy of all such filings made with the SEC. No amendment or supplement to the information supplied by Parent for inclusion in the Proxy Statement shall be made without the approval of Parent, which approval shall not be unreasonably withheld or delayed.

(b) Parent shall, in cooperation with KeySpan, prepare and file with the UKLA a circular to shareholders (such circular, and any amendments or supplements thereto, the "Circular"). The Circular shall comply as to form in all material respects with the applicable provisions of the UK Listing Rules. Parent shall, as promptly as practicable after receipt thereof, provide copies of any written comments received from the UKLA with respect to the Circular to

KeySpan and advise KeySpan of any oral comments with respect to the Circular received from the UKLA. Parent agrees that none of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Circular or any supplementary circular, at the time of mailing thereof and at the time of the Parent Shareholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. KeySpan agrees that none of the information supplied or to be supplied by KeySpan for inclusion or incorporation by reference in the Circular or any supplementary circular, at the time of mailing thereof and at the time of the Parent Shareholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of the foregoing, it is understood and agreed that information concerning or related to Parent or Merger Sub and the Parent Shareholders Meeting will be deemed to have been supplied by Parent and information concerning or related to KeySpan shall be deemed to have been supplied by KeySpan. Parent will provide KeySpan with a reasonable opportunity to review and comment on any amendment or supplement to the Circular prior to filing such with the UKLA, and will provide KeySpan with a copy of all such filings made with the UKLA. No amendment or supplement to the information supplied by KeySpan for inclusion in the Circular shall be made without the approval of KeySpan, which approval shall not be unreasonably withheld or delayed.

(c) KeySpan shall take all lawful action to solicit proxies in favor of the adoption of this Agreement, and the transactions contemplated hereby, by the Required KeySpan Vote and the Board of Directors of KeySpan shall recommend adoption of this Agreement, and the transactions contemplated hereby, by the stockholders of KeySpan unless the Board of Directors of KeySpan determines in its reasonable good faith judgment, after consultation with outside counsel, that taking any such action would be inconsistent with its fiduciary duties under applicable law. KeySpan shall, as soon as reasonably practicable following the date of this Agreement, duly call, give notice of, convene and hold a meeting of its stockholders (the "KeySpan Stockholders Meeting") for the purpose of obtaining the Required KeySpan Vote. Without limiting the generality of the foregoing, KeySpan agrees that its obligations pursuant to the second sentence of this Section 5.1(c) shall not be affected by (i) the commencement, public proposal, public disclosure or communication to KeySpan of any Takeover Proposal (as defined in Section 5.5), (ii) the withdrawal or modification by the Board of Directors of KeySpan of its approval or recommendation of this Agreement, the Merger or the other transactions contemplated hereby, or (iii) subject to KeySpan's right to terminate this Agreement under Section 7.1(e), the approval or recommendation of any KeySpan Superior Proposal. Notwithstanding any of the events set forth in clauses (i), (ii) and (iii) of the immediately preceding sentence, in the event KeySpan fulfills its obligations pursuant to this Section 5.1(c) and the KeySpan Stockholder Approval is not obtained at the KeySpan Stockholders Meeting, Parent shall not thereafter have the right to terminate this Agreement pursuant to Section 7.1(d), as a result of the Board of Directors of KeySpan (or any committee thereof) having withdrawn or modified, or proposed publicly to withdraw or modify, the approval or recommendation by the KeySpan Board of Directors of this Agreement or the Merger, provided Parent shall retain all other rights to terminate this Agreement set forth in Section 7.1.

(d) Parent shall recommend approval of this Agreement, and the transactions contemplated hereby, by the shareholders of Parent. Parent shall duly call, give notice of, convene and hold its general meeting of shareholders (the "Parent Shareholders Meeting") at which shareholders shall be asked to vote to approve the Merger. Without limiting the generality of the foregoing, Parent agrees that its obligations pursuant to the second sentence of this Section 5.1(d) shall not be affected by (i) the commencement, public proposal, public disclosure or communication to Parent of any Parent Acquisition Transaction (as defined in Section 7.2) or (ii) the withdrawal or modification by the Board of Directors of Parent of its approval or recommendation of this Agreement, the Merger or the other transactions contemplated hereby.

(e) KeySpan and Parent will use their reasonable best efforts to hold the KeySpan Stockholders Meeting and the Parent Shareholders Meeting as soon as practicable after the date of this Agreement; provided, however, that Parent may hold the Parent Shareholder Meeting as part of its Annual General Meeting scheduled for July 31, 2006; provided, further that the Parent Shareholder Meeting shall in any event be held no later than August 31, 2006.

5.2. Corporate Governance. (a) The name of the Surviving Corporation shall initially be KeySpan. The headquarters of the Surviving Corporation shall be in Brooklyn, New York.

(b) At or prior to the Effective Time, Parent shall take all actions necessary to appoint two directors who immediately prior to the Effective Time served as directors of KeySpan to the Board of Directors of Parent. One such director shall be the Person specified on Exhibit A hereto and the second such director shall be appointed pursuant to the conditions and process set forth on Exhibit A hereto. Exhibit A hereto shall also set forth (i) as of the Effective Time the Chairman of the Board of Directors of the Surviving Corporation, (ii) the manner in which certain senior officers of the Surviving Corporation as of the Effective Time will be selected after the date hereof and prior to the Effective Time and (iii) certain other matters. All appointments made pursuant to this Section 5.2 and Exhibit A hereto shall be effective as of the Effective Time and shall comply with the applicable listing and corporate governance rules of the NYSE, the UKLA, the LSE and the applicable provisions of the Exchange Act and all other applicable laws and regulations, in each case, as in effect at the Effective Time.

(c) During the four-year period immediately following the Effective Time, the Surviving Corporation shall provide, directly or indirectly, charitable contributions and traditional local community support within the service areas of KeySpan and each of its Subsidiaries that are utilities at levels substantially comparable to and no less than the levels of charitable contributions and community support provided by KeySpan and such Subsidiaries within their service areas within the four-year period immediately prior to the date of this Agreement, as set forth on Section 5.2 of the KeySpan Disclosure Schedule. Without limitation to the foregoing, the Surviving Corporation will for such period continue to support the KeySpan Foundation in a manner substantially comparable to the manner in which KeySpan supported the KeySpan Foundation within the four-year period immediately prior to the date of this Agreement, as set forth on Section 5.2 of the KeySpan Disclosure Schedule.

5.3. Access to Information. Upon reasonable notice, KeySpan shall (and shall cause its Subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of Parent reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records (including, without limitation, any Tax Returns) and, during such period, KeySpan shall (and shall cause its Subsidiaries to) furnish promptly to Parent (a) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under applicable law), and (b) consistent with its legal obligations, all other information concerning its business, properties and personnel as Parent may reasonably request; provided however, that KeySpan may restrict the foregoing access to the extent that (i) a Governmental Entity requires KeySpan or any of its Subsidiaries to restrict access to any properties or information reasonably related to any such contract on the basis of applicable laws and regulations with respect to national security matters, (ii) any law, treaty, rule or regulation of any Governmental Entity applicable to KeySpan requires KeySpan or its Subsidiaries to restrict access to any properties or information, (iii) KeySpan or its Subsidiaries is bound by a confidentiality agreement that requires KeySpan or its Subsidiaries to restrict such access or (iv) where such access would be reasonably likely to waive the attorney-client privilege. The parties will hold any such information which is non-public in confidence to the extent required by, and in accordance with, the provisions of the letter dated June 13, 2005 between KeySpan and Parent (the "Confidentiality Agreement"). Any investigation by KeySpan or Parent shall not affect the representations and warranties of KeySpan or Parent, as the case may be.

5.4. Reasonable Best Efforts. (a) Subject to the terms and conditions of this Agreement, each party shall, and shall cause its respective Subsidiaries to, use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof. In furtherance and not in limitation of the foregoing, each party hereto agrees to make an appropriate filing (and to share equally in the filing fees) of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby at a mutually agreed time and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and to take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) Each of Parent and KeySpan shall, and shall cause its respective Subsidiaries to, in connection with the efforts referenced in Section 5.4(a) to obtain all requisite approvals and authorizations for the transactions contemplated by this Agreement under the HSR Act or any other applicable law or regulation, use its reasonable best efforts to (i) make all appropriate filings and submissions with any Governmental Entity that may be necessary, proper or advisable under applicable laws or regulations in respect of any of the transactions contemplated by this Agreement, (ii) cooperate in all respects with each other in connection with any such filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (iii) promptly inform the other party of any communication received by such party from, or given by such party to, the Antitrust Division of the Department of Justice (the "DOJ") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby and (iv) as reasonably practical, permit the other party to review any communication given by it to, and consult with each other in advance of any meeting or conference with, the DOJ or any such other Governmental Entity or, in connection with any proceeding by a private party, with any other Person.

(c) Each of Parent and KeySpan shall, and shall cause its respective Subsidiaries, in connection with the efforts referenced in Section 5.4 (a), to obtain all requisite approvals and authorizations for the transactions contemplated by the Agreement, and use its reasonable best efforts to obtain the KeySpan Required Approvals and the Parent Required Approvals; provided, however, that Parent shall have primary responsibility for the preparation and filing of any applications, filings or other materials with the FERC, the NYPSC and the NHPUC. If Parent determines to make a filing with the Massachusetts Department of Telecommunications and Energy in connection with the Merger, KeySpan shall cooperate with Parent in connection with such filing. KeySpan and Parent shall cooperate in connection with seeking the consents set forth in Section 5.4(c) of the KeySpan Disclosure Letter (the "Additional KeySpan Consents") subject to the terms and conditions set forth therein. KeySpan shall have the right to review and approve in advance all characterizations of the information relating to KeySpan and the Merger that appear in any application, notice, petition or filing made in connection with the Merger. KeySpan and Parent agree that they will consult and cooperate with each other with respect to the obtaining of the KeySpan Required Approvals, the Parent Required Approvals and the Additional KeySpan Consents, as well as any additional necessary approvals and authorizations of Governmental Authorities.

(d) In furtherance and not in limitation of the covenants of the parties contained in Sections 5.4(a), (b) and (c), if any objections are asserted with respect to the transactions contemplated by this Agreement or if any suit is instituted (or threatened to be instituted) by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any Antitrust Law or other Law or otherwise brought under any such Law that would otherwise prohibit or materially impair or materially delay the consummation of the transactions contemplated hereby, each of Parent, Merger Sub and KeySpan shall use its reasonable best efforts to resolve any such objections or suits so as to permit consummation of the transactions contemplated by this Agreement, including in order to resolve such objections or suits which, in any case if not resolved, could reasonably be expected to prohibit or materially impair or delay the consummation of the transactions contemplated hereby, including selling, holding separate or otherwise disposing of or conducting its business in a manner which would resolve such objections or suits or agreeing to sell, hold separate or otherwise dispose of or conduct its business in a manner which would resolve such objections or suits or permitting the sale, holding separate or other disposition of, any of its assets or the assets of its Subsidiaries or the conducting of its business in a manner which would resolve such objections or suits; <u>provided</u>, <u>however</u>, that no party shall be required to, or may, in the case of KeySpan, take any such actions to resolve any such objections or suits which actions, individually or in the aggregate, (x) are not conditional on the consummation of the Merger, or (y) would have a Material Adverse Effect on National Grid USA or KeySpan. Without excluding other possibilities, the transactions contemplated by this Agreement shall be deemed to be materially delayed if unresolved objections or suits delay or could reasonably be expected to delay the consummation of the transactions contemplated hereby beyond the End Date (as defined in Section 7.1(h)). For purposes of this Agreement, "<u>Antitrust Law</u>" shall mean the

Sherman Act, as amended, the Clayton Act, as amended, Council Regulation (EC) 139/2004, the HSR Act, the FTC Act, as amended, and all other federal, state and foreign statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or impeding or lessening of competition through merger or acquisition, in any case that are applicable to the transactions contemplated by this Agreement.

(e) Subject to the obligations under Section 5.4(d), in the event that any administrative or judicial action or proceeding is instituted (or threatened to be instituted) by a Governmental Entity or private party challenging any transaction contemplated by this Agreement, or any other agreement contemplated hereby each of Parent and KeySpan shall cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding.

(f) Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 5.4 shall limit a party's right to terminate this Agreement pursuant to Section 7.1(h) so long as such party has up to then complied in all material respects with its obligations under this Section 5.4.

5.5. No Solicitation by KeySpan. (a) From the date hereof until the earlier of the Effective Time or the date on which this Agreement is terminated in accordance with the terms hereof, KeySpan shall not, nor shall it permit any of its Subsidiaries to, nor shall it or its Subsidiaries authorize or permit any of their respective officers, directors, employees, representatives or agents to, directly or indirectly, (i) solicit, initiate or knowingly encourage or facilitate (including by way of furnishing non-public information) any inquiries regarding, or the making of any proposal which constitutes or that may reasonably be expected to lead to, any Takeover Proposal, (ii) enter into any letter of intent or agreement related to any Takeover Proposal (each, an "Acquisition Agreement") or (iii) participate in any discussions or negotiations regarding, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or that may reasonably be expected to lead to, any Takeover Proposal; provided, however, that if, at any time after the date hereof and prior to the KeySpan Stockholders Meeting, KeySpan receives an unsolicited *bona fide* written Takeover Proposal from any third Person that in the reasonable good faith judgment of KeySpan's Board of Directors constitutes, or is reasonably likely to result in, a Superior Proposal and the Board of Directors of KeySpan determines in its reasonable good faith judgment, after consultation with outside counsel, that failure to take any such action would be inconsistent with its fiduciary duties under applicable law, KeySpan may, in response to such Superior Proposal, (x) furnish information with respect to KeySpan to any such Person pursuant to a confidentiality agreement no more favorable to such Person than the Confidentiality Agreement is to Parent and (y) participate in negotiations with such Person regarding such Superior Proposal if (A) prior to furnishing such non-public information to, or entering into discussions or negotiations with, such third Person, KeySpan or any of its Subsidiaries provides at least four business days advance written notice to Parent of the identity of the third Person making, and the proposed terms and conditions of, such Superior Proposal and a copy of all written materials delivered by such third Person to KeySpan or any of its Subsidiaries, (B) KeySpan shall have provided to Parent a copy of all written materials delivered to the third Person making the Superior Proposal in connection with such Superior Proposal and made available to Parent all materials and information made available to the third Person making the Superior Proposal in connection with such Superior Proposal and (C) KeySpan shall have fully complied with this Section 5.5. For purposes of this Agreement, "Takeover Proposal" means any inquiry, proposal or offer from any Person (other than Parent and its Affiliates) relating to any direct or indirect acquisition or purchase of 20% or more of the assets of KeySpan and its Subsidiaries or 20% or more of the voting power of the capital stock of KeySpan or the capital stock of any of its Significant Subsidiaries then outstanding, any tender offer or exchange offer that if consummated would result in any Person beneficially owning 20% or more of the voting power of the capital stock of KeySpan or the capital stock of such Subsidiaries then outstanding, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving KeySpan or any of its Significant Subsidiaries, other than the transactions with Parent and Merger Sub contemplated by this Agreement. For purposes of this Agreement, a "Superior Proposal" means any unsolicited *bona fide* written offer made by any Person (other than Parent and its Affiliates) to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the voting power of the capital stock of KeySpan then outstanding or all or substantially all the assets of KeySpan and otherwise on terms which the Board of Directors of KeySpan determines in its reasonable good faith judgment (after consultation with its financial advisors) to be more favorable (taking into account (i) all financial and strategic considerations, including relevant legal, financial, regulatory and other aspects of such Takeover Proposal and the Merger and the other transactions contemplated by this Agreement deemed relevant by the Board of Directors, (ii) the identity of the third party making such Takeover Proposal, (iii) the conditions and prospects for completion of such Takeover Proposal and (iv) all other factors that the Board of Directors of KeySpan are permitted to consider pursuant to §717 of the NYBCL; provided, however, that no Takeover Proposal consisting of all cash consideration may be deemed a Superior Proposal unless the per share cash consideration proposed pursuant to the Takeover Proposal is greater than the Merger Consideration (as such consideration may be proposed to be changed by Parent pursuant to the terms of this Agreement) to KeySpan's stockholders than the Merger and the other transactions contemplated by this Agreement (taking into account all of the terms of any proposal by Parent to amend or modify the terms of the Merger and the other transactions contemplated by this Agreement).

(b) Except as set forth in Section 7.1(e), neither the Board of Directors of KeySpan nor any committee thereof shall (i) approve or recommend, or propose to approve or recommend, any Takeover Proposal or (ii) authorize or permit KeySpan or any of its Subsidiaries to enter into any Acquisition Agreement.

(c) Nothing contained in this Section 5.5 shall prohibit KeySpan from complying with Rules 14d–9 or 14e–2 promulgated under the Exchange Act with respect to a Takeover Proposal; provided, however, that compliance with such rules shall not in any way limit or modify the effect that any action taken pursuant to such rules has under any other provision of this Agreement, including Section 7.1(d).

(d) KeySpan agrees that it and its Subsidiaries shall, and KeySpan shall direct and cause its and its Subsidiaries' respective officers, directors, employees, representatives and agents to, immediately cease and cause to be terminated any activities, discussions or negotiations with any Persons with respect to any Takeover Proposal. KeySpan agrees that it will notify Parent in writing as promptly as practicable (and in any event within 24 hours) after any Takeover Proposal is received by, any information is requested from, or any discussions or negotiations relating to a Takeover Proposal are sought to be initiated or continued with, KeySpan, its Subsidiaries, or their officers, directors, employees, representatives or agents. The notice shall indicate the name of the Person making such Takeover Proposal or taking such action, the material terms and conditions of any proposals or offers and a copy of all written materials delivered by such Person making the Takeover Proposal to KeySpan or any of its Subsidiaries, and thereafter KeySpan shall keep Parent informed, on a current basis, of the status and material terms of any such proposals or offers and the status and details of any such discussions or negotiations and provide Parent with copies of all written materials delivered by such Person making the Takeover Proposal to KeySpan or any of its Subsidiaries and keep Parent informed of any amendments or prospective amendments to such information. KeySpan also agrees that it will promptly request each Person that has heretofore executed a confidentiality agreement in connection with any Takeover Proposal to return or destroy all confidential information heretofore furnished to such Person by or on behalf of it or any of its Subsidiaries. KeySpan shall provide Parent with reasonable advance notice of any meeting of the KeySpan Board of Directors to discuss or consider a Takeover Proposal.

5.6. KeySpan Stock Options and Other Stock Awards; Employee Benefits Matters. (a) Options. KeySpan shall take all action reasonably necessary so that, immediately prior to the Effective Time, each outstanding stock option issued under the KeySpan Benefit Plans shall become vested and exercisable as of the Effective Time and shall be canceled and the holder thereof shall be entitled to receive at the Effective Time from KeySpan or as soon as practicable thereafter (but in no event later than 10 days after the Effective Time) from Parent or the Surviving Corporation in consideration for such stock option an amount in cash equal to (A) the excess, if any, of the Merger Consideration per share over the exercise price per share previously subject to such stock option, less any required withholding taxes, multiplied by (B) the number of shares of KeySpan Common Stock previously subject to such stock option (a "Canceled Option"). As soon as practicable after the Effective Time, Parent shall deliver or cause to be delivered to each holder of Canceled Options an appropriate notice setting forth such holder's rights to receive cash payments with respect to Cancelled Options pursuant to the KeySpan Benefit Plans and this Section 5.6(a).

(b) Other KeySpan Stock Awards. All shares of KeySpan Common Stock and any other KeySpan stock unit awards (and any dividend equivalent rights thereunder) granted subject to vesting, deferral or other lapse restrictions pursuant to any KeySpan Benefit Plan (collectively, the "Other KeySpan Stock Awards") which are outstanding immediately prior to the Effective Time shall vest and become free of such restrictions as of the Effective Time, and shall be cancelled to the extent provided by the terms of such KeySpan Benefit Plans and the award agreements governing such Other KeySpan Stock Awards at the Effective Time, and each holder thereof shall be entitled to receive the product of (i) the Merger Consideration, multiplied by (ii) the total number of shares of KeySpan Common stock subject to such Other KeySpan Stock Award, less any required withholding taxes.

(c) Employment Related Obligations; Employee Benefits.

(i) Obligations of Parent; Comparability of Benefits. Parent shall cause the Surviving Corporation and each of its Subsidiaries to honor all employment related obligations and agreements with respect to any current and former employees, directors and consultants of KeySpan or any of its Subsidiaries ("KeySpan Employees") (including without limitation (A) recognizing and, as required by Law, bargaining with, or continuing to recognize and, as required by Law, bargain with, the current exclusive collective bargaining representatives of the KeySpan Employees and (B) honoring, or continuing to honor, all current collective bargaining agreements. As of the Effective Time, each KeySpan Employee covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule shall remain covered by such collective bargaining agreement. In addition, each KeySpan Benefit Plan shall be assumed by the Surviving Corporation at the Effective Time (and Parent shall cause the Surviving Corporation to make all required payments pursuant to such KeySpan Benefit Plans and any trusts thereunder). For at least two years thereafter, Parent shall cause the Surviving Corporation and each of its Subsidiaries to provide each KeySpan Employee, who is not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule, with a base salary or hourly wages, as applicable, at least equal to that provided to such KeySpan Employee immediately prior to the Effective Time, and to provide benefits to KeySpan Employees, who are not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule, that are no less favorable than the benefits provided, in the aggregate, to KeySpan Employees immediately prior to the Effective Time; provided, however, that for such two-year period, each KeySpan Employee who is not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule shall be eligible to receive severance payments and benefits no less favorable than those provided under the KeySpan severance plans and policies as set forth in Section 5.6(c) of the KeySpan Disclosure Schedule. Notwithstanding the foregoing, nothing herein shall require the continuation of any particular KeySpan Benefit Plan or prevent the amendment or termination thereof (subject to the maintenance of the benefits as provided in the preceding sentence and subject to satisfaction of any legal duty to bargain with the collective bargaining representatives of KeySpan Employees with respect to such matters).

(ii) Pre-Existing Limitations; Deductible; Service Credit. With respect to any KeySpan Benefit Plans in which KeySpan Employees participate after the Effective Time, Parent shall: (A) to the extent satisfied or inapplicable under applicable KeySpan Benefit Plans immediately prior to the Effective Time, waive all limitations as to pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to KeySpan Employees under any Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, (B) provide each KeySpan Employee with credit for any co-payments and deductibles paid prior to participation in such Parent Benefit Plan in satisfying any applicable deductible or out-of-pocket requirements under any welfare Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, and (C) recognize all service except to the extent such recognition would result in duplication of benefits (unless such duplication is expressly contemplated in a plan, agreement or other arrangement of, or approved by, Parent) of KeySpan Employees with KeySpan and its current and former affiliates for purposes (of eligibility to participate, vesting credit and entitlement for benefits (but not for purposes of benefit accrual under any defined benefit pension plan) in any Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, to the same extent taken into account under a comparable KeySpan Benefit Plan immediately prior to the Effective Time.

5.7. Fees and Expenses. Except as provided in this Section 5.7 and Section 7.2, all fees and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated, except that each of Parent and KeySpan shall bear and pay one-half of the costs and expenses incurred in connection with the filings of the premerger notification and report forms under the HSR Act (including filing fees).

5.8. Directors' and Officers' Indemnification and Insurance. (a) After the Effective Time through the sixth anniversary of the Effective Time, Parent shall, or shall, cause the Surviving Corporation to, indemnify and hold harmless each present (as of the Effective Time) or former officer, director or employee of KeySpan and its Subsidiaries (the "Indemnified Parties"), against all claims, losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses (including attorneys' fees and expenses) incurred in connection with any claim, action, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to (i) the fact that the Indemnified Party is or was an officer, director or employee of KeySpan or any of its Subsidiaries or (ii) matters existing or occurring at or prior to the Effective Time (including this Agreement and the transactions and actions contemplated hereby), whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent permitted under applicable law; provided that no Indemnified Party may settle any such claim without the prior approval of Parent (which approval shall not be unreasonably withheld or delayed). Each Indemnified Party will be entitled to advancement of expenses incurred in the defense of any claim, action, proceeding or investigation from Parent within ten Business Days of receipt by Parent from the Indemnified Party of a request therefor; provided that any person to whom expenses are advanced provides an undertaking, to the extent required by the NYBCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) Parent shall cause the Surviving Corporation to maintain in effect (i) in its certificate of incorporation and by-laws for a period of six years after the Effective Time, the current provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers, directors and employees contained in the certificate of incorporation and by-laws of KeySpan and (ii) at the election of Parent, for a period of six years after the Effective Time, (A) maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by KeySpan (provided that Parent may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time; provided, however, that in no event shall the Surviving Corporation be required to expend in any one year an amount in excess of 200% of the annual premiums currently paid by KeySpan for such insurance; and, provided, further, that if the annual premiums of such insurance coverage exceed such amount, Parent or the Surviving Corporation shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding such amount or (B) provide tail coverage for such persons covered by current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by KeySpan which tail coverage shall provide coverage for a period of six years for acts prior to the Effective Time on terms no less favorable than the terms of such current insurance coverage.

(c) Notwithstanding anything herein to the contrary, if any claim, action, proceeding or investigation (whether arising before, at or after the Effective Time) is made against any Indemnified Party on or prior to the sixth anniversary of the Effective Time, the provisions of this Section 5.8 shall continue in effect until the final disposition of such claim, action, proceeding or investigation.

(d) In the event that Parent, any of its successors or assigns or the Surviving Corporation (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors or assigns of Parent or the Surviving Corporation, as the case may be, shall succeed to the obligations set forth in Section 5.6 and this Section 5.8.

5.9. Public Announcements. KeySpan and Parent shall cooperate to develop a joint communications plan and cooperate (i) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (ii) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby.

5.10. Conveyance Taxes. KeySpan and Parent shall cooperate in the preparation, execution and filing of all Tax Returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp Taxes, any transfer, recording, registration and other fees and any similar Taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be paid on or before the Effective Time.

5.11. Restructuring of Merger. It may be preferable to effectuate a business combination between Parent and KeySpan by means of an alternative structure to the Merger. Accordingly, if prior to satisfaction of the conditions contained in Article VI hereto, Parent proposes the adoption of an alternative structure that otherwise preserves for Parent and KeySpan the economic benefits of the Merger and will not materially delay the consummation thereof, then the parties shall use their respective reasonable best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits; provided, however, that prior to closing any such restructured transaction, all material third party and Governmental Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary for the effectuation of such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger and other transactions contemplated hereby, as applied to such alternative business combination, shall have been satisfied or waived.

ARTICLE VI

CONDITIONS PRECEDENT

6.1. Conditions to Each Party's Obligation to Effect the Merger. The obligations of KeySpan and Parent to effect the Merger are subject to the satisfaction or mutual waiver on or prior to the Closing Date of the following conditions:

(a) Required KeySpan Vote. KeySpan shall have obtained the Required KeySpan Vote for the adoption of this Agreement by the stockholders of KeySpan.

(b) Required Parent Vote. Parent shall have obtained the Required Parent Vote for the approval of this Agreement.

(c) No Injunctions or Restraints; Illegality. No federal, state, local or foreign, law, statute, regulation, code, ordinance or decree shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other Governmental Entity of competent jurisdiction (collectively "Restraints") shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(d) Approvals. The KeySpan Required Approvals and the Parent Required Approvals shall have been obtained (including, in each case and without limitation, the waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired) at or prior to the Effective Time, such approvals shall have become Final Orders and such Final Orders, together with the Additional KeySpan Consents, shall not individually or in the aggregate, impose terms or conditions that would reasonably be expected to result in a Material Adverse Effect on National Grid USA or KeySpan. "Final Order" means action by the relevant Governmental Entity that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired (but without the requirement for expiration of any applicable rehearing or appeal period), and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied. Any reference in this Agreement to the "obtaining" of any such approvals shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents, permits or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law.

6.2. Additional Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are subject to the satisfaction of, or waiver by Parent and Merger Sub, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of KeySpan set forth herein shall be true and correct both when made and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein) does not have, and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on KeySpan; provided, that the representation and warranties of KeySpan in Section 3.1(h)(i) shall be true in all respects without disregarding the reference to Material Adverse Effect therein.

(b) Performance of Obligations of KeySpan. KeySpan shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Absence of Certain Changes or Events. Since the date of this Agreement, no event has occurred which has had, and no fact or circumstance exists that has resulted in or would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(d) Certificate. Parent shall have received a certificate, dated as of the closing date, executed on behalf of KeySpan by the chief executive officer or the chief financial officer of KeySpan, to such effect that the conditions specified in paragraphs (a), (b) and (c) of this Section 6.2 have been satisfied.

6.3. Additional Conditions to Obligations of KeySpan. The obligations of KeySpan to effect the Merger are subject to the satisfaction of, or waiver by KeySpan, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Merger Sub set forth herein shall be true and correct both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein) does not have, and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent or Merger Sub.

(b) Performance of Obligations of Parent and Merger Sub. Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Certificate. KeySpan shall have received a certificate, dated as of the closing date, executed on behalf of Parent by the chief executive officer or the chief financial officer of Parent, to such effect that the conditions specified in paragraphs (a) and (b) of this Section 6.3 have been satisfied.

ARTICLE VII

TERMINATION AND AMENDMENT

7.1. Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after the Required KeySpan Vote or the Required Parent Vote:

(a) by mutual written consent of KeySpan and Parent;

(b) by either KeySpan or Parent if any Restraint having any of the effects set forth in Section 6.1(c) shall be in effect and shall have become final and nonappealable; provided that the party seeking to terminate this Agreement pursuant to this Section 7.1(b) shall have fulfilled its obligations pursuant to Section 5.4;

(c) by Parent if there has been a breach of any representation, warranty, covenant or other agreement made by KeySpan in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, in each case such that Section 6.2(a) or Section 6.2(b) would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by Parent to KeySpan;

(d) by Parent if (i) the Board of Directors of KeySpan shall not have recommended, or the Board of Directors of KeySpan (or any committee thereof) shall have withdrawn or shall have qualified or modified in any manner adverse to Parent its recommendation of, this Agreement or its approval of or declaration that this Agreement and the Merger are advisable and fair to, and in the best interests of, KeySpan and its stockholders or shall have taken any other action or made any other statement in connection with the KeySpan Stockholders Meeting inconsistent with such recommendation, approval or declaration, (ii) the Board of Directors of KeySpan (or any committee thereof) shall have approved or recommended any Takeover Proposal, (iii) the Board of Directors of KeySpan (or any committee thereof) shall have proposed or resolved to do any of the foregoing in clauses (i) and (ii) or (iv) a tender offer or exchange offer for 20% or more of the outstanding shares of capital stock of KeySpan is commenced, and the Board of Directors of KeySpan fails to recommend against acceptance of such tender offer or exchange offer by its stockholders within 10 business days after such commencement (including by taking no position with respect to the acceptance of such tender offer or exchange offer by its stockholders);

(e) by KeySpan prior to the KeySpan Stockholders Meeting if (A) the Board of Directors of KeySpan authorizes KeySpan, subject to complying with the terms of this Agreement, to enter into a definitive agreement concerning a transaction that constitutes a Superior Proposal, (B) Parent does not make, or cause to be made, within four business days of receipt of KeySpan's written notification of its intention to enter into a definitive agreement for a Superior Proposal, an offer that the Board of Directors of KeySpan determines, in its reasonable good faith judgment after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the stockholders of KeySpan as the Superior Proposal and (C) KeySpan, prior to or concurrently with such termination pays to Parent in immediately available funds the amount required by Section 7.2(b). KeySpan agrees (x) that it will not enter into a definitive agreement referred to in clause (A) above until at least the fifth business day after it has provided the notice to Parent required thereby and (y) to notify Parent promptly in writing if its intention to enter into a definitive agreement referred to in its notification shall change at any time after giving such notification;

(f) by KeySpan if there has been a breach of any representation, warranty, covenant or other agreement made by Parent or Merger Sub in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, in each case such that Section 6.3(a) or Section 6.3(b) would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by KeySpan to Parent;

(g) by either KeySpan or Parent if (i) at the KeySpan Stockholders Meeting (including any adjournment or postponement thereof), the Required KeySpan Vote shall not have been obtained, or (ii) at the Parent Shareholders Meeting (including any adjournment or postponement thereof), the Required Parent Vote shall not have been obtained; or

(h) by either Parent or KeySpan, if the Merger shall not have been consummated by the 15-month anniversary of the date of this Agreement (the "End Date"); provided, however, that if all other conditions set forth in Article VI (other than conditions that by their nature are to be satisfied on the Closing Date) are satisfied other than the condition to the Closing set forth in Section 6.1(d) which remains capable of being fulfilled, then either Parent or KeySpan by written notice delivered prior to the End Date, may extend such period by three months after the End Date; provided, further, that the right to terminate this Agreement under this Section 7.1(h) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before the End Date.

7.2. Effect of Termination. (a) In the event of a termination of this Agreement by either KeySpan or Parent as provided in Section 7.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Parent, Merger Sub or KeySpan or their respective officers or directors, except with respect to Section 3.1(l), Section 3.2(g), Section 5.7, this Section 7.2 and Article VIII; provided, however, that nothing herein shall relieve any party for liability for any willful or knowing breach hereof.

(b) In the event of a termination of this Agreement by Parent pursuant to Section 7.1(d) or by KeySpan pursuant to Section 7.1(e), then KeySpan shall, on the date of such termination, pay to Parent, by wire transfer of immediately available funds, the amount of $250,000,000 (the "Termination Fee").

(c) In the event that between the date hereof and the termination of this Agreement any Person shall have directly or indirectly publicly disclosed to KeySpan and/or publicly disclosed or made known to KeySpan's stockholders (x) a Takeover Proposal or (y) generally that if the Merger is not consummated such Person or one of its Affiliates will make a Takeover Proposal and thereafter, in each case, this Agreement is terminated by Parent or KeySpan pursuant to Section 7.1(g)(i) or Section 7.1(h), and if concurrently with such termination or within twelve months of such termination KeySpan or any of its Subsidiaries enters into a definitive agreement with respect to a Takeover Proposal or consummates a Takeover Proposal, then KeySpan shall, upon the earlier of entry into a definitive agreement with respect to a Takeover Proposal or consummation of a Takeover Proposal, pay to Parent, by wire transfer of immediately available funds, the Termination Fee.

(d) In the event that between the date hereof and the termination of this Agreement (A) any Person shall have directly or indirectly publicly disclosed to Parent and/or publicly disclosed or made known to Parent's shareholders (x) a proposal with respect to a Parent Acquisition Transaction or (y) generally that if the Merger is not consummated such

Person or one of its Affiliates will commence a Parent Acquisition Transaction and (B) thereafter this Agreement is terminated by KeySpan or Parent pursuant to Section 7.1(g)(ii), and if concurrently with such termination or within twelve months of such termination a Parent Acquisition Transaction occurs or Parent or any of its Subsidiaries shall enter into a definitive agreement with respect to a Parent Acquisition Transaction then Parent shall, upon the earlier of the date on which such Parent Acquisition Transaction occurs or the date on which Parent enters into a definitive agreement with respect to a Parent Acquisition Transaction, pay to KeySpan by wire transfer of immediately available funds the amount of the Parent Termination Fee. For the purposes of this Agreement (i) "Parent Termination Fee" means the lesser of $250,000,000 or one percent of the market capitalization of Parent on the date such payment becomes due and payable and (ii) "Parent Acquisition Transaction" means the acquisition, directly or indirectly, for consideration consisting of cash and/or securities, of more than 50% of the voting power of the capital stock of Parent then outstanding or all or substantially all the assets of Parent.

(e) KeySpan and Parent acknowledge that the agreements contained in Sections 7.2(b) through (e) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent or KeySpan, as applicable, would not enter into this Agreement; accordingly, if KeySpan or Parent, as applicable, fails to promptly pay the amount due pursuant to Section 7.2(b), (c) or (d), as the case may be, and, in order to obtain such payment, Parent or KeySpan, as applicable, commences a suit which results in a judgment against KeySpan or Parent, as applicable, for any of the amounts set forth in Section 7.2(b), (c) or (d), as the case may be, KeySpan or Parent, as applicable, shall pay to Parent or KeySpan, as applicable, its costs and expenses (including attorneys' fees) in connection with such suit. Interest shall accrue on any amounts due under Section 7.2(b), (c), or (d) from and after 30 days of the date such amount is due at the prime rate of Citibank N.A. in effect on the date such payment was required to be made.

7.3. Amendment. This Agreement may be amended by the parties at any time before or after the Required KeySpan Vote or the Required Parent Vote; provided, however, that after any such approval, there shall not be made any amendment that by law requires further approval by the stockholders of KeySpan or shareholders of Parent without the further approval of such stockholders or such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

7.4. Extension; Waiver. At any time prior to the Effective Time, a party may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties of the other parties contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 7.3, waive compliance by the other parties with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

ARTICLE VIII

GENERAL PROVISIONS

8.1. Non-Survival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein that by their terms apply or are to be performed in whole or in part after the Effective Time and this Article VIII. Nothing in this Section 8.1 shall relieve any party for any breach of any representation, warranty, covenant or other agreement in this Agreement occurring prior to termination.

8.2. Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or facsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the tenth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) if to Parent or Merger Sub to:

National Grid USA
25 Research Drive
Westborough, Massachusetts 01582
Attention: Lawrence J. Reilly
Telecopy No.: (508) 389-2605

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attention: Sheldon S. Adler
Telecopy No.: (212) 735-2000

(b) if to KeySpan to:

KeySpan Corporation
One MetroTech Center
Brooklyn, New York 11201
Attention: John J. Bishar, Jr.
Telecopy No.: (718) 403-2809

with a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attention: Mario A. Ponce
Telecopy No.: (212) 455-2502

8.3. Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation".

8.4. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that the parties need not sign the same counterpart.

8.5. Entire Agreement; Third Party Beneficiaries. (a) This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, other than the Confidentiality Agreements, which shall survive the execution and delivery of this Agreement.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than, immediately after the Effective Time, Section 5.8 (which is intended to be for the benefit of the Persons covered thereby and may be enforced by such Persons).

8.6. Governing Law. THIS AGREEMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

8.7. No Limitation on Other Representation. Except as otherwise expressly provided in this Agreement, nothing in any representation or warranty in this Agreement shall in any way limit or restrict the scope, applicability or meaning of any other representation or warranty made by KeySpan herein. It is the intention of the parties that, to the extent possible, unless provisions are mutually exclusive and effect cannot be given to both or all such provisions, the representations, warranties, covenants and closing conditions in this Agreement shall be construed to be cumulative and that each representation, warranty, covenant and closing condition in this Agreement shall be given full separate and independent effect.

8.8. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

8.9. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

8.10. Submission to Jurisdiction; Waivers. Any suit, action or proceeding against any party hereto may be brought in any federal or state court of competent jurisdiction located in the Borough of Manhattan in the State of New York, and each party hereto irrevocably consents to the jurisdiction and venue in the United States District Court for the Southern District of New York and in the courts hearing appeals therefrom unless no federal subject matter jurisdiction exists, in which event, each party hereto irrevocably consents to jurisdiction and venue in the Supreme Court of the State of New York, New York County, and in the courts hearing appeals therefrom. Each party hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 8.10, that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and to the fullest extent permitted by applicable law, that the suit, action or proceeding in any such court is brought in an inconvenient forum, that the venue of such suit, action or proceeding is improper, or that this Agreement, or the subject matter hereof or thereof, may not be enforced in or by such courts and further irrevocably waives, to the fullest extent permitted by applicable law, the benefit of any defense that would hinder, fetter or delay the levy, execution or collection of any amount to which the party is entitled pursuant to the final judgment of any court having jurisdiction. Each party hereto agrees that promptly following the date hereof (and in no event more than ten (10) days following the date hereof) it shall irrevocably designate a New York Person, such person, upon such designation, to be set forth (along with the address of such U.S. Person) across from such party's name on Exhibit B hereto (each a "Process Agent"), as the designees, appointees and agents of such party to receive, for and on such party's behalf, service of process in such jurisdiction in any legal action or proceeding with respect to this Agreement and such service shall be deemed complete upon delivery thereof to the Process Agent; provided that in the case of any such service upon a Process Agent, the party effecting such service shall also deliver a copy thereof to the party who designated such Process Agent in the manner provided in Section 8.2. Each party shall take all such action as may be necessary to continue said appointment in full force and effect or to appoint another agent so that it will at all times have an agent for service of process for the above purposes in New York, New York. Each party further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered airmail, postage prepaid, to such party at its address set forth in this Agreement, such service of process to be effective upon acknowledgement of receipt of such registered mail. Nothing herein shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the other party in any other jurisdiction in which the other party may be subject to suit. Each party expressly acknowledges that the foregoing waiver is intended to be irrevocable under the laws of the State of New York and of the United States of America; provided that each such party's consent to jurisdiction and service contained in this Section 8.10 is solely for the purpose referred to in this Section 8.10 and shall not be deemed to be a general submission to said courts or in the State of New York other than for such purpose. This Agreement does not involve less than $250,000, and the parties intend that §5-1401 of the New York General Obligations Law shall apply to this Agreement.

In the event of the transfer of all or substantially all of the assets and business of a Process Agent to any other corporation by consolidation, merger, sale of assets or otherwise, such other corporation shall be substituted hereunder for such Process Agent with the same effect as if originally named herein in place of such party's Process Agent.

8.11. Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

8.12. Definitions. As used in this Agreement:

(a) "Board of Directors" means the Board of Directors of any specified Person and any committees thereof.

(b) "Business Day" means any day on which banks are not required or authorized to close in the City of New York or the City of London.

(c) "Knowledge" when used with respect to any party means the knowledge, after reasonable investigation, of any executive officer of such party and with respect to KeySpan, shall also include those individuals listed in Section 8.12 of the KeySpan Disclosure Schedule.

(d) "Material Adverse Effect" means, when used with reference to any entity, any event, effect, change or development that, individually or in the aggregate with other events, effects, changes or developments (a) is, or would reasonably be expected to be, material and adverse to the financial condition, business, assets, liabilities (contingent or otherwise), operations or results of operations of such entity and any of its Subsidiaries, taken as a whole, or (b) prevents or has a material and adverse effect on the ability of such entity to perform its material obligations under this Agreement or to consummate the transactions contemplated hereby by the End Date; provided, however, that to the extent any event, effect, change or development is caused by or results from any of the following, in each case, it shall not be taken into account in determining whether there has been (or would reasonably be expected to be) a "Material Adverse Effect": (i) factors affecting the economy, financial markets or capital markets as a whole except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (ii) factors affecting the utility industry as a whole, except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (iii) the announcement of the execution of this Agreement, (iv) changes in laws, rules or regulations of any Governmental Entity affecting the utility industry as a whole except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (v) any change in generally accepted accounting principles by the Financial Accounting Standards Board, the SEC or any other regulatory body unless such change results in a cash impact on such party or (vi) any matter to the extent identified in Section 8.12 of the KeySpan Disclosure Schedule or Section 8.12 of the Parent Disclosure Schedule. For the avoidance of doubt, it is expressly agreed that (a) the failure to obtain any consent pursuant to the terms of items 9, 10 and 11 on Section 3.1(d)(ii) of the KeySpan Disclosure Schedule or necessary to prevent consummation of the Merger from being a default under the terms of items 9, 10 and 11 on Section 3.1(d)(ii) of the KeySpan Disclosure Schedule, the costs of obtaining any such consent and the impact of any agreements entered into in connection with obtaining such consents, shall be included in determining whether a Material Adverse Effect on KeySpan shall have occurred or shall be reasonably expected to occur and (b) with respect to regulatory approvals sought in connection with the Merger, only the terms and conditions of the KeySpan Required Approvals, the Parent Required Approvals and the Additional KeySpan Consents, as set forth in Section 6.1(d) of this Agreement, shall be included in determining whether a Material Adverse Effect on KeySpan shall have occurred or shall be reasonably expected to occur.

(e) "The Other Party" means, with respect to KeySpan, Parent and means, with respect to Parent, KeySpan.

(f) "Person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(g) "Significant Subsidiary" of any person means a Subsidiary of such Person that would constitute a "significant subsidiary" of such Person within the meaning of Rule 1.02(w) of Regulation S-X as promulgated by the SEC.

(h) "Subsidiary" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, (i) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership), (ii) of which at least a majority of the securities or other interests which have by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization are owned by such party or one or more of its Subsidiaries or (iii) that is directly or indirectly controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

8.13. Other Agreements. The parties hereto acknowledge and agree that, except as otherwise expressly set forth in this Agreement, the rights and obligations of KeySpan, Parent and Merger Sub under any other agreement between the parties shall not be affected by any provision of this Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: ______________________________
Name: Steven Holliday
Title: Group Director

NATIONAL GRID US8 INC.

By: ______________________________
Name: Michael E. Jesanis
Title: President

KEYSPAN CORPORATION

By: ______________________________
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: ______________________________
Name: Steven Holliday
Title: Group Director

NATIONAL GRID US8 INC.

By: ______________________________
Name: Michael E. Jesanis
Title: President

KEYSPAN CORPORATION

By: ______________________________
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: ______________________________
Name: Steven Holliday
Title: Chief Executive designate

NATIONAL GRID US8 INC.

By: ______________________________
Name: Michael E. Jesanis
Title: President

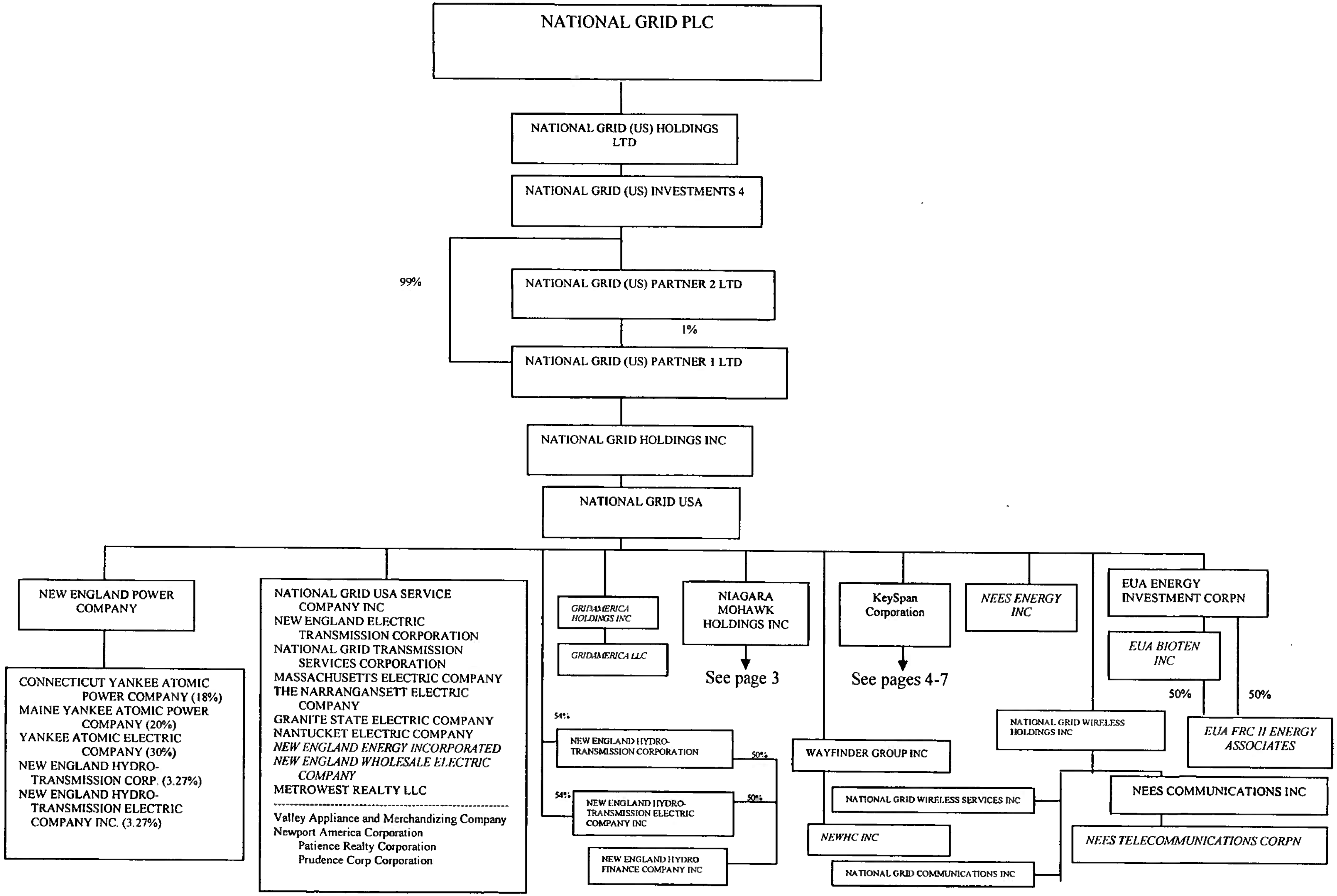
KEYSPAN CORPORATION

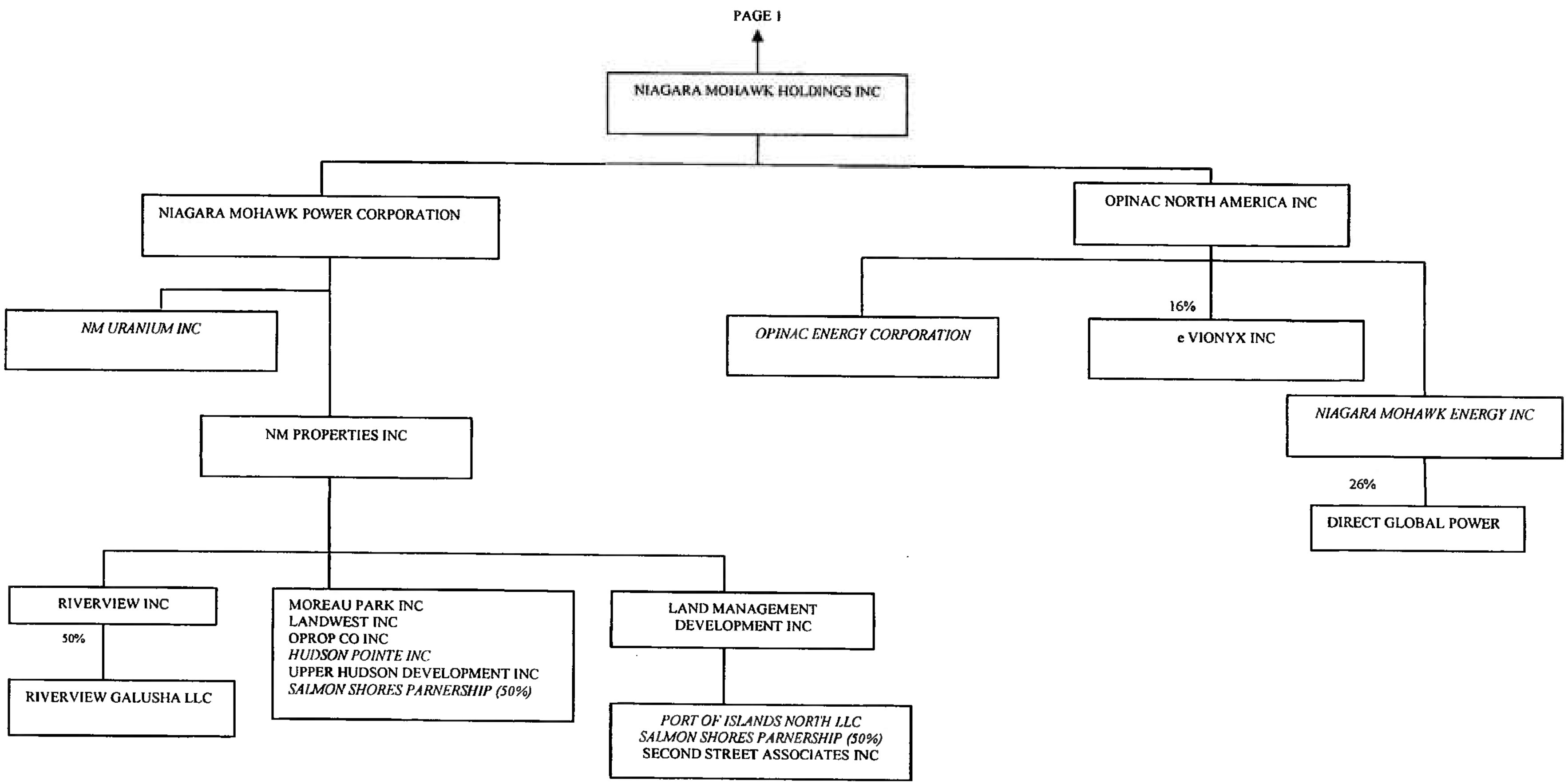
By: ______________________________
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

Appendix 3

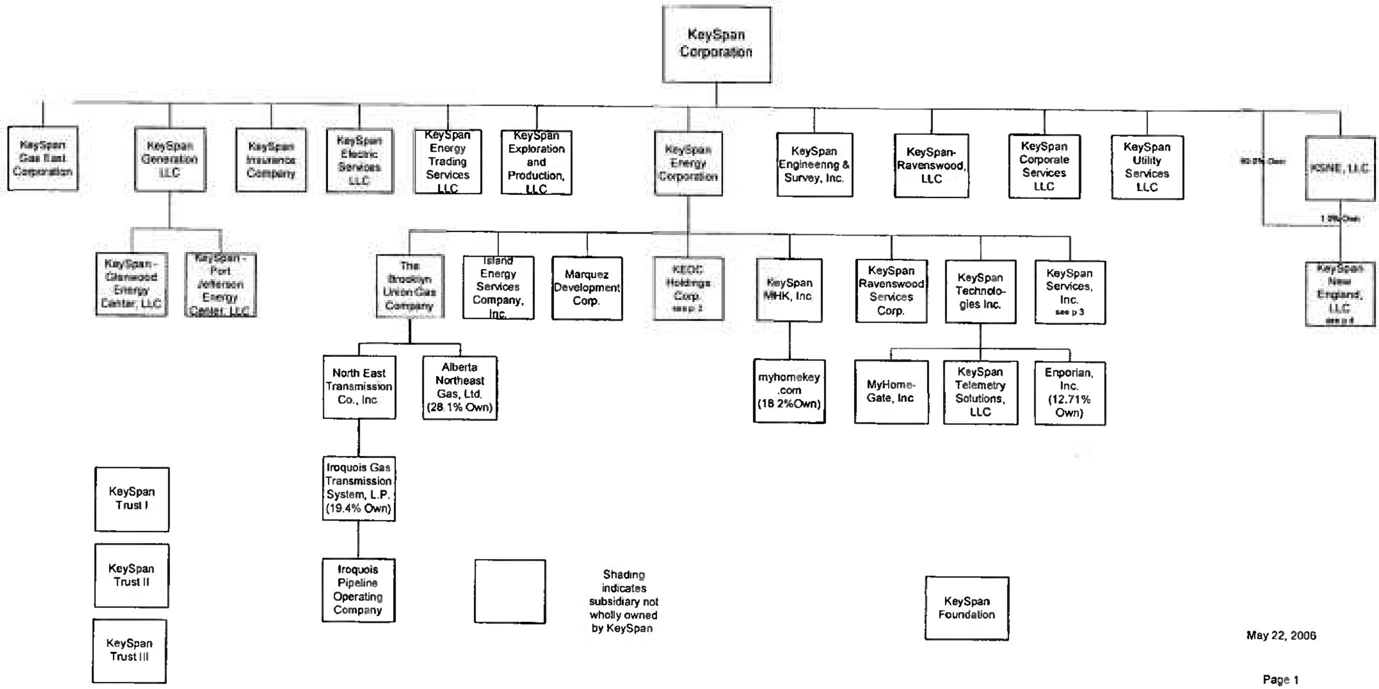
Organization Chart

The following chart depicts the post merger organization. As a result of the merger, KeySpan Corporation will become a wholly owned subsidiary of National Grid Plc as shown on page 2 of this document. KeySpan's pre-merger organization chart is shown on pages 4 through 7 of this document.


NATIONAL GRID PLC
NATIONAL GRID (US) HOLDINGS LTD
NATIONAL GRID (US) INVESTMENTS 4
99%
NATIONAL GRID (US) PARTNER 2 LTD
1%
NATIONAL GRID (US) PARTNER 1 LTD
NATIONAL GRID HOLDINGS INC
NATIONAL GRID USA
NEW ENGLAND POWER COMPANY
CONNECTICUT YANKEE ATOMIC POWER COMPANY (18%)
MAINE YANKEE ATOMIC POWER COMPANY (20%)
YANKEE ATOMIC ELECTRIC COMPANY (30%)
NEW ENGLAND HYDRO-TRANSMISSION CORP. (3.27%)
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY INC. (3.27%)
NATIONAL GRID USA SERVICE COMPANY INC
NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION
NATIONAL GRID TRANSMISSION SERVICES CORPORATION
MASSACHUSETTS ELECTRIC COMPANY
THE NARRAGANSETT ELECTRIC COMPANY
GRANITE STATE ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
NEW ENGLAND ENERGY INCORPORATED
NEW ENGLAND WHOLESALE ELECTRIC COMPANY
METROWEST REALTY LLC
Valley Appliance and Merchandizing Company
Newport America Corporation
Patience Realty Corporation
Prudence Corp Corporation
GRIDAMERICA HOLDINGS INC
GRIDAMERICA LLC
NIAGARA MOHAWK HOLDINGS INC
See page 3
KeySpan Corporation
See pages 4-7
NEES ENERGY INC
EUA ENERGY INVESTMENT CORPN
EUA BIOTEN INC
50%
50%
EUA FRC II ENERGY ASSOCIATES
54%
NEW ENGLAND HYDRO-TRANSMISSION CORPORATION
50%
54%
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY INC
50%
NEW ENGLAND HYDRO FINANCE COMPANY INC
WAYFINDER GROUP INC
NATIONAL GRID WIRELESS SERVICES INC
NEWHC INC
NATIONAL GRID COMMUNICATIONS INC
NATIONAL GRID WIRELESS HOLDINGS INC
NEES COMMUNICATIONS INC
NEES TELECOMMUNICATIONS CORPN


PAGE 1
NIAGARA MOHAWK HOLDINGS INC
NIAGARA MOHAWK POWER CORPORATION
OPINAC NORTH AMERICA INC
NM URANIUM INC
OPINAC ENERGY CORPORATION
16%
e VIONYX INC
NIAGARA MOHAWK ENERGY INC
26%
DIRECT GLOBAL POWER
NM PROPERTIES INC
RIVERVIEW INC
50%
RIVERVIEW GALUSHA LLC
MOREAU PARK INC
LANDWEST INC
OPROP CO INC
HUDSON POINTE INC
UPPER HUDSON DEVELOPMENT INC
SALMON SHORES PARNERSHIP (50%)
LAND MANAGEMENT DEVELOPMENT INC
PORT OF ISLANDS NORTH LLC
SALMON SHORES PARNERSHIP (50%)
SECOND STREET ASSOCIATES INC

KEYSPAN CORPORATION



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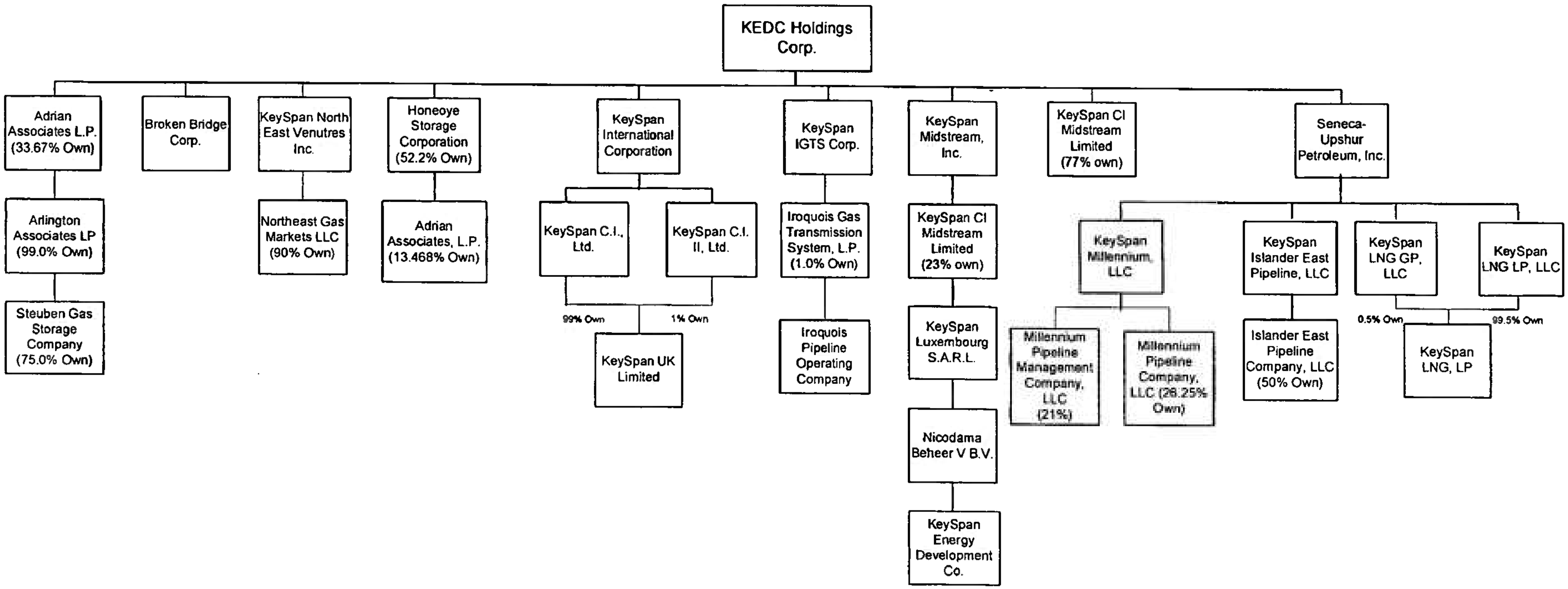
KEDC HOLDINGS CORP.



Shading Indicates subsidiary not wholly owned by KeySpan.

May 22, 2006

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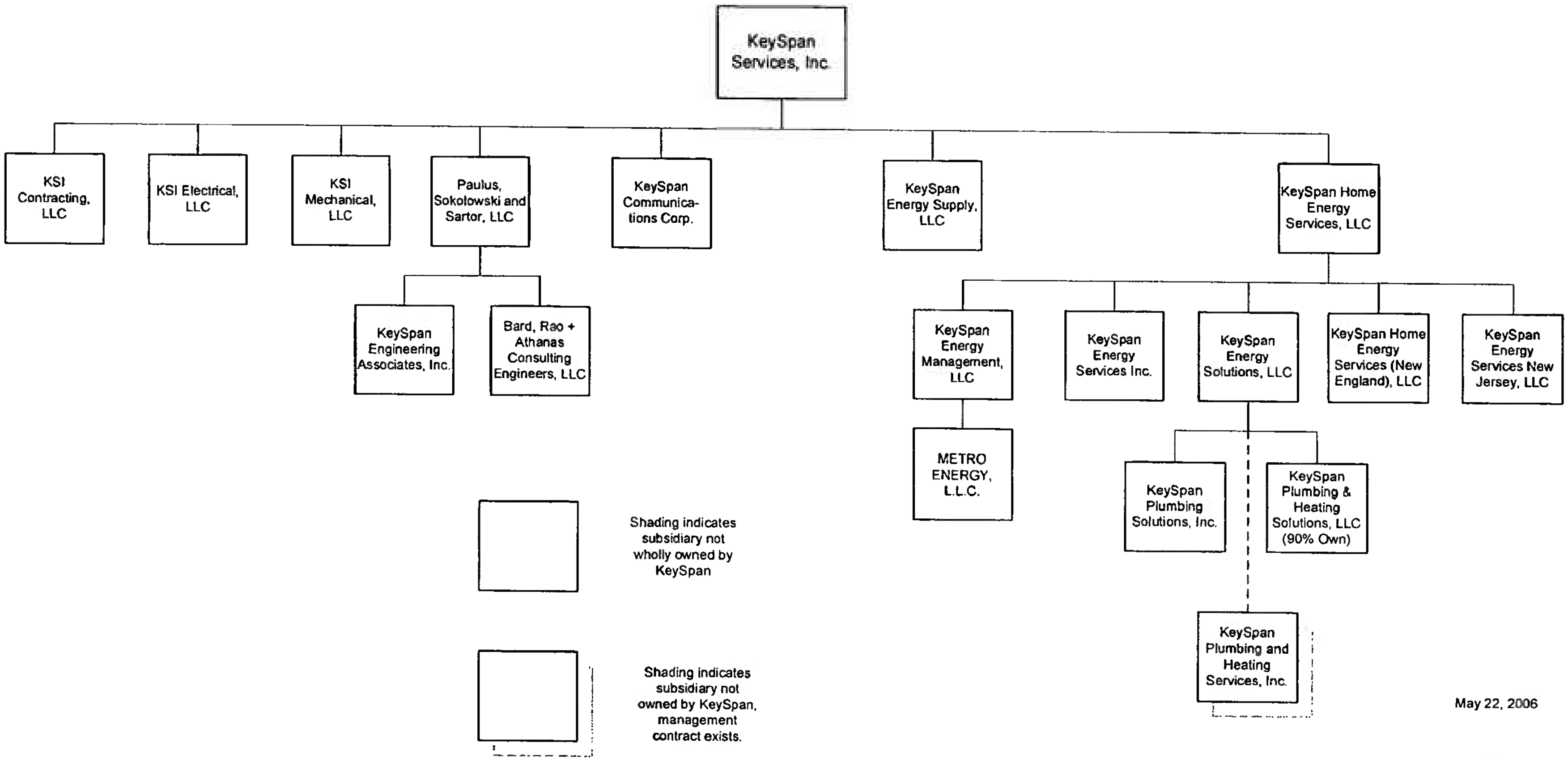
KEYSPAN SERVICES, INC.



May 22, 2006

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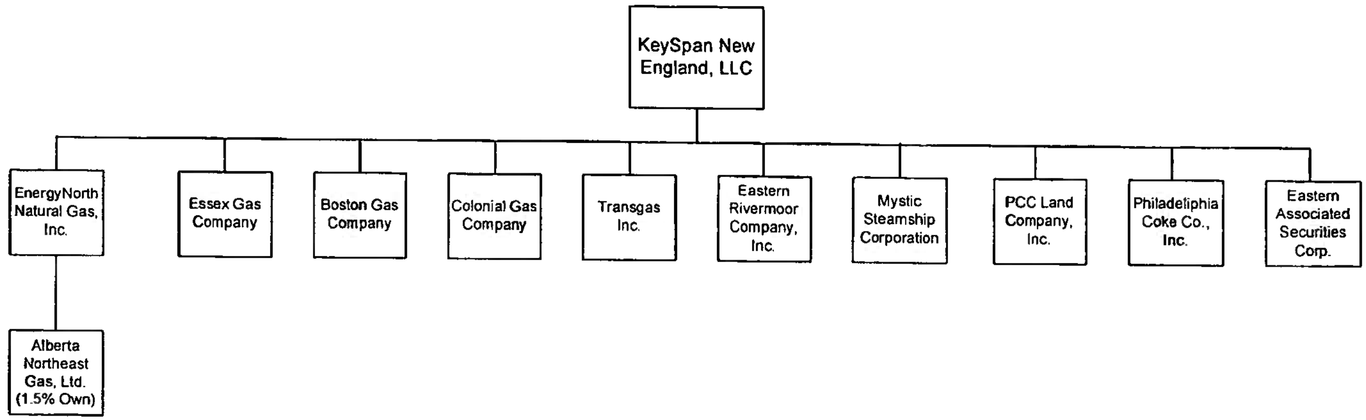
KEYSPAN NEW ENGLAND, LLC
formerly Eastern Enterprises



Shading indicates subsidiary not wholly owned by KeySpan.

May 22, 2006

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Appendix 4

National Grid

National Grid Entity Descriptions[1]

[1] Corporate charters for the listed companies are available on request.

National Grid Entity List

National Grid PLC
A registered holding company headquartered in London that indirectly owns and operates the high-voltage electric network in England and Wales, and Great Britain's gas transmission system and approximately half of Great Britain's gas distribution systems.

National Grid USA
A register public utility holding company headquartered in Westborough, MA, with electric subsidiaries operating in MA, NH, RI, and Vermont and an electric and gas utility subsidiary operating in upstate NY.

New England Power Company
A wholly-owned subsidiary of National Grid USA; a FERC regulated public utility company. It operates approximately 2,300 miles of transmission facilities. NEP has non-operating interests in three retired nuclear utilities (Yankee Atomic, Connecticut Yankee, and Maine Yankee).

Connecticut Yankee Atomic Power Company
A retired nuclear facility.

Maine Yankee Atomic Power Company
A retired nuclear facility.

Yankee Atomic Electric Company
A retired nuclear facility.

New England Hydro-Transmission Corporation
Owns and operates 121 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Hydro-Quebec and New England interconnection, extending to the Massachusetts border.

New England Hydro-Transmission Electric Company, Inc.
Owns and operates a direct current/alternating current terminal and related facilities for the second phase of the Hydro-Quebec and New England interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts.

National Grid USA Service Company, Inc.
A service company providing support services for National Grid USA and its subsidiaries.

New England Electric Transmission Corporation
Owns and operates a direct current/alternating current converter terminal and related facilities for the first phase of the Hydro-Quebec and New England interconnection, and six-miles of high-voltage direct current transmission line in New Hampshire.

National Grid Transmission Services Corporation
Provides technical, management, development, engineering, and other similar services related to electric power transmission to non-affiliates.

Massachusetts Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 1.2 million retail customers in 169 cities and towns in the Commonwealth of Massachusetts.

The Narragansett Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 478,000 retail customers in 38 municipalities and towns in Rhode Island.

Granite State Electric Company
A wholly-owned subsidiary of National Grid delivering electric energy to approximately 41,000 customers in 21 municipalities and towns in New Hampshire.

Nantucket Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 12,000 retail customers on Nantucket Island in the Commonwealth of Massachusetts.

Metrowest Realty LLC
Conducts real estate investment and management activities.

New England Hydro Finance Company, Inc.
A finance company.

Niagara Mohawk Holdings, Inc.
Exempt holding company incorporated under the laws of New York State and headquartered in Syracuse New York.

Wayfinder Group, Inc.
Provides energy related products and services.

National Grid Wireless Holdings, Inc.
An exempt telecommunications company serving as a holding company for National Grid Wireless Services, Inc., National Grid Communications, Inc., and NEES Communications, Inc.

NEES Communications, Inc.
An exempt telecommunications company building high-speed fiber-optic communications networks in New England, and providing telecommunications and information-related products and services.

National Grid Wireless Services, Inc.
An exempt telecommunications company providing services to wireless telecommunications providers.

National Grid Communications, Inc.
An exempt telecommunications company providing telecommunication services, information services, and other services or products subject to the jurisdiction of the Federal Communications Commission.

EUA Energy Investment Corporation
Initially formed to engage in identifying, evaluating, investing in cogeneration and small power production facilities and other energy-related or energy conservation ventures. This entity does not plan any further investment and has written off its investments.

Niagara Mohawk Power Corporation
A combination gas and electric utility serving approximately 1.6 million electric and 568,000 gas customers in central, northern, eastern and western New York.

NM Properties, Inc.
A New York corporation engaged in real estate activities and holds interests in several subsidiaries. NM Properties is not directly engaged in real estate matters and does not hold any real property assets for its own account; all such assets are currently owned by subsidiaries of NM Properties.

Riverview, Inc.
A New York corporation engaged in the development and sale of real estate.

Riverview Galusha, LLC
A New York limited liability company engaged in development and sale of a multiple lot residential subdivision in the Town of Moreau, New York.
Moreau Park, Inc.
A New York corporation that engaged in the development and sale of real property previously acquired from Niagara Mohawk in the Town of Moreau, New York adjacent to the Mohican substation.
Landwest, Inc.
A New York corporation engaged in the development, sale and leasing of real estate.
OPropCo, Inc.
A New York corporation engaged in the sale of real property.
Upper Hudson Development, Inc,
A New York corporation engaged in the development and sale of real estate. Some of this real estate is subject to regulation by the New York Adirondack Park Agency ("APA").
Land Management and Development, Inc.
A New York corporation engaged in the development and sale of real estate.
Second Street Associates, LLC
a New York limited liability company engaged in the leasing and management of an office building in the City of Fulton, New York and a contiguous parcel of land.
Opinac North America, Inc.
Non-utility holding company
eVionyx, Inc.
Engaged in fuel cell and battery research and development. The investment in eVionyx has been written off.
Direct Global Power
Engaged in development of photovoltaic and other renewable energy products and the sale of proprietary solar electric products and systems. The investment in Direct Global Power has been written off.

The following entities are inactive:
EUA Biote, Inc.
EUA FRC II Energy Associates
GridAmerica Holdings Inc.
GridAmerica LLC
NEES Telecommunications Corp.
NEES Energy, Inc.
New England Energy Incorporated
New England Wholesale Electric Company
Niagara Mohawk Energy inc.
Hudson Pointe, Inc.
Port of Islands North LLC
Salmon Shores Partnership
NM Uranium, Inc.
Opinac Energy Corporation
NEWHC, Inc.

The following entities are being acquired from Southern Union in a transaction that has not yet been consummated.

Newport America Corporation

An investment and holding company which serves as the parent for Patience Realty Corp. and Prudence Corporation.

Patience Realty Corp.

This entity is currently inactive.

Prudence Corporation

Owns the Weybosset Street Garage and the Teste Building on Weybosset Street and invests and manages real estate.

Valley Appliance and Merchandising Company
d/b/a New England Gas Appliance Company

Conducts the sale and rental of gas appliances and heating systems.

KeySpan

KeySpan Entity Descriptions[1]

[1] Corporate charters for the listed companies are available on request.

As of 5/15/06

Description of KeySpan Companies

Adrian Associates, L.P. (approximate 40% total – held by KEDC Holding Corp's 33.67% interest and approximate 7% ownership interest through Honeoye Storage)

Adrian Associates L.P. is a New York limited partnership, which owns a 99% interest in Arlington Associates, L.P. which in turn owns a 75% interest in the Steuben Gas Storage Company. KEDC Holdings Corp. directly owns a 33.67% ownership interest in Adrian Associates, and additionally owns an approximate 7% ownership interest through its approximate 52% ownership in Honeoye Storage Corporation (Honeoye owns a 13.468% ownership interest in Adrian Associates).

Alberta Northeast Gas, Limited (29.6% total - held 28.1% by The Brooklyn Union Gas Company and 1.5% by EnergyNorth Natural Gas, Inc.)

Alberta Northeast Gas, Limited is a corporation organized under the laws of Alberta, Canada and is a consortium of gas distribution companies which engage in gas marketing activities. Alberta purchases supplies of natural gas from Canadian suppliers and resells it at the U.S./Canadian border to 17 local distribution gas companies which include The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York, KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, Boston Gas Company d/b/a KeySpan Energy Delivery New England, Colonial Gas Company d/b/a KeySpan Energy Delivery New England, Essex Gas Company d/b/a KeySpan Energy Delivery New England and EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England The buyers ship the gas they purchase from Alberta to their operations located in the northeastern part of the United States through, *inter alia*, the Iroquois pipeline.

Arlington Associates, L.P. (owned 99% by Adrian Associates LP)

Arlington Associates, L.P. is a limited partnership that owns a 75% interest in the Steuben Gas Storage Company. KeySpan's ownership in Arlington Associates is held through its approximate 40% interest in Adrian Associates, L.P.

Bard, Rao & Athanas Consulting Engineers, LLC

Bard, Rao & Athanas Consulting Engineers, LLC is a Delaware limited liability company engaged in the business of providing mechanical, electrical and plumbing related engineering services.

Boston Gas Company d/b/a KeySpan Energy Delivery New England ("Boston Gas")

Boston Gas is a Massachusetts corporation that distributes natural gas to approximately 541,000 customers located in Boston and 73 other cities and towns throughout eastern and central Massachusetts. Boston Gas is a Massachusetts public utility subject to regulation by the Massachusetts Department of Telecommunications and Energy ("MDTE") as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Broken Bridge Corp.

Broken Bridge is a New Hampshire corporation that is winding down its business and will be dissolved as soon as practicable. It formerly held unimproved real estate acquired for utility purposes and which interconnected with the EnergyNorth Natural Gas, Inc. gas system.

Colonial Gas Company d/b/a KeySpan Energy Delivery New England ("Colonial Gas")

Colonial Gas is a Massachusetts corporation that distributes natural gas to approximately 161,000 customers in 24 communities located in northeastern Massachusetts (contiguous to Boston Gas's service territory) and on Cape Cod. Colonial Gas is a Massachusetts public utility subject to regulation by the MDTE as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Eastern Associated Securities Corp.

Eastern Associated Securities Corp. is a Massachusetts corporation which is winding down its business operations and will be dissolved as soon as practicable.

Eastern Rivermoor Company, Inc.

Eastern Rivermoor Company, Inc. is a Massachusetts corporation which formerly held the title to real estate used by Boston Gas Company in its operations (*e.g.*, for service centers, garages, *etc.*). The company is winding down its business operations and will be dissolved as soon as practicable.

EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("ENNGI")

ENNGI is a New Hampshire corporation with its principal offices located at 1260 Elm Street in Manchester, New Hampshire. It is a gas utility company that operates exclusively within the state of New Hampshire. It distributes natural gas to approximately 73,000 residential, commercial and industrial customers in 27 cities and towns in an area covering approximately 922 square miles and having a total population of approximately 470,000. ENNGI's service territory is located in southern and central New Hampshire, with the exception of the city of Berlin, in northern New Hampshire. As a public utility under the laws of New Hampshire, ENNGI is subject to the regulatory supervision of the New Hampshire Public Utility Commission as to gas sales, transportation rates, securities issuances and other matters.

Enporian, Inc. (12.71%)

KeySpan is a shareholder in Enporian, Inc. ("Enporian") through its wholly owned subsidiary KeySpan Technologies, Inc. KeySpan Technologies, Inc owns 12.71% of the outstanding shares of Enporian. Enporian provides e-procurement exchange and related services.

Essex Gas Company d/b/a KeySpan Energy Delivery New England ("Essex Gas")

Essex Gas, a regulated utility, is a Massachusetts corporation that distributes natural gas to approximately 44,000 customers in 17 cities and towns in an area of eastern Massachusetts that is contiguous to Boston Gas's service territory. Essex Gas is a Massachusetts public utility subject to regulation by the MDTE as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Honeoye Storage Corporation (approximately 52%)

Honeoye Storage Corporation ("Honeoye") is a New York corporation which owns an underground gas storage facility in Ontario County, New York consisting of 27 injection/withdrawal wells, 12 observation wells, 19 miles of field gathering lines, compressor units totaling 2750 hp and 10.5 miles of transmission pipeline connecting the facilities to the Tennessee Gas Pipeline gas transmission system. Honeoye provides up to 6.7 billion cubic feet ("BCF") of storage service to New York and New England area gas distribution companies. Honeoye is regulated by the Federal Energy Regulatory Commission with respect to its natural gas activities. Honeoye also owns a 10% interest in Adrian Associates LP, which owns an indirect ownership interest in the Steuben Gas Storage Company. KeySpan's approximate 52% ownership interest in Honeoye is held by its indirect, wholly owned subsidiary KEDC Holdings Corp. Honeoye also owns a 13.468% ownership interest in Adrian Associates, L.P.

Iroquois Gas Transmission System L.P. (20.4% total – held 19.4% by North East Transmission Co., Inc. and 1% by KeySpan IGTS Corp.))

Iroquois Gas Transmission System, L.P. ("Iroquois") is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly-owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois pipeline. KeySpan's interests in Iroqouis are held 19.4% by North East Transmission Co., Inc. and 1% by KeySpan IGTS Corp, both wholly owned subsidiaries of KeySpan.

Iroquois Pipeline Operating Company (owned 100% by Iroquois Gas Transmission System, L.P.

Iroquois Pipeline Operating Company is a Delaware corporation that is the operating company for Iroquois Gas Transmission System L.P.

Island Energy Services Company, Inc.

Island Energy Services Company, Inc. is a wholly owned subsidiary of KeySpan Energy Corporation. It is an inactive company that owns no assets. It will be dissolved as soon practicable.

Islander East Pipeline Company, LLC (50%)

Islander East Pipeline Company, LLC ("Islander East") is a Delaware limited liability company. Islander East is involved in the development of the Islander East pipeline, a proposed 40-mile pipeline that will bring natural gas from Connecticut to Long Island. The remaining 50% interest is held by an affiliate of Duke Energy.

KEDC Holdings Corp.

KEDC Holdings Corp. ("KEDC") is a Delaware corporation which is engaged in non-utility development activities, including, but not limited to natural gas pipelines, generation facilities and oil and gas exploration activities. It is also a holding company for subsidiaries engaged in the development, ownership and operation of market area natural gas pipelines and storage facilities located in the United States, liquefied natural gas processing facilities and gas and oil exploration activities. It formerly indirectly held our investments in Canadian and United Kingdom gas facilities.

KeySpan C.I., Ltd.

KeySpan CI Limited is a Cayman Island corporation that is a non-utility holding company which directly holds a 99% interest in KeySpan UK Limited. KeySpan UK Limited formerly held interests in Premier Transco Limited and Phoenix Natural Gas Limited which were engaged in gas facilities in the United Kingdom and Northern Ireland. Our interest in Premier was sold on March 18, 2005 and in Phoenix in on December 23, 2003. Pursuant to certain contractual obligations, KeySpan has agreed that this company and KeySpan UK will remain in existence for a period of two years following the sale of Premier. Thereafter, it will be dissolved as soon as practicable.

KeySpan CI, II, Ltd.

KeySpan CI II, Limited is a Cayman Island corporation that is a non-utility holding company which directly holds a 1% interest in KeySpan UK Limited. It formerly held interests in Grupo KeySpan S. de R.L. de C.V., which in turn held a 50% interest in FINSA Energeticos, S. de R.L. de C.V, which were engaged in generation development activities in Mexico. Following the sale of our interest in Premier on March 18, 2005, this company was restructured and subscribed to a 1% interest of KeySpan UK. Pursuant to certain contractual obligations, KeySpan has agreed that this company and KeySpan UK will remain in existence for a period of two years following the sale of Premier. Thereafter, it will be dissolved as soon as practicable.

KeySpan CI Midstream Limited (100% total – held 77% by KEDC Holding Corp. and 23% by KeySpan Midstream Inc.)

KeySpan CI Midstream Limited is a Delaware corporation which was formed as a non-utility holding company to directly and wholly-own KeySpan Luxembourg S.A.R.L. KeySpan CI Midstream Limited indirectly held KeySpan's former interests in gas processing facilities in Western Canada which were divested in 2004. KeySpan CI Midstream is winding down its business and will be dissolved as soon as practicable. KeySpan's ownership interest is held in two pieces: 77% of KeySpan CI Midstream Limited is owned directly by KEDC Holding Corp. and the remaining 23% is owned by KeySpan Midstream, Inc, both wholly-owned, indirect subsidiaries of KeySpan.

KeySpan Communications Corp.

KeySpan Communications Corp. ("KCC") is a New York corporation and wholly-owned subsidiary of KeySpan Services Inc., and owns and operates a fiber optic network on Long Island, New York City and New Jersey. KCC constructs and operates fiber optic networks and transportation facilities. KCC also has a contract with its affiliate, KeySpan Corporate Services LLC (KCS) pursuant to which portions of the fiber optic network is used by KCS to serve the telecommunications needs (*e.g.*, internal voice and data transmission requirements) of KeySpan and certain of its utility and non-utility subsidiaries.

KeySpan Corporate Services LLC

KeySpan Corporate Services LLC ("KCS") is a New York limited liability company and wholly-owned subsidiary of KeySpan that provides a variety of traditional corporate administrative services to KeySpan and its subsidiaries. It is a service company pursuant to the Public Utility Holding Company Act of 2005. The services KCS provides include general supervision, corporate planning, and providing centralized services including the following activities: human resources planning and administration; accounting; financing and treasury services; insurance and risk management; regulatory and governmental relations; corporate communications and external relations; consumer outreach and education; information systems and technology; materials management and procurement; legal services; call center operations; corporate and strategic planning; internal auditing; billing and payment processing; budget administration; security services; fleet management and maintenance; and, design, maintenance and management of buildings owned or leased by affiliates.

KeySpan Corporation

KeySpan Corporation ("KeySpan") is a holding company under the Public Utility Holding Company Act of 2005. It is a New York corporation and is the ultimate parent company of all the subsidiaries described above and herein.

KeySpan Electric Services LLC

KeySpan Electric Services LLC ("KES") is a New York limited liability company and wholly-owned subsidiary of KeySpan which, pursuant to a contract, provides day-to-day operation and maintenance services and construction management services to the Long Island Power Authority ("LIPA") for LIPA's transmission and distribution facilities located on Long Island, New York (the "T&D Facilities"). In addition, KES provides management and administration services to LIPA for its interests in the Nine Mile Point Unit 2 nuclear facility ("NMP2"). KES's services are subject to the overall direction of LIPA, and LIPA maintains control over major decisions. The services KES provides to LIPA include performance of routine and emergency facility additions and improvements, customer connections and disconnections, construction of new facilities, supervision of routine and major capital improvements, preparation of proposed budgets and monitoring LIPA approved capital and operating budgets, load and energy forecasts, long-range and short-range system and strategic plans, management and repair or modification activities associated with public works projects and emergency response activities for events affecting LIPA's facilities.

KeySpan Energy Corporation

KeySpan Energy Corporation is a New York corporation and wholly-owned subsidiary of KeySpan. It is a holding company for a variety of energy-related businesses which are conducted through its eight (8) direct, subsidiaries (The Brooklyn Union Gas Company d/b/a/ KeySpan Energy Delivery New York, KEDC Holding Corp., Marquez Development Corporation, Island Energy Services Company, Inc., KeySpan Services, Inc., KeySpan Technologies, Inc. KeySpan Ravenswood Services Corp. and KeySpan MHK, Inc.).

KeySpan Energy Development Co.

KeySpan Energy Development Co. (KEDCO) is a company incorporated in Nova Scotia, Canada. It was a holding company for KeySpan's former investments in gas processing plants and facilities in western Canada. KeySpan divested these assets in 2003 and 2004. It is winding up its business and will be dissolved as soon as practicable.

KeySpan Energy Services New Jersey, LLC (f/k/a Fritze KeySpan, LLC)

KeySpan Energy Services New Jersey, LLC is a Delaware limited liability company that was formerly engaged in HVAC system installations for small commercial and residential customers in North and Central New Jersey. This company sold substantially all of its assets and will be dissolved as soon as practicable following the winding up of its remaining obligations.

KeySpan Energy Management, LLC

KeySpan Energy Management, LLC is a Delaware limited liability company engaged in providing HVAC services to commercial customers and wholly owns Metro Energy, L.L.C.

KeySpan Energy Services, Inc. d/b/a KeySpan Home Energy Services

KeySpan Energy Services, Inc. is a Delaware corporation, and is a gas and retail electricity marketer. It buys and sells gas to residential, commercial and industrial customers located in the Northeastern United States.

KeySpan Energy Solutions, LLC d/b/a KeySpan Home Energy Services

KeySpan Energy Solutions, LLC is a Delaware limited liability company and a wholly-owned subsidiary of KeySpan Home Energy Services, LLC. KeySpan Energy Solutions, LLC provides residential and light commercial customers with service, maintenance and installation of heating equipment, water heaters, central air conditioners and gas appliances in New York and New Jersey.

KeySpan Energy Supply, LLC

KeySpan Energy Supply, LLC is a Delaware limited liability company. It is engaged in energy brokering activities (*i.e.*, it acts as an intermediary and does not take title to energy). Specifically, it manages the purchases of gas and electricity as agent for customers of KeySpan Energy Services, Inc. and KeySpan Energy Management, LLC. KeySpan Energy Supply, LLC also manages KeySpan Utility Services' purchases of its fuel supply for the Ravenswood Facility, and manages the bidding of KeySpan-Ravenswood's power sales into wholesale electricity markets.

KeySpan Energy Trading Services LLC

KeySpan Energy Trading Services ("KETS"), a New York limited liability company and wholly-owned subsidiary of KeySpan, is a broker of electricity and gas on behalf of LIPA. Specifically, the services provided by KETS include energy supply portfolio management, risk management and associated administration and billing, and, as agent for LIPA, KETS is responsible for arranging for: (a) the purchase from third parties of additional capacity and energy that LIPA needs to serve its customers; (b) the off-system sale of LIPA's energy which it does not require to meet the needs of its system customers; and (c) fuel procurement, delivery, storage and management to meet LIPA's obligations to provide fuel to its electricity supplier to generate power for LIPA to provide for its retail and wholesale customers.

KeySpan Engineering Associates, Inc.

KeySpan Engineering Associates, Inc. is a New York professional engineering corporation providing engineering services to commercial, industrial and institutional customers, including the designs of new power supply systems, such as cogeneration facilities.

KeySpan Engineering & Survey, Inc.

KeySpan Engineering & Survey, Inc. is a New York corporation and wholly-owned subsidiary of KeySpan. It is a service company pursuant to the Public Utility Holding Company Act of 2005. KE&S provides advice and assistance to KeySpan affiliates in the study, planning, engineering, maintenance and construction of energy plant facilities, gas systems and electric systems; advises, assists and manages the planning, engineering (including maps and records) and construction operations of certain affiliates; develops and administers quality assurance programs; and, develops long-range operational programs and advises and assists coordination of such programs. It also provides surveying services.

KeySpan Exploration and Production, LLC

KeySpan Exploration and Production, LLC ("KEP") is a Delaware limited liability company and wholly-owned subsidiary of KeySpan. It is part of a joint venture with The Houston Exploration Company, a KeySpan affiliate described below, to conduct offshore gas and oil exploration and development in the Gulf of Mexico consisting of drilling undeveloped offshore leases. The offshore leases are owned 55% by Houston Exploration and 45% by KEP. Houston Exploration is the joint venture manager and operator. KEP focuses its operations, along with Houston Exploration, offshore in the Gulf of Mexico and onshore in South Texas, South Louisiana, the Arkoma Basin, East Texas and West Virginia.

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI")

KEDLI is a New York corporation and wholly-owned subsidiary of KeySpan. KEDLI, is a gas utility company regulated by the New York Public Service Commission ("NYPSC") as to rates, corporate, financial, operational, reliability, safety and other matters, and affiliate transactions. KEDLI distributes natural gas at retail to approximately 500,000 customers located on Long Island, New York in Nassau and Suffolk counties and the Rockaway Peninsula in Queens County, New York.

KeySpan Generation LLC

KeySpan Generation LLC is a New York limited liability company which owns and operates approximately 4,032 megawatts of electric generation capacity located on Long Island (the "KeySpan Generation Facilities"). The KeySpan Generation Facilities consist of approximately 53 oil and gas-fired generating facilities located throughout Long Island. All of the capacity from the KeySpan Generation Facilities is sold at wholesale to the Long Island Power Authority ("LIPA") pursuant to a 15 year power supply agreement entered into in June 1997 and effective as of May 1998 at contractual, cost-of-service based rates approved by the Federal Energy Regulatory Commission ("FERC"). LIPA provides electricity to approximately 1 million customers on Long Island. KeySpan Generation does not own any electric transmission or distribution facilities other than limited facilities necessary to interconnect its generating facilities with LIPA's transmission and distribution system. KeySpan Generation is a public utility under the Federal Power Act subject to the jurisdiction of FERC. KeySpan Generation is also a New York utility subject to lightened regulation by the New York Public Service Commission since it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan-Glenwood Energy Center, LLC

KeySpan-Glenwood Energy Center, LLC ("KeySpan-Glenwood") is a Delaware corporation and is an exempt wholesale generator ("EWG"). KeySpan-Glenwood developed and constructed a 79.9 megawatt electric peaking facility on Long Island, New York. It sells wholesale capacity, energy, and ancillary services at market-based rates pursuant to authority granted by the Federal Energy Regulatory Commission ("FERC"). Pursuant to its market-based rate authority, KeySpan-Glenwood entered into an agreement with the Long Island Power Authority ("LIPA") to sell all the capacity, energy and ancillary services from the facility for a twenty (20) year period beginning in 2002 and expiring in 2027. Additionally, KeySpan-Glenwood is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan Home Energy Services, LLC d/b/a KeySpan Home Energy Services

KeySpan Home Energy Services, LLC ("KHES") is a Delaware limited liability company, and is the holding company of several direct and indirect wholly-owned subsidiaries which provide residential and small commercial customers with service, maintenance and installation of heating equipment, water heaters, central air conditioners and gas appliances.

KeySpan Home Energy Services (New England), LLC d/b/a KeySpan Home Energy Services

KeySpan Home Energy Services (New England), Inc. ("KHESNE) is a Delaware limited liability company and a wholly-owned subsidiary of KHES. KHESNE offers heating, ventilation and air conditioning services, primarily to residential and small commercial customers in eastern Massachusetts.

KeySpan Insurance Company

KeySpan Insurance Company ("KIC") is organized as a captive insurance company under Vermont law. It reinsures certain commercial insurance bought by the KeySpan system of companies from commercial insurance companies. In particular, KIC provides several major types of coverage to the KeySpan companies, including automobile liability, workers' compensation and general liability. KIC also offers property, boiler and machinery "all risk" insurance services to the KeySpan companies.

KeySpan IGTS Corp.

KeySpan IGTS Corp. is a New York corporation and holds a 1% general partner interest in the Iroquois Gas Transmission System, L.P, an interstate pipeline. Collectively, KeySpan indirectly holds a 20.4% interest in Iroquois through KeySpan IGTS Corp.'s 1% interest and, as described below, North East Transmission Co., Inc's 19.4% general partnership interest. Iroquois is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois' pipeline.

KeySpan International Corporation

KeySpan International Corporation is a Delaware corporation and a wholly-subsidiary of KEDC Holdings Corp. which serves as a non-utility holding company. for KeySpan's former foreign investments in gas distribution, transportation and electric projects. KeySpan divested these assets and the operations of this company are being unwound and it will be dissolved as soon as practicable. As described above, KeySpan International has two (2) direct, wholly-owned subsidiaries, KeySpan CI Limited and KeySpan CI II Limited, which formerly held KeySpan's interests in certain foreign operations.

KeySpan Islander East Pipeline, LLC

KeySpan Islander East Pipeline, LLC is a Delaware limited liability company that was formed to own KeySpan's 50% ownership interest in the Islander East Pipeline Company, LLC. Islander East is involved in the development of the Islander East pipeline, a proposed 40-mile pipeline that will bring natural gas from Connecticut to Long Island. The remaining 50% interest is held by an affiliate of Duke Energy.

KeySpan LNG GP, LLC

KeySpan LNG GP, LLC is a Delaware limited liability company and is the general partner in a limited partnership known as KeySpan LNG, LP. KeySpan LNG, LP owns and operates a liquefied natural gas ("LNG") storage and receiving facility in Providence, Rhode Island. KeySpan LNG GP, LLC owns a 0.5% interest in this limited partnership and operates the facility for the partnership.

KeySpan LNG LP, LLC

KeySpan LNG LP, LLC is a Delaware limited liability company and is a limited partner in KeySpan LNG, LP with a 95.5% ownership interest in the limited partnership.

KeySpan LNG, LP (owned 100% through a 95.5% interest held by KeySpan LNG LP, LLC and a 0.5% interest held by KeySpan LNG GP, LLC)

KeySpan LNG, LP is a Delaware limited partnership and is the owner of a 600,000 barrel FERC-regulated liquefied natural gas (LNG) storage and receiving facility in Providence, Rhode Island which was acquired from Duke Energy on December 13, 2003.

KeySpan Luxembourg S.A.R.L.

KeySpan Luxembourg S.A.R.L., a Luxembourg limited liability company, was formed to be a non-utility holding company to directly and wholly-own interests in Nicodama Beheer V.B.V. KeySpan Luxembourg and Nicodama were holding companies if KeySpan's former gas processing facilities in Western Canada which have been divested. KeySpan Luxembourg is winding up its business activities and will be dissolved as soon as practicable.

KeySpan MHK, Inc.

KeySpan MHK, Inc. is a Delaware corporation and currently owns an approximately 18.2% equity interest in MyHomeKey.com, Inc. ("MHK"). MHK, a Delaware corporation and an exempt telecommunications company ("ETC") pursuant to the regulations of the Federal Communications Commission. It maintains an Internet-based website which serves as a platform for (1) local websites offering energy and home-related goods and services and (2) contractors for energy and home-related services from goods and services providers of national scope.

KeySpan Midstream Inc.

KeySpan Midstream Inc. is a Delaware limited liability company that is a holding company of a chain of intermediary, wholly-owned and international subsidiaries related to KeySpan's former ownership of gas processing facilities in Western Canada. KeySpan Midstream directly and wholly-owns KeySpan CI Midstream Limited. KeySpan Midstream is winding up its business activities and will be dissolved as soon as practicable.

KeySpan Millennium, LLC

KeySpan Millennium LLC is a Delaware limited liability company that is a holding company of KeySpan's 26.25% interest in the Millennium Pipeline Company, LLC. Millennium Pipeline Company, LLC, is developing the Millennium Pipeline project, a proposed pipeline that will transport up to 500,000 dekatherms of natural gas a day from Corning, NY to Ramapo, NY.

KeySpan New England, LLC

KeySpan New England, LLC is a Massachusetts limited liability company and the successor company to Eastern Enterprises. KeySpan New England, LLC owns all of the issued and outstanding shares in KeySpan's three (3) Massachusetts gas utility companies: Boston Gas Company, Colonial Gas Company and Essex Gas Company. It also owns all of the issued and outstanding shares in EnergyNorth Natural Gas, Inc., a New Hampshire gas utility. Additionally, through the following six (6) subsidiaries, it engages in unregulated activities: Transgas Inc., Eastern Rivermoor Company, Inc., Mystic Steamship Corporation, PCC Land Company, Inc., Philadelphia Coke Co., Inc. and Western Associated Energy Corp.

KeySpan North East Ventures Inc.

KeySpan North East Ventures, Inc. is a Delaware corporation which holds a 90% ownership interest in Northeast Gas Markets, LLC. Northeast Gas Markets provides natural gas procurement, contract management and marketing services to clients located in the northeastern part of the United States, including affiliates of KeySpan.

KeySpan Plumbing Solutions, Inc. d/b/a KeySpan Home Energy Services

KeySpan Plumbing Solutions, Inc., a New York corporation, and provides piping and plumbing maintenance services associated with the installation of gas heating, systems, principally with regard to boiler and hot water heater installations. These services are provided to residential and small commercial customers located in the New York metropolitan area.

KeySpan Plumbing & Heating Solutions, LLC d/b/a KeySpan Home Energy Services

KeySpan Plumbing & Heating Solutions, LLC ("KSP&HS ") is a Delaware limited liability company and is owned 90% by KeySpan Energy Solutions, LLC. It provides piping and plumbing maintenance services associated with the installation of gas heating systems, principally with regard to boiler and hot water heater installations in New Jersey. The remaining 10% interest is owned by a licensed New Jersey plumber. KSP&HS has a contract with KeySpan Energy Solutions, LLC pursuant to which it exclusively provides its services to KeySpan Energy Solutions, LLC and its affiliates.

KeySpan-Port Jefferson Energy Center, LLC ((Electric Services))

KeySpan-Port Jefferson Energy Center, LLC ("KeySpan-Port Jefferson") is a Delaware corporation and is an exempt wholesale generator ("EWG"). KeySpan-Port Jefferson developed and constructed a 79.9 megawatt electric peaking facility on Long Island, New York. It sells wholesale capacity, energy, and ancillary services at market-based rates pursuant to authority granted by the Federal Energy Regulatory Commission ("FERC"). Pursuant to its market-based rate authority, KeySpan-Port Jefferson entered into an agreement with the Long Island Power Authority ("LIPA") to sell all the capacity, energy and ancillary services from the facility for sell all the capacity, energy and ancillary services from the facility for a twenty (20) year period beginning in 2002 and expiring in 2027. Additionally, KeySpan-Port Jefferson is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan-Ravenswood, LLC

KeySpan-Ravenswood, is a New York limited liability company and is an exempt wholesale generator ("EWG"). KeySpan-Ravenswood owns and/or leases and operates an approximately 2,200 megawatt electric generating facility located in Queens, New York ("Ravenswood Facility"). KeySpan-Ravenswood acquired the Ravenswood Facility from The Consolidated Edison Company of New York, Inc. ("Con Edison") in June of 1999 as part of Con Edison's divestiture of its generation assets. Ravenswood also leases and operates a 250-MW co-generation facility it constructed at the same site. Additionally, KeySpan-Ravenswood is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan Ravenswood Services Corp.

KeySpan Ravenswood Services ("KRS") is a New York corporation and wholly-owned subsidiary of KeySpan Energy Corporation, is primarily engaged in providing day-to-day operation and maintenance services to KeySpan-Ravenswood for the Ravenswood Facility, subject to KeySpan-Ravenswood's overall direction and control. KRS also provides, at no charge, small amounts of electricity to Con Edison and provides day to day operation and maintenance services to Con Edison for its steam plant located at the site of the Ravenswood Facility; the provision of these services was a condition of Con Edison's sale of the Ravenswood Facility to KeySpan-Ravenswood. Con Edison sells the steam produced at the plant to its steam distribution customers located in New York. KRS employees include Con Edison employees who were transferred to KRS at the time KeySpan-Ravenswood acquired the Ravenswood Facility. KRS does not own any electric or steam facilities.

KeySpan Services, Inc.

KeySpan Services Inc. ("KSI") is a Delaware corporation and wholly-owned subsidiary of KeySpan, and is the holding company for non-utility subsidiaries which are engaged in providing HVAC, fiber optic, engineering, consulting and energy-related services to customers located primarily within the Northeastern United States.

KeySpan Technologies Inc.

KeySpan Technologies Inc. is a New York corporation and wholly-owned subsidiary of KeySpan involved in developing, demonstrating, marketing, operating and maintaining, for residential and institutional customers, new technologies, such as fuel cells that utilize natural gas. Its industrial customers include hospitals and chemical companies located in New York.

KeySpan Telemetry Solutions, LLC

KeySpan Telemetry Solutions, LLC is a Delaware limited liability company that is wholly-owned by KeySpan Technologies Inc. KeySpan Telemetry Solutions, LLC is engaged in remote, wireless communication devices for utility applications.

KeySpan UK Limited

KeySpan UK Limited is a company incorporated under the laws of the United Kingdom. It formerly held a 25.5% interest in Premier Transco Limited, which owned certain gas facilities in the United Kingdom. KeySpan sold its interest in Premier on March 18, 2005 and has agreed that this company must remain in existence for a period of two years following the sale of Premier.

KeySpan Utility Services LLC

KeySpan Utility Services LLC is a New York limited liability company and wholly-owned subsidiary of KeySpan. It is a service company pursuant to the Public Utility Holding Company Act of 2005 and provides services only to these New York companies, KEDNY, KEDLI, KeySpan Electric Services LLC, KeySpan Energy Trading Services LLC and KeySpan Generation LLC. The service it provides are: gas and electric transmission and distribution system planning; gas supply planning and procurement; marketing services (*i.e.,* planning, administration and support); research and development services; and meter repair operations.

KSI Contracting, LLC

KSI Contracting, LLC (formerly Roy Kay, Inc.) is a Delaware limited liability company and wholly-owned subsidiary of WDF, Inc. It was primarily engaged in providing mechanical and electrical services to commercial, industrial and institutional customers in New York and New Jersey. It is not actively engaging in new business, winding up its current obligations, and will be dissolved as soon as practicable.

KSI Electrical, LLC

KSI Electrical Company, LLC (formerly known as Roy Kay Electrical Company) is a Delaware limited liability company. KSI Electrical is licensed to perform electrical contracting work in both New York and New Jersey. It is not actively engaging in new business, is winding up its current obligations and will be dissolved as soon as practicable.

KSI Mechanical, LLC

KSI Mechanical, LLC (formerly known as Roy Kay Mechanical, Inc.) is a Delaware limited liability company. It is not actively engaging in new business, is winding up its current obligations, and will be dissolved as soon as practicable.

KSNE, LLC

KSNE is a Delaware limited liability company which is a holding company for a 1% interest in KeySpan New England, LLC.

Marquez Development Corp.

Marquez Development Corporation is a New York corporation which previously owned a uranium mill and mine in New Mexico. Marquez's facilities have been fully dismantled and, as a result, this entity is inactive and will be dissolved as soon as practicable.

METRO ENERGY, L.L.C.

Metro Energy, L.L.C. is a New York limited liability company which owns, operates and maintains the central heating and cooling facility at the Brooklyn Marriott Hotel in Brooklyn, New York.

Millennium Pipeline Company, LLC (26.25%)

Millennium Pipeline Company, LLC is an entity developing the Millennium Pipeline project, a proposed pipeline that will transport up to 500,000 dekatherms of natural gas a day from Corning, NY to Ramapo, NY, running along on existing right-of-way to replace and upgrade a Columbia Gas Transmission pipeline. In Ramapo, Millennium will connect with the existing Algonquin Gas Transmission pipeline. KeySpan's 26.25% interest in Millennium Pipeline Company, LLC is held by KeySpan Millennium, LLC.

Millennium Pipeline Management Company, L.L.C. (approximately 21%)

Millennium Pipeline Management Company, L.L.C., a Delaware limited liability company, formerly served as the general partner of Millennium Pipeline Company, L.P. Millennium Pipeline Company, L.P was converted from a Delaware limited partnership to a Delaware limited liability company known as Millennium Pipeline Company, LLC in March 2006. Millennium Pipeline Management Company, L.L.C. is winding up its affairs and will be dissolved as soon as practicable. KeySpan's approximate 21% interest in Millennium Pipeline Management Company, LLC is held by KeySpan Millennium, LLC.

MyHomeGate, Inc.

My Home Gate, Inc., is a Delaware corporation engaged in the business of remote, wireless communication devices for security and home maintenance, such as temperature control and lighting.

myhomekey.com, Inc. (18.2%)

The company myhomekey.com, Inc. ("MHK") is a Delaware corporation and is an exempt telecommunications company ("ETC") pursuant to the regulations of the Federal Communications Commission. It maintains an Internet-based website which serves as (1) a national platform for local websites offering energy and home-related goods and services and (2) a contractor for energy and home-related services from goods and services providers of national scope.

Mystic Steamship Corporation

Mystic Steamship Corporation is a Delaware corporation and is an inactive company with no material assets and will be winding up its business affairs.

Nicodama Beheer V.B.V.

Nicodama Beheer V.B.V., is a wholly-owned subsidiary of KeySpan Luxembourg S.A.R.L. and is incorporated under the laws of the Netherlands. It is a non-utility holding company in a hain of intermediary companies that formerly held investments in certain gas processing facilities in Western Canada which were fully divested in 2004. Nicodama Beheer is winding up its business activities and will be dissolved as soon as practicable.

North East Transmission Co., Inc.

North East Transmission Co., Inc., is a Delaware corporation that was created to hold a general partner interest in the Iroquois Gas Transmission System, L.P. ("Iroquois"). Its general partner interest is currently 19.4%. Iroquois is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly-owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois pipeline.

Northeast Gas Markets LLC (90%)

Northeast Gas Markets, LLC, a Delaware limited liability company, provides natural gas procurement, contract management and marketing services to clients located in the northeastern part of the United States, including affiliates of KeySpan. Northeast Gas Markets, LLC is owned 90% by KeySpan Northeast Ventures, LLC.

Paulus, Sokolowski and Sartor, LLC

Paulus, Sokolowski & Sartor, LLC. is a Delaware limited liability company that provides engineering services to commercial, industrial and institutional clients.

PCC Land Company, Inc.

PCC Land Company, Inc. is a company incorporated under the laws of Texas. It holds title to real property in Pennsylvania that was the site of a coke plant operated by Philadelphia Coke Co., Inc., an associate company that is now inactive.

Philadelphia Coke Co., Inc.

Philadelphia Coke Co., Inc., is a Delaware corporation, is an inactive company with no material assets, and will be winding up its business affairs as soon as practicable.

Seneca-Upshur Petroleum, Inc.

Seneca-Upshur Petroleum, Inc. is a West Virginia corporation which is engaged in natural gas and oil exploration and production activities. It is also a holding company for four subsidiaries engaged in pipeline and liquefied natural gas activities, KeySpan LNG GP, LLC, KeySpan LNG LP, LLC, KeySpan Islander East Pipeline, LLC and KeySpan Millennium, LLC.

Steuben Gas Storage Company (approximate 30%)

Steuben Gas Storage Company owns a gas storage facility in Steuben, New York. The facility consists of 9 injection/withdrawal wells, an observation well, 2 miles of field gathering lines, compressor units totaling 2700 hp and 13.5 miles of transmission pipeline connecting the facilities to the gas transportation pipeline owned by Tennessee Gas Pipeline. Steuben provides up to 6.2 BCF of storage service to Public Service Electric and Gas Company, Elizabethtown Gas Company and Commonwealth Gas Company, which are gas distribution companies located in New Jersey and Massachusetts. KeySpan's ownership interests in Steuben are held indirectly through a chain of subsidiaries. KEDC Holding Corp has direct 33.67% ownership interest in Adrian Associates, L.P and additionally owns an approximate 7% ownership interest in Adrian

Associates through its approximate 52% ownership in Honeoye Storage Corporation (Honeoye owns a 13.468% ownership interest in Adrian Associates). Adrian Associates in turn owns a 99% ownership interest in Arlington Associates LP, which in turn owns a 75% interest in the Steuben Gas Storage Company.

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York d/b/a (KEDNY)

KEDNY is a New York corporation and wholly-owned subsidiary of KeySpan Energy Corporation. KEDNY is a gas utility corporation regulated by the New York Public Service Commission. KEDNY distributes natural gas at retail to approximately 1.1 million residential, commercial and industrial customers in the New York City Boroughs of Brooklyn, Staten Island and Queens.

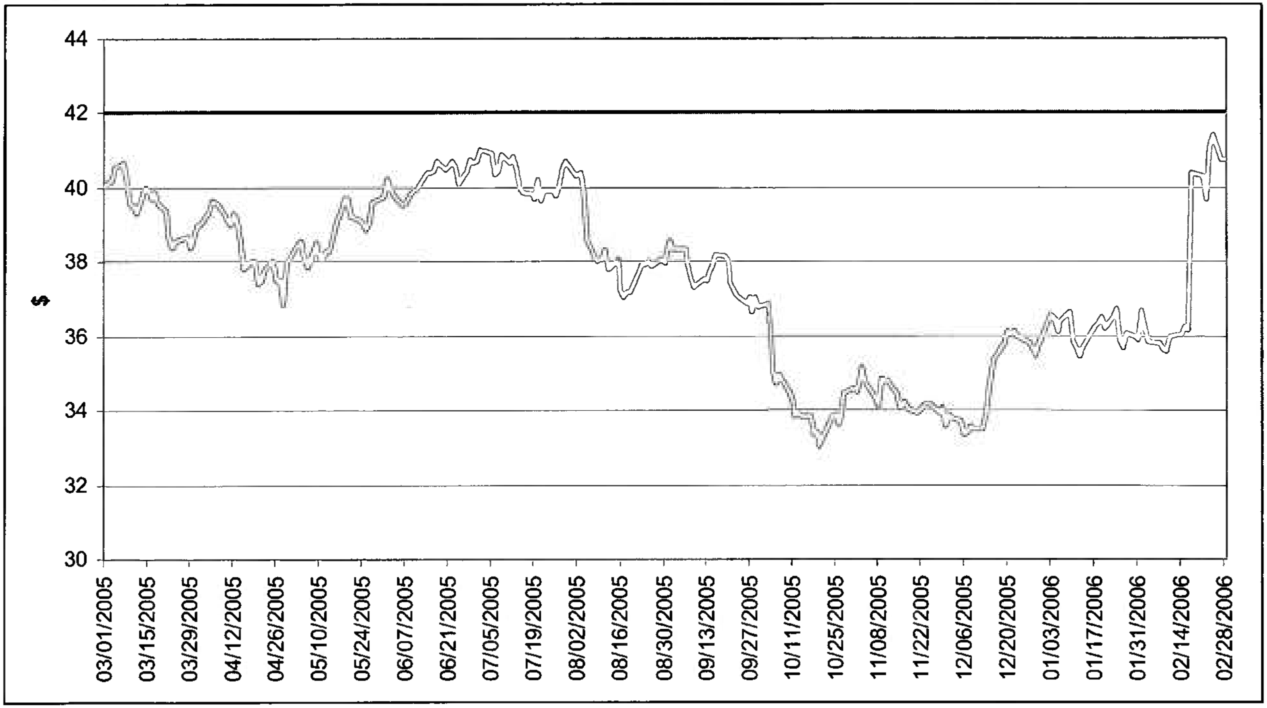
Transgas, Inc.

Transgas Inc. is a Massachusetts corporation, which provides over-the-road transportation of LNG, propane and other commodities to companies in the United States, including affiliates of KeySpan.

Doc. # 197809

Appendix 5

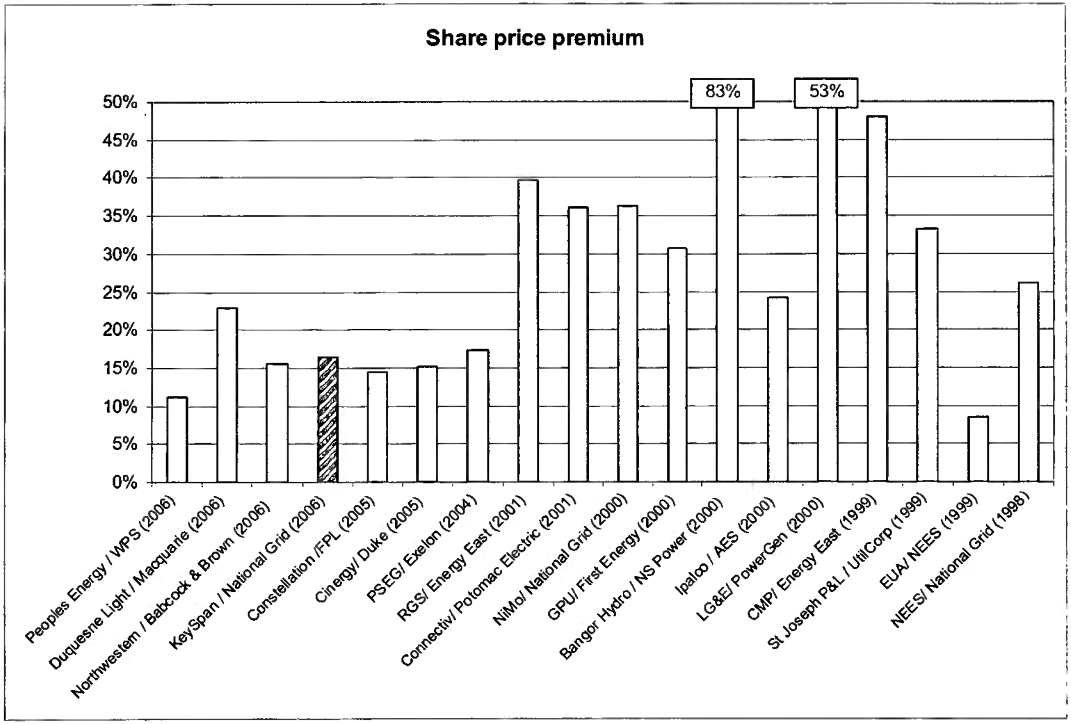
KeySpan Stock Price



KEYSPAN

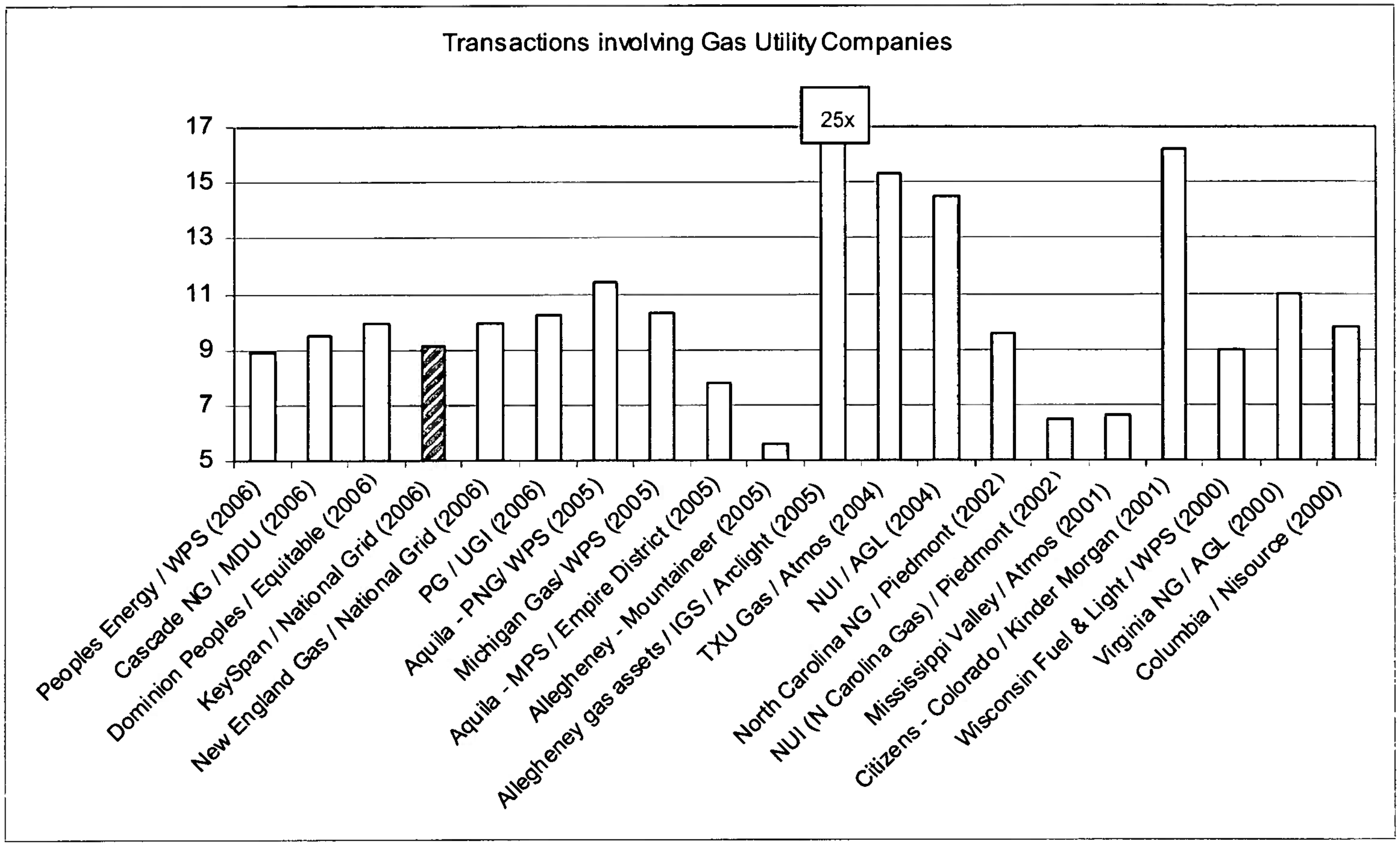
nationalgrid

Market Premium



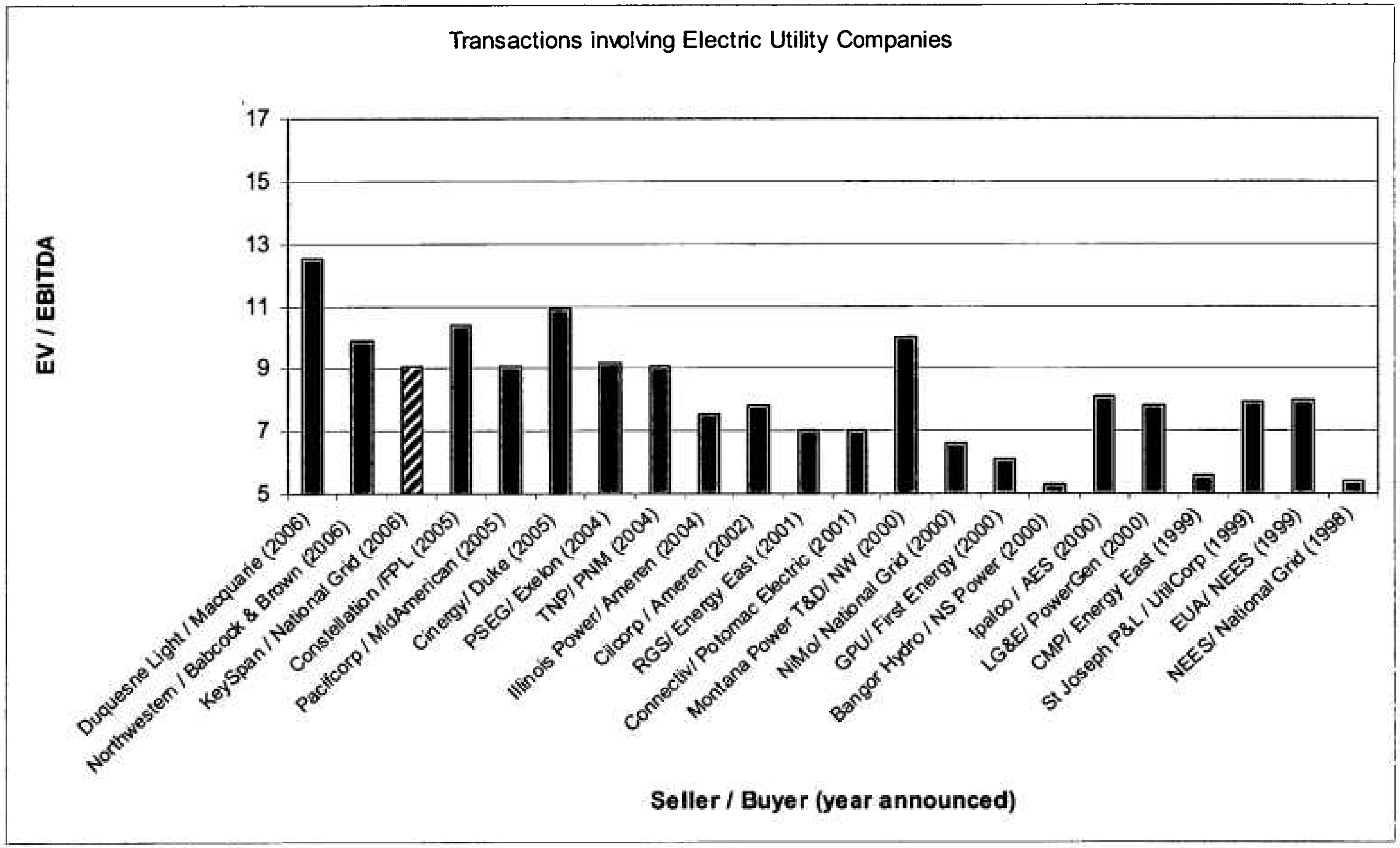
Based on public data – announced purchase price per share against price 1 month prior to announcement

Enterprise Value / EBITDA
– Gas Utility Transactions



Based on public data
Enterprise Value = announced purchase price, including assumed debt
EBITDA = Earnings before interest, tax, depreciation & amortization for last 12 months before announcement

EV / EBITDA – Electric Utility Transactions



Based on public data

Enterprise Value = Announced purchased price, including assumed debt

EBITDA = Earnings before Interest, tax, depreciation & amortization for (last 12 months before announcement)

Backup data

Share price premium - electric & gas transactions

Seller/ buyer (year announced)	Premium to share price (1 month prior)
Peoples Energy / WPS (2006)	11.20%
Duquesne Light / Macquarie (2006)	22.90%
Northwestern / Babcock & Brown (2006)	15.60%
KeySpan / National Grid (2006)	16.40%
Constellation /FPL (2005)	14.40%
Cinergy/ Duke (2005)	15.20%
PSEG/ Exelon (2004)	17.40%
RGS/ Energy East (2001)	39.80%
Connectiv/ Potomac Electric (2001)	36.10%
NiMo/ National Grid (2000)	36.30%
GPU/ First Energy (2000)	30.60%
Bangor Hydro / NS Power (2000)	83.50%
Ipalco / AES (2000)	24.20%
LG&E/ PowerGen (2000)	53.50%
CMP/ Energy East (1999)	48.00%
St Joseph P&L / UtilCorp (1999)	33.30%
EUA/ NEES (1999)	8.50%
NEES/ National Grid (1998)	26.10%

Transaction comps - gas utility companies

Seller/ buyer (year announced)	EV / EBITDA
Peoples Energy / WPS (2006)	8.9
Cascade NG / MDU (2006)	9.5
Dominion Peoples / Equitable (2006)	9.9
KeySpan / National Grid (2006)	9.1
New England Gas / National Grid (2006)	9.9
PG / UGI (2006)	10.2
Aquila - PNG/ WPS (2005)	11.4
Michigan Gas/ WPS (2005)	10.3
Aquila - MPS / Empire District (2005)	7.8
Allegheney - Mountaineer (2005)	5.6
Allegheney gas assets / IGS / Arclight (2005)	25.1
TXU Gas / Atmos (2004)	15.3
NUI / AGL (2004)	14.5
North Carolina NG / Piedmont (2002)	9.6
NUI (N Carolina Gas) / Piedmont (2002)	6.5
Mississippi Valley / Atmos (2001)	6.6
Citizens - Colorado / Kinder Morgan (2001)	16.2
Wisconsin Fuel & Light / WPS (2000)	9
Virginia NG / AGL (2000)	11
Columbia / Nisource (2000)	9.8

Transaction comps - electric utility companies

Seller/ buyer (year announced)	EV/ EBITA
Duquesne Light / Macquarie (2006)	12.5
Northwestern / Babcock & Brown (2006)	9.9
KeySpan / National Grid (2006)	9.1
Constellation /FPL (2005)	10.4
Pacifcorp / MidAmerican (2005)	9.1
Cinergy/ Duke (2005)	10.9
PSEG/ Exelon (2004)	9.2
TNP/ PNM (2004)	9.1
Illinois Power/ Ameren (2004)	7.5
Cilcorp / Ameren (2002)	7.8
RGS/ Energy East (2001)	7
Connectiv/ Potomac Electric (2001)	7
Montana Power T&D/ NW (2000)	10
NiMo/ National Grid (2000)	6.6
GPU/ First Energy (2000)	6.1
Bangor Hydro / NS Power (2000)	5.3
Ipalco / AES (2000)	8.1
LG&E/ PowerGen (2000)	7.8
CMP/ Energy East (1999)	5.6
St Joseph P&L / UtilCorp (1999)	7.9
EUA/ NEES (1999)	8
NEES/ National Grid (1998)	5.4

Appendix 6

COMPLIANCE WITH COMMISSION'S MARKET POWER GUIDELINES FOR THE TRANSFER OF GENERATING FACILITIES

Introduction

This appendix sets forth our compliance with the Commission's guidelines for horizontal and vertical market power associated with the transfer of generating facilities subject to Section 70 of the Public Service Law.[1] KeySpan has several subsidiaries that own electric generation facilities. KeySpan Generation LLC owns and operates approximately 4,032 megawatts of electric generation capacity on Long Island, which is sold to LIPA under contracts subject to FERC's jurisdiction. KeySpan-Glenwood Energy Center, LLC and KeySpan-Port Jefferson Energy Center, LLC each developed a 79.9 megawatt peaking facility on Long Island, whose output is also sold to LIPA under long-term, market-based contracts. KeySpan-Ravenswood, LLC is the only generating company that does not sell its output to LIPA under long-term contracts. KeySpan-Ravenswood instead sells the output of its approximately 2,200 megawatts of generation into the New York Independent System Operator ("NYISO") wholesale market.

Under prior Commission orders, these generators are all subject to lightened regulation.[2] Nevertheless, the Commission has adopted guidelines concerning both horizontal and vertical market power associated with transfers of electric generating

[1] See Statement of Policy Regarding Vertical Market Power, Case 96-E-0900, et al. (July 17, 1998); Niagara Mohawk Power Corp., Case 94-E-0098, pp. 21-22 (May 6, 1998) (guidelines on horizontal market power).

[2] KeySpan Generation, LLC, Case 98-M-0074 (May 1, 1998); KeySpan-Port Jefferson Energy Center, LLC, Case 01-E-1716 (March 7, 2002); KeySpan-Glenwood Energy Center, LLC, Case 01-E-1718 (March 7, 2002); KeySpan-Ravenswood, LLC, Case 96-E-0897 (June 8, 1999), see also, Case 02-E-0214 (June 20,2002).

facilities.[3] The Horizontal Market Power Guidelines covering the sale of generating facilities "track FERC's electric industry merger guidelines" and focus on the market shares of generation owners in the wholesale market (Case 94-E-0098 at p. 22). The Vertical Market Power Guidelines focus on the potential for an owner of transmission and distribution facilities with an affiliate owning generation "to adversely influence prices in that generator's market to the advantage of the combined operation" (Case 96-E-0900, Appendix I, p. 1). The demonstration of compliance with those guidelines is set forth below.

KeySpan's subsidiaries owning generating facilities are also subject to regulation by the Federal Energy Regulatory Commission ("FERC"), which requires a substantial analysis of market power issues associated with its approval of generation sales under Section 203 of the Federal Power Act. As a result, the transfer of control of these electric generation facilities operating in the wholesale market, including the competitive effects associated with that change in control, is now under review by FERC in Docket EC06-125-000. Peter Fox-Penner, an economist from the Brattle Group, comprehensively evaluated the competitive effects of the merger for the Petitioners.[4] Based on analysis filed in that proceeding, we believe that the transaction will have no effect on the competitiveness of the wholesale electric markets.

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[3] See Statement of Policy Regarding Vertical Market Power, Case 96-E-0900, et al. (July 17, 1998); Niagara Mohawk Power Corp., Case 94-E-0098, pp. 21-22 (May 6, 1998) (guidelines on horizontal market power).

[4] Peter Fox-Penner's affidavit and workpapers is incorporated by reference in this filing. Copies will be provided to interested parties upon request.

Horizontal Market Power

With regard to horizontal market power, Dr. Fox-Penner undertook a comprehensive analysis of market shares of the generation under control of the merged companies in New York and New England. Following a comprehensive analysis of several scenarios under various load conditions, Dr. Fox-Penner concluded that the horizontal effect of the proposed merger is small. All of KeySpan's generation is located in New York City and Long Island, where National Grid neither owns nor controls any generating capacity. National Grid owns no generating capacity in New York, but Niagara Mohawk purchases capacity from non-affiliates under long-term purchased power contracts in upstate New York. The only theoretical failures to meet FERC's competitive screens were associated with hypothetical sales from Niagara Mohawk's long term purchased power contracts, which are today sold into the NYISO market in upstate New York, being instead made into New York City or Long Island, Zones J and K.[5] These hypothetical effects were very minor and were totally mitigated by committing to seek FERC approval before making a bilateral sale of power from upstate generating resources into NYISO Zones J or K. Dr. Fox-Penner concluded that (Affidavit, p. 15): "even without the Applicants' proposed mitigation, the proposed merger will not lead to significant horizontal or vertical competitive impacts on any electric power markets under present circumstances. With Applicants' proposed mitigation, all such potential adverse impacts are eliminated." Based on Dr. Fox-Penner's analysis, the merger will not have any adverse effects on horizontal market power in New York.

[5] Attached to this Appendix are two maps, developed by the NYISO that show the transmission system and the load zones in New York.

Vertical Market Power

With regard to vertical market power issues, the Commission's guidelines focus on the potential adverse effects associated with the ownership of transmission and distribution facilities. Specifically, the Commission is concerned that (Case 96-E-0900, App. I, p.1): "A transmission and distribution company (T&D company) with an affiliate owning generation may, in certain circumstances, be able to adversely influence prices in that generator's market to the advantage of the combined operation." The Commission established the vertical market power policy to address this concern. The Commission found that (id, p.2):

> To guard against undesirable incentives, a rebuttable presumption will exist for purposes of the Commission's Section 70 review of the transfer of generation assets that ownership of generation by a T&D company affiliate would unacceptably exacerbate the potential for vertical market power. To overcome the presumption the T&D company affiliate would have to demonstrate that vertical market power could not be exercised because the circumstances do not give the T&D company an opportunity to exercise market power, or because reasonable means exist to mitigate market power.

In this case, National Grid owns transmission and distribution facilities in upstate New York. National Grid owns no lines in Zones J or K, where KeySpan's generation is located. KeySpan owns no generation in upstate New York, and owns no transmission in Zones J and K where its generating plants are located. Rather, all transmission on Long Island is owned by LIPA[6].

As a result, the first issue identified by the Commission in its statement of vertical market power—the "affiliate's generator is located in the same market as the T&D company," and the "T&D company has an incentive to make entry into its own territory difficult"—does not apply to this case. Neither National Grid nor KeySpan is able to

[6] See Appendix 1 for the transmission lines and service territories of National Grid and KeySpan. A map showing NY ISO zones is attached to this appendix.

restrict new generation from entering the market in Zones J and K. Rather, all transmission in the zones is owned by Consolidated Edison Company of New York, Inc. ("ConEd") or LIPA. The ability of these organizations to restrict entry of new generation within Zones J and K, or for that matter for National Grid to restrict entry of new generation in upstate New York, has been fully mitigated by the FERC's policies on interconnection and the NYISO's tariff changes implementing those policies.[7] Under those rules and policies, Niagara Mohawk must interconnect generators within defined terms and timelines, and has no ability to exclude new entrants from its service territory.

With regard to the second example in the Guidelines, National Grid owns two transmission lines from Leeds to Pleasant Valley that connect with a ConEd substation in Westchester County (NYISO Zone G).[8] Theoretically, an outage or derating of these lines could affect the ability of suppliers with upstate generating units to reach customers in Zones J and K. Nevertheless, National Grid will have no practical ability after the Transaction "to retain the constraint to keep the market price high on the high cost side of the constraint"—assuming, for purposes of analysis, it had any inclination to do so.

[7] Pursuant to the FERC-approved NYISO Open Access Transmission Tariff ("OATT"), Attachment X, *Standard Large Facility Interconnection Procedures*, all large Generating Facilities or Merchant Transmission Facilities proposing to interconnect to the New York State Transmission System must do so through the FERC-regulated NYISO procedures. *See* NYISO OATT, Attachment X, *Standard Large Facility Interconnection Procedures*, Section 2.1, available at the NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/tariffs/oatt/att_x.pdf. *See also* "Agreement Between New York Independent System Operator and Transmission Owners," Article 2.0 (hereinafter referred to as "NYISO-TO Agreement") available on the NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/regulatory/agreements/nyiso_agreement/nyiso_to_agreement.pdf ("the Transmission Owners have specified transmission facilities over which the ISO will have day-to-day operational control. These facilities shall be collectively known as the 'Transmission Facilities Under ISO Operational Control,' and are listed in Appendix A-1." (hereinafter referred to as the "A-1 List")).

[8] See attached Transmission System map from the NYISO for the location of the Leeds – Pleasant Valley lines.

This concern, to the extent that it exists,[9] has been fully addressed by developments within the NYISO in the eight years since the Commission's Statement of Policy was issued. Under the NYISO rules and policies, transmission lines on the A-1 list, such as the Leeds-Peasant Valley lines, are operated and dispatched directly by the NYISO pursuant to the provisions of the NYISO-TO Agreement[10] and the associated NYISO OATT tariff provisions,[11] NYISO Outage Scheduling Manual,[12] and the New York Tie-Line Ratings Report.[13] Under these procedures, NYISO approval is required to take an A-1 listed line out of service for maintenance[14] or to change the ratings. Thus, National Grid has no ability to unilaterally change the flows over these backbone, network transmission facilities. Even for lower voltage radial lines on the NYISO A-2

[9] In any case, the value of restricting supplies into Zones J and K for KeySpan's generation would be limited. First, all of KeySpan's generation facilities (with the exception of the KeySpan Ravenswood) operate under long term contracts with LIPA (Fox-Penner Affidavit, p. 27), and thus KeySpan's ability to realize excess profits from those plants is limited.

Second, KeySpan-Ravenswood sells its output to the NYISO under prices that are constrained by the NYISO market monitor. These price constraints limit the additional margin that can be realized through disrupting or derating service over National Grid's transmission facilities. Balanced against the potential for increased generating margins for sales from any KeySpan generating facilities would be the loss of Transmission Congestion Contract ("TCC") value resulting from the constraint. (TCC processes are set forth in the NYISO OATT, Attachment N, available at the NYISO Internet website at http://www.nyios.com/public/webdocs/documnets/tariffs/oatt/att_n.pdf.) These factors all limit the magnitude of gains that could be realized from improperly restricting supplies into Zones J and K.

[10] A copy of the NYISO-TO Agreement is available at the NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/regulatory/agreements/nyiso_agreement/nyiso_to_agreement.pdf.

[11] *See* NYISO-TO Agreement, section 2.01; NYISO OATT, General Terms and Conditions ("GT&C"), Section 1.26b, Sheet No. 39A, and section 1.45c, Sheet No. 53, available at NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/tariffs/oatt/body_oatt.pdf.

[12] *See* "NYISO Outage Scheduling Manual," available at NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/manuals/operations/outage_sched_mnl.pdf.

[13] *See* "New York Power Pool, Tie Line Ratings Task Force, Final Report on Tie-Line Ratings 1995," available on the NYISO Internet website at www.nyiso.com/public/webdocs/services/planning/planning_data_reference_documents/nypp_tieline_ratings_report.pdf.

[14] *See* NYISO Outage Scheduling Manual, section 1.1, available at NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/manuals/operations/outage_sched_mnl.pdf.

list,[15] maintenance outages must be fully documented and the NYISO must be notified in advance.[16] Under the New York Ratings Manual, any changes in ratings for these lower voltage lines can only be implemented through the NYISO stakeholder process with full disclosure to the NYISO and other participants.[17] Because National Grid only controls about five percent of the vote in the NYISO Stakeholder processes,[18] these changes are also outside of National Grid's control. In any event, ratings changes or outages are always made known to the NYISO. Any that are focused on increasing the prices in downstate energy markets would be subject to immediate scrutiny and reversal by the NYISO, FERC, or the Commission.

For all these reasons, Dr. Fox-Penner found no adverse impacts on vertical market power from the Transaction. At page 59 of his Affidavit in the FERC filing, he concluded:

> The merger does not raise any competitive concerns regarding Applicant's ability or incentive to use or control transmission facilities. First, National Grid's bulk transmission assets all are subject to the operational control of the NYISO and ISONE. Second, KeySpan does not own electric transmission assets either in New York or New England. KeySpan does provide certain management services for the transmission facilities owned by LIPA, but it provides those services under LIPA's supervision and, in any event, LIPA's bulk transmission facilities are also

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[15] The "A-2 List" is a list of generally lower voltage transmission lines over which the individual Transmission Owners maintain operational control, with certain notice requirements to the NYISO. *See* NYISO OATT, GT&C section 1.26b, Sheet No. 39A, and section 1.45d, Sheet No. 53, available at the NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/tariffs/oatt/body_oatt.pdf; NYISO-TO Agreement, Attachment A-2, available at NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/regulatory/agreements/nyiso_agreement/nyiso_to_agreement.pdf.

[16] *See* NYISO-TO Agreement, section 2.02.

[17] *See* footnote 10, *supra*.

[18] *See, e.g.*, "Independent System Operator Agreement," section 7.06, available at the NYISO Internet website at http://www.nyiso.com/public/webdocs/documents/regulatory/agreements/nyiso_agreement/iso_agreement.pdf (setting forth the governance procedures, including voting rights for various sectors of market participants, including 20% allocated to Transmission Owners sector, which is comprised of four members, thus resulting in a 5% vote for each Transmission Owner).

> subject to the NYISO's operational control. Thus, the merger does not change the upstream transmission market. If the merger concentrated the downstream market where National Grid owns transmission lines it is conceivable that a concern might exist, if one assumed that National Grid could evade the operational control of the ISO or RTO. That concern, however, cannot be present in this case because, as I explained earlier, the merger has virtually no effect on concentrations in the New England electricity market because KeySpan has no presence there and, in New York, National Grid's transmission lines are in the unconcentrated part of the NYISO and do not extend into Zones J or K.

In short, the Commission's policies for open competition in the wholesale and retail electricity markets are not adversely affected by this Transaction.

However, even if some adverse effect is found, the Commission noted in its Statement of Policy that it would still authorize a merger to go forward if the T&D company demonstrates that "substantial ratepayer benefits, together with mitigation measures, warrant overcoming the presumption." The Petition describes the substantial benefits to utility customers from this Transaction. The remainder of this Appendix addresses the means for mitigating any potential market power concerns that were identified by the Commission.

The Commission listed three possible means for mitigating vertical market power. First, a transmission owner may implement a limitation on "the degree of control over the constraining transmission interface held by the T&D utility." As we explained above, the current rules and policies of the NYISO put the entire control of the interface into the NYISO's hands. We believe that this shift in control to the NYISO is sufficient to eliminate any purported vertical market power entirely in this Transaction; in any event, the NYISO's control over the transmission facilities mitigates any market power that could be said to exist.

Second, the T&D utility may pledge to pursue transmission projects recommended by the Commission or the NYISO, together with a proposal to neutralize the profit maximizing incentives on generation within the market power control area pending completion of the transmission projects. Again, National Grid has been and will continue to be a strong supporter of additional transmission into constrained areas such as Zones J and K. We have supported the development of a regional planning process under the auspices of the NYISO, which is now in place for reliability planning and can be extended to economic upgrades as well.[19] We are committed to upgrade the transmission system and add the facilities that are necessary to implement these plans and economically alleviate transmission constraints within the market, assuming that we are authorized to recover the resulting revenue requirements. Moreover, as noted above, the generation margins that could be realized from transmission constraints are already limited by KeySpan's contracts with LIPA for most of its generation, and through market mitigation by the NYISO for the output from the Ravenswood facility. We would expect the market mitigation to continue until sufficient transmission is built into the Zones to alleviate the constraints.

Finally, the Commission identified a third measure to limit market power by agreeing to arbitration in the event of a request for a new interconnection by a generator. As explained above, this is not the issue presented by this transaction, and our ability to restrict access by limiting interconnections has already been fully addressed by FERC's and the NYISO's interconnection rules and policies.

[19] *See New York Independent System Operator, Inc.*, 109 FERC ¶ 61,372, at fn. 2 (2004) (a "Phase II" planning process will be developed to address planning for economic reasons).

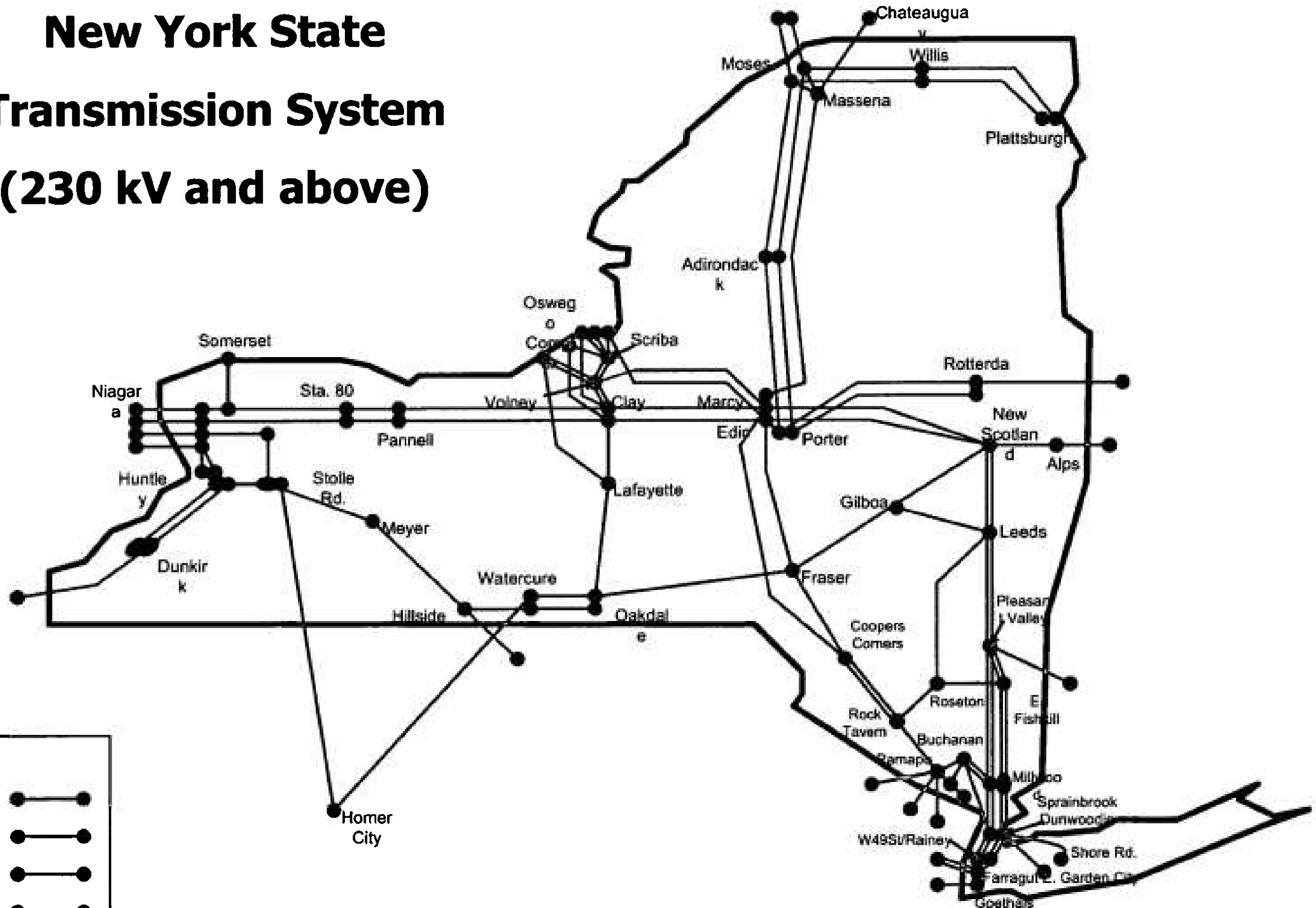
Thus, to the extent, vertical market power is found to exist, the Commission should find that it is mitigated in this Transaction through all three of the means identified in its Vertical Market Power Guidelines. Accordingly, we request the Commission to find that the Transaction can be implemented in a manner that is fully consistent with its guidelines on Horizontal and Vertical Market Power.

NY Transmission System

New York State

Transmission System

(230 kV and above)



Legend:

765 kV

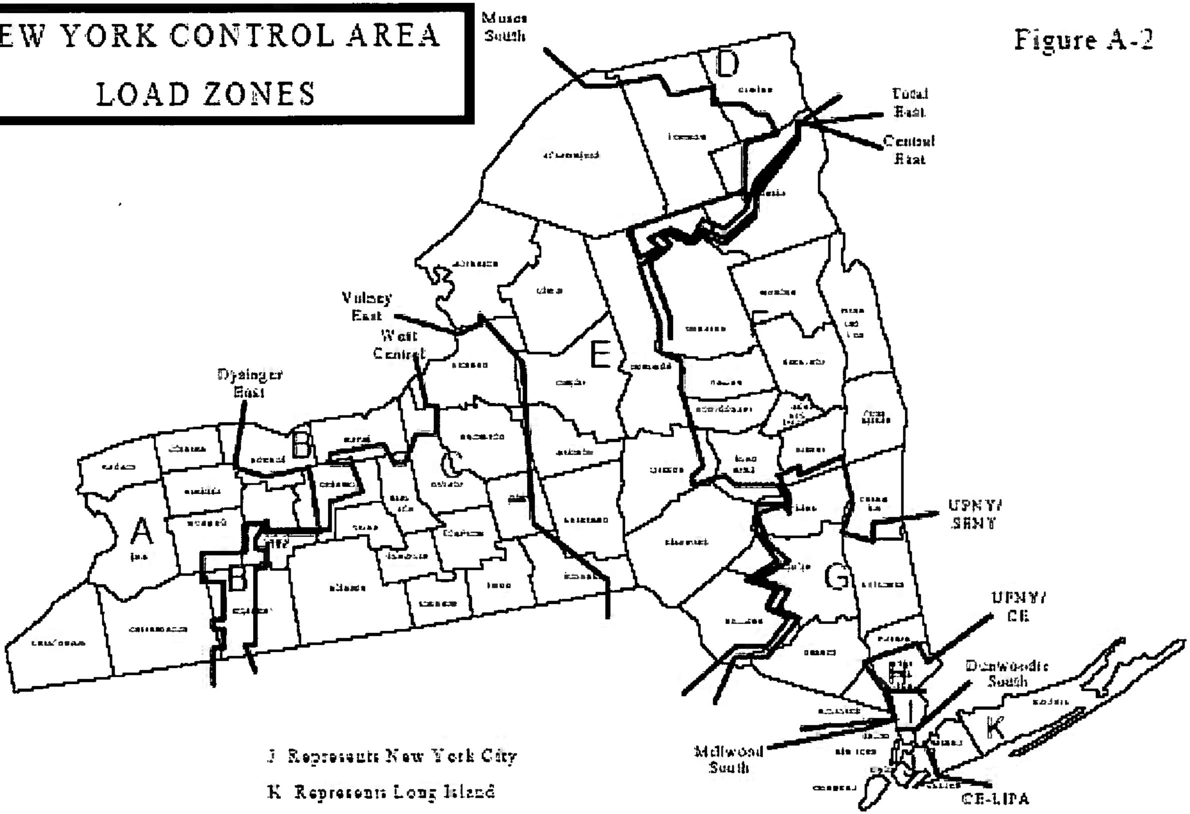
500 kV

345 kV

230 kV

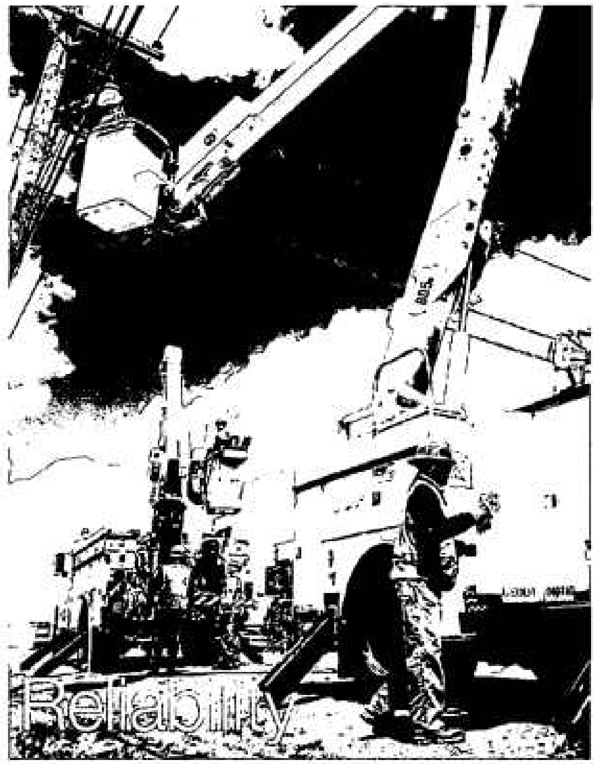
NEW YORK CONTROL AREA LOAD ZONES

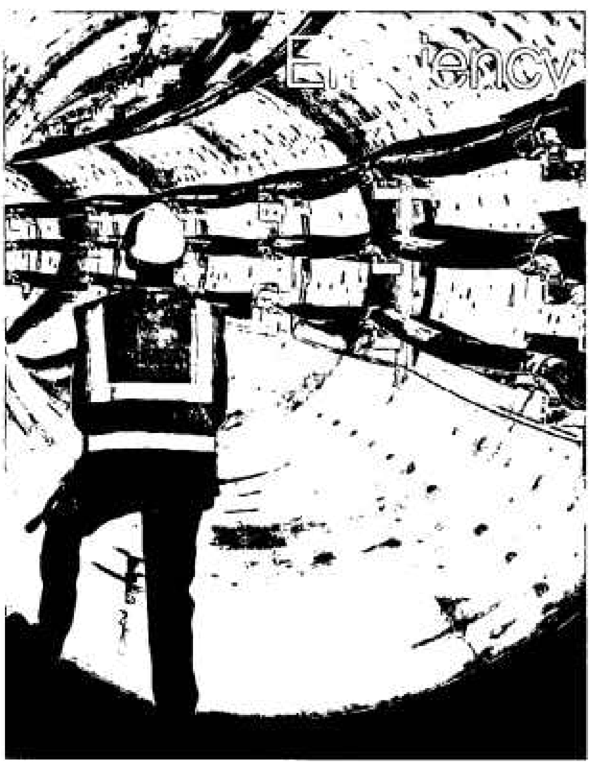
Figure A-2



Appendix 7

Annual Review 2005/06





nationalgrid

Dear shareholder

We are delighted to report a strong financial performance for the year ended 31 March 2006. Adjusted operating profit* is up 3%, with adjusted profit before tax* and adjusted earnings per share* up 11% and 10% respectively. These results reflect our continued commitment to driving our strategy forward together with careful investment in both our assets and the development of our people.

The Group's operational performance has also been strong and we continue to build on our reputation for world-leading standards of service for reliability in energy delivery. Managing our networks to the highest standards of safety is at the core of everything we do. We continue to improve our safety performance while constantly striving to be world class. As a Group, we also recognise the importance of acting responsibly in all that we do.

Our core skills lie in the design, development, safe operation and maintenance of large and complex networks. We will continue to invest and focus on organic growth in our existing networks while making appropriate acquisitions of network-related businesses that complement our current portfolio. Indeed, the two acquisitions that we are making in the US embody this strategy.

We also appreciate that our success is due to the talented and diverse individuals whom we employ. To secure, grow and retain the very best employees available, we are committed to investing in developing our people's futures throughout all levels of our organisation.

This is the first year that we are reporting as National Grid plc following shareholder approval of the Group name change for our principal businesses. Our drive and determination, coupled with our substantial investment programmes, emphasise our Group-wide commitment to being the world's premier network utility by creating value from our existing businesses and identifying new opportunities both at home and abroad.

Sir John Parker
Chairman

Roger Urwin
Group Chief Executive

Highlights

Financial highlights†

Group revenue

£9,193m

2004/05: £7,382m
up 25%

Adjusted operating profit*

£2,527m

2004/05: £2,443m
up 3%

Operating profit

£2,439m

2004/05: £2,142m
up 14%

Cash generated from operations

£3,131m

2004/05: £2,911m
up 8%

Ordinary dividends

26.1p

2004/05: 23.7p
up 10%

Adjusted earnings per share*

46.7p

2004/05: 42.3p
up 10%

Earnings per share

42.8p

2004/05: 36.3p
up 18%

Operating highlights

- We agreed to acquire KeySpan Corporation, a northeastern US gas and electricity distribution company, for $7.3 billion (£4.2 billion) plus assumed debt of approximately $4.5 billion (£2.6 billion).
- Grain LNG commenced commercial operations in July 2005 and Phase II expansion is under way.
- Over the last 12 months, a 27% reduction in lost time injuries has been reported across the Group.
- £200 million London infrastructure tunnel project connecting Hertfordshire to North London completed in September 2005.
- Proposed acquisition announced of Southern Union Company's Rhode Island gas distribution business for cash consideration of $498 million (£286 million) and assumed debt of $77 million (£44 million).
- £2 billion return of value to shareholders – 65 pence per share – made in August 2005.
- Construction of Basslink complete, with commercial operations having commenced in April 2006.

† Continuing operations
*** Excludes the impact of exceptional items and remeasurements**

Important Notice
This Summary Financial Statement, as extracted from the full Annual Report and Accounts, does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the Company or the Group as would be provided by the full Annual Report and Accounts.

The Auditors' Report on the full financial statements for the year ended 31 March 2006 was unqualified and did not contain a statement concerning accounting records or failure to obtain necessary information and explanations.

Shareholders who would like more detailed information may obtain a copy of the full Annual Report and Accounts 2005/06 and request any future full Annual Report and Accounts by contacting Capita Registrars, whose details are on the back cover.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full 'Cautionary Statement' on the back cover.

Chairman's Statement

I would like to thank the Executive team for its strong leadership and all our employees for their individual contributions to our continued success during the past year.

Board
As a Board, we are conscious that we oversee the activities of the business in the interests of all our stakeholders. In order to achieve this, we must ensure that we have the very best people for the task. To ensure this, we carry out a rigorous review of Board performance annually and regularly examine senior management succession very carefully.

Roger Urwin, Group Chief Executive, intends to retire from National Grid at the end of this calendar year. Roger has led National Grid through transformational change and delivered an outstanding track record of success and value creation. It has been my privilege to have worked closely with Roger since the merger of National Grid Group and Lattice Group in 2002. At the Board's request, Roger agreed to defer his retirement to enable a smooth transition to his successor, ensuring that operating performance momentum is maintained, together with management continuity through this year's Transmission Price Review.

To find a suitable replacement for Roger, the Non-executive Directors undertook an extensive process of evaluating both internal and external candidates. We are delighted to report that Steve Holliday will succeed Roger and was appointed Deputy Group Chief Executive from the beginning of National Grid's 2006/07 financial year. Since joining National Grid in 2001, Steve has led the UK transmission and the UK gas distribution businesses to world-leading performance. All the Directors and I are confident of the future of the Group under Steve's leadership and wish him every success.

This year will also see John Grant stepping down from his Non-executive Directorship.

26.1p
Ordinary dividends

46.7p
Adjusted earnings per share*

* Excludes the impact of exceptional items and remeasurements

John joined National Grid in November 1995. He has made an outstanding contribution to the Board and our Committees over the past 10½ years. He has also been a major contributor to all our key debates and we shall miss his wisdom and insight.

Governance
The Board of National Grid continues to be committed to the highest standards of corporate governance. It also seeks to ensure that our values and internal processes lead to the effective management of risk and the equitable treatment of all our stakeholders and employees. We recognise the significant benefit of management leadership within a robust governance framework that embodies strong financial control and sound administration.

In a climate where the governance arrangements in large companies are increasingly under scrutiny, the Board has implemented a transparent approach. This is driven by our Framework for Responsible Business, underpinned by a suite of policies, procedures, public position statements and well-defined internal control processes.

Employee engagement
In May 2006, we undertook our second Group-wide employee opinion survey. The first survey was undertaken in July 2004. One initiative that resulted from the previous survey was the promotion of 'Managers as Communicators' to enhance dialogue and feedback among the workforce.

Following the 2004 employee opinion survey, the Executive identified a number of areas for improvement. These included improving opportunities for dialogue across the Group, ensuring understanding of strategy amongst employees, managing change better, managing individual performance effectively, demonstrating our values in all that we do and continuing to progress our inclusion and diversity policy.

The re-branding programme provided a platform this year to demonstrate our improvement in a number of these areas and to introduce new approaches. Across the Group we have also refined our employee briefing processes and our national employee publications. For the first time this year, we have introduced a Group-wide publication, 'National Grid World', to provide employees with a broader view of Group activities.

Community investment
National Grid continues to support its customers and communities through its community investment activities. The areas that we support are closely aligned to our business priorities: Education & Skills, Environment & Energy and Community Development.

Both our US and UK operations have programmes to support domestic consumers who have difficulty with energy payments. In the US, approximately 215,000 National Grid customers are supported through our Low Income Discount Rates, which reduce fuel bills by up to 25%. National Grid also administers grants in the US to allow customers to install energy efficiency measures. Through the Gas Efficiency Programme, which was initiated at the end of 2005, low-income customers are able to receive support from a fund of $5 million. In addition, National Grid in the US sponsors assistance programmes run by charitable organisations to support those who are not able to pay their energy bills.

In the UK, National Grid has supported the fuel poor through its 'Affordable Warmth Programme'. Since it was established in 1999, the programme has assisted 377,841 homes. One of its key elements is the support for the Warm Zones concept. National Grid currently supports four Warm Zones working with Government and social housing providers and integrating sources of funding to tackle the issue of fuel poverty in a concentrated and systematic manner.

We have also continued to lead on the 'Young Offender Into Work Programme'. With the involvement now of over 50 FTSE companies, we have seen 400 young people secure a new future with a significant reduction in the re-offending rate.

Dividend
The Board is recommending a final dividend of 15.9p per ordinary share – representing a 10% increase in the full-year dividend. This increase reflects our confidence in the Group's longer-term prospects based on this year's good results and our strategic commitment to invest in the growth of our businesses.

Going forward, we continue to target annual increases of 7% to March 2008.

Outlook
Given the opportunities across the Group for capital investment and revenue growth with the continuing drive for cost efficiencies, the Board continues to have full confidence in the Group's ability to generate future earnings growth. The Group will also continue to maintain its disciplined approach to both organic growth and strategic investment.

Sir John Parker
Chairman

377,841

The number of homes that National Grid has assisted through its 'Affordable Warmth Programme'

400

The number of young people securing new futures from National Grid's 'Into Work Programme'

national**grid**

The new name for our principal businesses

Group Chief Executive's Review

Our aim to be the world's premier network utility, and the delivery of our strategy, are both at the heart of our day-to-day activities.

Strategy
As an infrastructure-based network provider, it is essential that we deliver high standards of service and reliability as well as outperforming our benchmarks and regulatory targets. We need to continue managing our regulatory relationships successfully to benefit both our customers and shareholders. Our disciplined approach to capital management remains paramount.

Progress
Delivering our strategy involves the continued focus on our key strengths of operational excellence, our ability to exceed our efficiency targets and our prudent use of capital. Investment in our current businesses and strategic opportunities are made only where we believe we can create shareholder value.

Our regulatory controls provide significant incentives towards improving operational efficiency by permitting the sharing of the benefits of increased efficiencies between energy users and shareholders. This year we added to National Grid's impressive cost-efficiency track record when UK gas distribution achieved its cost-efficiency target one year early.

Investment†
Investment in our networks remains a priority for the Group. Total investment reached £2 billion this year, up by one third over last year's £1.5 billion. We project a further rise to around £2.5 billion per annum over the next five years. Investment is rising across the Group with the largest increases in our UK regulated businesses.

New investment in UK electricity transmission is being driven largely by asset replacement which reflects the age and condition of the network. UK gas transmission investment is also increasing, but here it is primarily due to new infrastructure required to meet the changing gas supply pattern as the UK becomes a net importer of gas. This includes our largest ever project, connecting the new liquefied natural gas (LNG) terminals currently being built at Milford Haven. This will require investment of more than £750 million over the next two years.

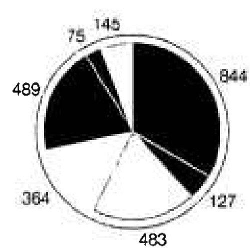
Our disciplined approach to capital management is also reflected in the strategic moves we made during the year. On 1 June 2005, we completed the sales of four of our regional gas distribution networks for a total cash consideration of £5.8 billion. This creates what is in effect a new gas distribution market in the UK. We have retained four of the networks, which together represent the largest of the UK gas distribution businesses. We look forward to setting new levels of efficiency for the benefit of both our customers and shareholders. The network sales led directly to the £2 billion return of value to shareholders, at 65 pence per share, which we made in August. This was one of the largest returns of value ever for a UK company.

This year we also commissioned Phase I of our LNG import terminal at the Isle of Grain in Kent. The facility has the capability to import and process 3.3 million tonnes of LNG per year. Construction of Phase II is now under way, which will triple capacity by the end of 2008. When complete, our total investment will be around £500 million and the facility will have the capacity to import around 13% of the current UK annual gas demand.

In February 2006, we announced the agreed acquisition of KeySpan Corporation, a major US energy delivery company, for $7.3 billion (£4.2 billion) plus assumed debt of approximately $4.5 billion (£2.6 billion).

£2,527m
Adjusted operating profit*

Adjusted operating profit* by business £m



844 UK electricity and gas transmission
127 US electricity transmission
483 UK gas distribution
364 US electricity and gas distribution
489 US stranded cost recoveries
75 Wireless infrastructure
145 Other activities

† Continuing operations
* Excludes the impact of exceptional items and remeasurements

It is the largest distributor of natural gas in the northeastern US with approximately 2.6 million customers. In the same month, we announced the acquisition of gas distribution assets from the Southern Union Company for cash consideration of $498 million (£286 million) and assumed debt of $77 million (£44 million).

Both acquisitions have an excellent strategic, operational and geographic fit. They are a natural extension of our business and will expand the Group's growth platform as well as creating substantial opportunities for new cost savings.

Financial performance†

The Group's financial performance for 2005/06 has been strong. Adjusted profit before tax* and adjusted earnings per share* were 11% and 10% higher respectively than last year while operating cash flows were more than £3 billion.

The performance of all our individual businesses has been encouraging. UK transmission has entered an investment-led growth phase. During the year, the Group invested £584 million in new electricity and gas infrastructure and a further £265 million replacing assets that were nearing the end of their useful technical life. The increased investment, as well as the write-off of certain assets, led to an increase in depreciation and amortisation. This increase was partially offset by successful capacity auctions resulting in adjusted operating profit* of £844 million compared with £859 million last year. US electricity transmission had another good year with adjusted operating profit* of £127 million.

UK gas distribution results were particularly strong as adjusted operating profit* was up 14% at £483 million compared with £424 million last year. This performance is primarily due to the reduction in operating expenditure (excluding shrinkage), which was down £52 million, as a result of our 'Way Ahead' programme. Controllable costs have been cut by 35% in real terms since March 2002.

Adjusted operating profit* for US electricity and gas distribution was down 3% at £364 million, primarily due to timing differences related to pension charges and commodity costs. The majority of these costs will be recovered in future periods. Adjusting for these items, profits were broadly flat, since weather-normalised residential volume growth of 1.7% was offset by higher depreciation and amortisation.

The enlarged Wireless infrastructure business had a strong first full year as a member of the Group. Adjusted operating profit* was £75 million and the business met its £18 million annualised cash synergy target. Growth from broadcast was particularly strong reflecting the successful launch of three new channels. We are expecting double-digit organic operating profit growth over the medium term.

Other activities contributed £145 million to adjusted operating profit*, a decrease of £7 million from 2004/05. National Grid Metering has delivered strong performance, with adjusted operating profit* up £28 million. The business made good progress in driving operational efficiency, which together with growth in our competitive metering business, more than offset a decline in regulated metering revenue. Adjusted operating profit* from National Grid Property at £88 million was £14 million less than last year. National Grid Grain, our new LNG import terminal, contributed £6 million of adjusted operating profit* after coming on line in July.

Safety

Safety is at the centre of everything we do. Over the past 12 months we have maintained an encouraging improvement in our safety performance across the Group. Against these very significant improvements over the past three years, it is all the more tragic that one of our colleagues was overcome by gas and died while re-laying a gas service pipe in our UK gas distribution business.

This very sad incident underlines the fundamental importance of safety in all that we do. It serves as a stark reminder to ensure that we continue to develop and implement ever safer ways of working for the protection of ourselves, our colleagues, our contractors and members of the public.

Outlook

The environment in which National Grid operates is ever more challenging and complex. However, I am confident that we have a strong and clear strategy that underpins everything we do and that will benefit all our stakeholders. Our growth is expected to be driven by new investments, new efficiencies and selected expansion in our current businesses.

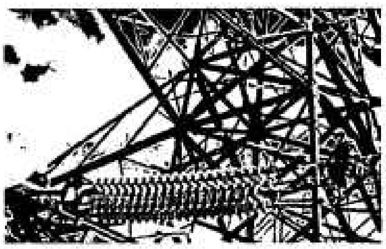
You will have seen from Sir John's statement that I intend to retire at the end of 2006. It has been my privilege to lead National Grid through a series of major changes. Our success is built on the talent, commitment and effort of everyone in National Grid. With that continuing support and his outstanding record leading UK transmission and UK distribution, I am confident that Steve Holliday will lead the Group to new levels of success.

Roger Urwin

Roger Urwin
Group Chief Executive

What we do

National Grid is dedicated to becoming the world's premier network utility. Our core skills are in the management of large and complex networks. Our businesses are primarily concerned with energy delivery and other infrastructure and related services where we can exploit our core skills to create value.



UK electricity and gas transmission

Area of operation
We own and operate the electricity transmission system in England and Wales. This is the high-voltage network that runs across both countries. We operate (but do not own) the electricity transmission system in Scotland. We also own and operate the gas transmission network in Great Britain. This is the high pressure gas pipeline network that runs across the country.

2005/06 highlights
On 1 April 2005, we became responsible for operating the Great Britain electricity transmission system, setting charges and maintaining the charging statements for all transmission users in Great Britain.

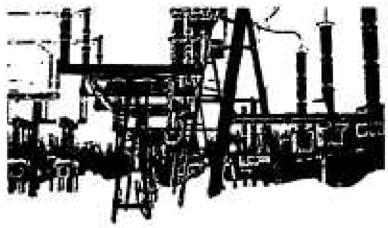
The winter of 2005/06 saw demand from the electricity transmission network in England and Wales hit a peak of 53.73 GW (gigawatt). This compares with the previous year's peak of 53.29 GW.

Size and scope
4,500 miles of overhead line

415 miles of underground cable

337 electricity substations

4,300 miles of high pressure gas pipeline



US electricity transmission

Area of operation
We own and operate an electricity transmission network of approximately 9,000 miles. We are the largest electricity transmission service provider in the northeastern US by reference to the length of our high-voltage transmission line. We also own and operate a 139-mile direct current transmission line that is a key section of an interconnector between New England and Canada.

2005/06 highlights
Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2005/06 was £91 million, compared with £74 million in 2004/05.

Size and scope
8,900 miles of overhead line

94 miles of underground cable

496 substations

UK gas distribution

Area of operation
Our UK gas distribution business comprises almost half of Great Britain's gas distribution system. This system comprises the gas pipelines that service homes and businesses. Our gas distribution business remains the largest in the country.

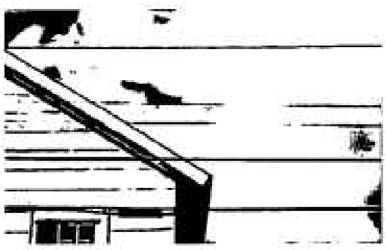
We continue to operate the UK national gas emergency number for our networks, the sold networks and other gas transporters.

2005/06 highlights
On 1 June 2005, we successfully completed the sales of four gas distribution networks for £5.8 billion.

We achieved our 35% controllable cost-reduction target one year early.

Size and scope
Distributes gas to **11 million** homes and businesses

82,000 miles of gas distribution pipeline



US electricity and gas distribution

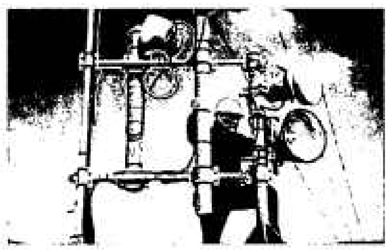
Area of operation
Our US electricity and gas distribution business serves approximately 3.4 million electricity customers in Massachusetts, New Hampshire, New York and Rhode Island, and around 569,000 gas customers in New York.

2005/06 highlights
We launched the multi-year 'Reliability Enhancement Programme' that utilises new information technologies to identify problem areas together with a combination of asset replacement, increased maintenance and inspections, and other actions to improve reliability cost effectively.

The Nantucket Island cable project was completed (at a cost of more than $40 million) to deliver electricity to the island with enhanced capacity and reliability.

Size and scope
72,000 circuit miles of electricity distribution network

8,600 miles of gas pipeline forming the gas distribution network



Wireless infrastructure

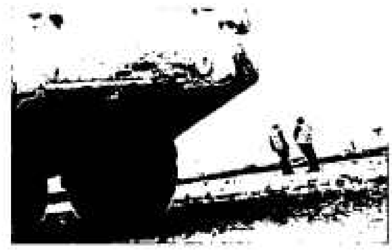
Area of operation
In the UK, we are the leading independent provider of network infrastructure, such as towers, to mobile telephone operators and one of two providers of transmission networks to television and radio broadcasters. Our US business provides communications infrastructure and related network services to wireless and fixed network operators in the northeastern US.

2005/06 highlights
During 2005/06, we completed the process of integrating the UK operations of Crown Castle International Corp. that we acquired for £1.1 billion in 2004/05.

In November, we concluded an agreement with the BBC, the UK-based public service broadcaster, to extend the provision of analogue television until 2012, and AM and FM radio until 2013.

Size and scope
5,500 active sites used for mobile communications

750 purpose-built broadcast towers for radio and television broadcasting



Other businesses

National Grid Metering provides regulated gas metering and meter-reading services on behalf of our UK gas distribution business.

OnStream provides gas and electricity metering and meter-reading services to the competitive market.

National Grid Australia provides the 224-mile interconnector linking the electricity network on the island of Tasmania to mainland Australia – the longest such cable in the world.

National Grid Grain is a liquefied natural gas (LNG) import terminal and storage facility constructed and operated in the UK.

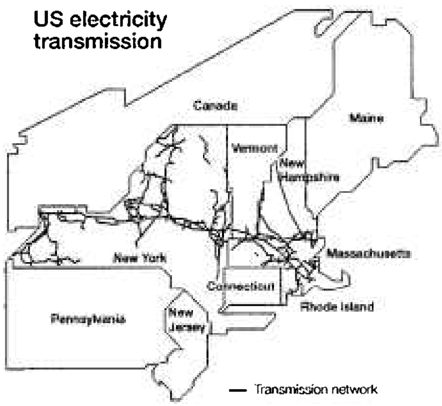
National Grid Property is responsible for the management of all our major occupied property in the UK and the management, clean up and disposal of surplus properties.

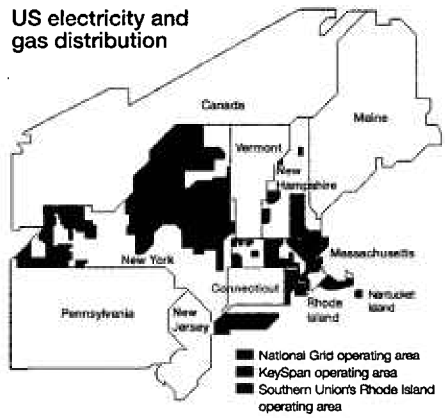
Fulcrum Connections provides gas connections and associated design services on behalf of gas distribution networks in the UK.

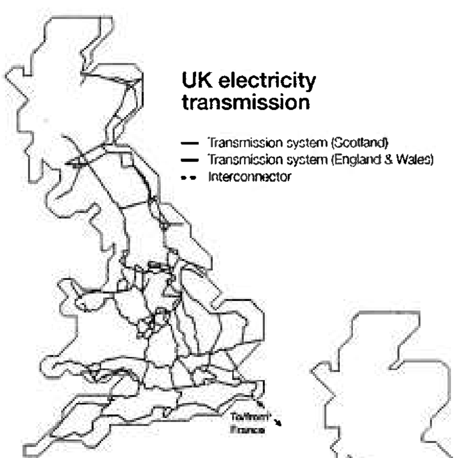
Advantica is a consultancy business providing engineering and software services to enhance safety and performance in the gas, oil, electricity and water sectors.

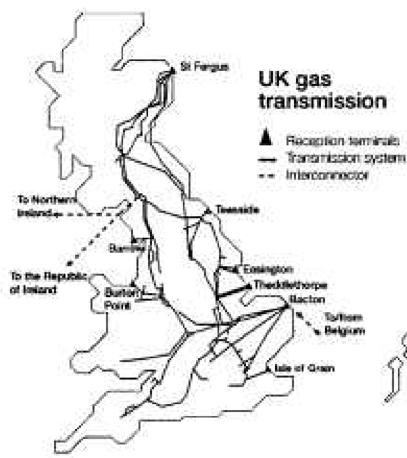
Where we are

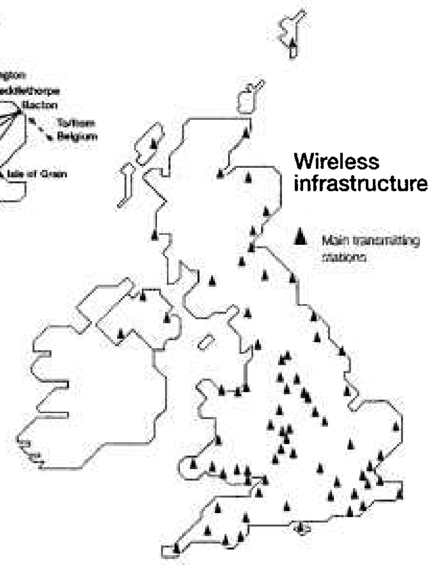
National Grid's main operations are based in the UK and the US. The maps below show where we operate in each country.











Our history

National Grid's original UK businesses were created by the restructuring of the UK gas industry in 1986 and the UK electricity industry in 1990. We entered the US energy delivery market in 2000 and substantially expanded our UK wireless infrastructure activities in 2004. This is a history of our development.

August 1986	British Gas incorporated as a public limited company
March 1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation (National Grid owned by 12 Regional Electricity Companies)
December 1995	National Grid listed on the London Stock Exchange
February 1997	Centrica demerged from British Gas which was renamed BG
December 1997	Energis demerged from National Grid
December 1999	BG became BG Group
March 2000	New England Electric System acquired by National Grid
April 2000	Eastern Utilities Associates acquired by National Grid
October 2000	Lattice Group demerged from BG Group
January 2002	Niagara Mohawk Power Corporation merged with National Grid's US operations
October 2002	Merger of National Grid and Lattice Group to form National Grid Transco
August 2004	Acquisition of UK wireless infrastructure network from Crown Castle International Corp.
June 2005	Sales of four UK gas distribution networks
July 2005	Adoption of National Grid as single name for principal businesses
February 2006	Agreements to acquire KeySpan Corporation and Southern Union Company's gas distribution network in Rhode Island

Our brand promise

Our brand promise defines the way we approach the delivery of all our services in all the communities in which we operate.

Safety
Nothing we do is more important than the safety of our employees, contractors, customers and the general public. A sustainable business must operate to the highest safety standards.

Reliability
Our society depends on the reliable transmission and distribution of electricity and gas. National Grid is focused on the highest levels of reliability, developing our networks and other businesses to meet the changing patterns of supply and demand.

Efficiency
We aim to deliver world-class operational and financial performance, while improving continuously against demanding targets for safety, reliability and customer service.

Responsibility
We are committed to operating our business in a responsible way, having due regard for the impacts we have on society. In all our activities we operate within our Framework for Responsible Business.

Safety

"I believe safety is core to the business. We must all recognise the responsibility each one of us has to ensure our own safety, the safety of our colleagues and those who work with us or who are affected by our operations."

STEVE HOLLIDAY, DEPUTY GROUP CHIEF EXECUTIVE

0800 111 999

Retention of the 0800 number and re-branding

Following the sales of four of our gas distribution networks, we are operating the four remaining networks as one, now known as National Grid Gas. Its operating area is shown on page 8.

We continue to operate the UK national gas emergency number (0800 111 999) for our own network, the sold networks and other gas transporters. During 2005/06, we handled approximately 2.5 million calls to the national gas emergency number.

We again exceeded our targets on safety-related standards of service for our gas distribution network.

More than 97% of 'uncontrolled' gas escapes (where the gas leak cannot be stopped by turning the gas supply off at the meter) were attended within one hour. More than 98% of 'controlled' gas escapes (where the gas leak can be stopped at the meter) were attended within two hours.

Road safety initiative

Our National Grid Property site at Ward Street, Bilston was one of the first to incorporate a road safety initiative as part of the clean up programme. The site is situated close to a residential area and within 500 yards of a primary school. During the 31-week project, 5,800 lorry movements were anticipated with up to 290 per week at the busiest times. The safety initiative included a school assembly briefing about road safety and the dangers of construction sites. To support this, we produced posters, wrote to parents and guardians, produced a driver road safety briefing pack for hauliers, thoroughly briefed the school crossing patrol and worked closely with the local authority. The campaign minimised risk to the public and educated both the local community and our contractors. This initiative is now being replicated at other sites around the UK.

Avoiding overhead electricity cables in the US

In 2005, National Grid launched 'DangerZone', a comprehensive public safety awareness campaign in the US. DangerZone consists of multilingual billboard advertising, videos, brochures and posters to alert contractors, construction workers and homeowners to the danger of contacting overhead electrical lines with ladders, scaffolding, vehicles, heavy machinery and equipment. In the first year of DangerZone, contacts with overhead electricity cables were reduced significantly. We will be expanding the campaign this year to include underground safety and the importance of the public calling a freephone number to check on the presence of underground lines and pipes before digging. Additionally, teachers in elementary and secondary schools within National Grid's US service territory requested and received more than 420,000 student booklets and 4,500 safety videos designed to increase safety awareness among children.

Golden Rules for safety – UK gas and electricity businesses

National Grid's Golden Rules are a framework to help everyone in the UK gas and electricity businesses to be safe in everything they do. The Rules apply as much to working in offices as they do to working on site.

The Golden Rules are a fundamental building block for 'Road to Zero', our five-year programme to reach the target of zero injuries.

The Golden Rules do not introduce new policies and procedures. They reinforce what we should be doing all the time, setting the standards for good safety behaviours and continuing to develop a culture whereby safety becomes second nature. They will also be used to identify areas in which we can make our working practices and behaviours even safer.

Sharing best practice between the UK and US businesses

There is an ongoing programme of exchange of best practice between the US transmission line services and UK transmission line construction and maintenance groups. Phase I was completed when US staff visited the UK, which resulted in the implementation within transmission line services of the double-lanyard fall protection system.

The double-lanyard system ensures enhanced fall protection by allowing at least one lanyard to be securely clipped to the structure at all times while ascending to and descending from heights. The UK transmission groups visited the US in April 2006 to demonstrate various tools, equipment and procedures such as the hook ladder and insulator replacement techniques for possible implementation in the US. These tools and techniques enable workers to perform their transmission construction tasks better, while reducing the potential risk for injury and providing for increased work efficiencies.

Metering

National Grid Metering and OnStream place great importance upon safety performance not only internally but within our service provider network.

During 2005/06, over 6.3 million jobs were completed by the businesses with only two employee lost time injuries and three contractor lost time injuries, both representing over a 40% improvement on 2004/05.

Going forward, both companies will continue to work closely with service providers to identify joint initiatives to improve safety performance further.

27%

Reduction in lost time injuries

Safety will always be at the centre of everything we do. During 2005/06, 117 of our employees received injuries that resulted in them taking time off work, a 27% reduction compared on a like-for-like basis with 2004/05.

The employee lost time injury frequency rate provides a more accurate indicator of year-on-year performance by taking into account the changes in employee numbers that result from acquisitions and disposals. The number of employee lost time injuries per 100,000 hours worked in 2005/06 fell to 0.28, a 24% improvement when compared with the previous year.

There has also been a significant reduction in the number of contractor lost time injuries across the Group, falling from 146 in 2004/05 to 119 in 2005/06, an 18.5% decrease.

Reliability

"The reliability of our operations is borne out by our ability to deliver our services 24 hours a day, 365 days a year."

MIKE JESANIS, GROUP DIRECTOR

Reliability Enhancement Programme

The US electricity business has launched a five-year programme to address its ageing system and strengthen its infrastructure to reduce the number and duration of outages.

National Grid's 'Reliability Enhancement Programme' utilises data gleaned from geographic information systems and other technologies in which the Company has invested that enable better identification of problem areas and the steps necessary to fix them.

The key focus areas for the next three years include significant increases in vegetation management, improving protection of the system from animal contacts and lightning, and 'hardening' of circuits. Hardening improves the ability of a circuit to withstand exposure to the elements through targeted replacement of deteriorated components and equipment.

The Reliability Enhancement Programme also includes ongoing condition assessment of the distribution system as well as increased inspection and maintenance programmes and substation refurbishments, expansions and rebuilds.

Nantucket Island cable project

Located off the Massachusetts coast, the island of Nantucket is a popular travel destination and place to own property that, over the past few years, has seen growth in demand for electricity rise dramatically.

As a result, National Grid has installed a second submarine cable system at a cost of more than $40 million to deliver electricity to the island. Nantucket was previously served by a single 46 kilovolt, 26-mile underground and submarine distribution cable connected to the regional transmission grid on Cape Cod. This cable went into service in late 1996, replacing diesel generating units and ushering in a new era of reliable electric service for customers on the island.

The second cable system consists of a new connection to the regional transmission grid, more than five miles of underground cable on the mainland and the island, and roughly 27 miles of submarine cable that traverse Nantucket Sound at a depth of approximately eight feet below the seabed.

Improvements and upgrades

National Grid has undertaken major expansion projects at its Ward Hill and Wachusett substations in northeastern and central Massachusetts respectively. Both projects, which include the addition of new transmission equipment and upgrades of existing transmission lines, as well as distribution improvements at Ward Hill, will greatly enhance the reliability of New England's bulk transmission system. They will also improve local service for our customers.

Sharing best practice

UK gas distribution uses, where possible, no-dig pipe-laying techniques to replace old cast iron pipe with new plastic pipe. One of these methods is known as 'live main insertion' which enables the replacement of mains under live gas conditions and avoids the need to dig long trenches. Instead, construction crews excavate small sections at two ends of a length of cast iron pipe and insert the plastic replacement pipe into the iron pipe. This avoids the need to interrupt supply to customers and reduces construction costs with significantly less excavation of roads, driveways and gardens. Consequently, this reduces inconvenience to the public and customers from construction work.

This process has been shared and adopted by our colleagues in the US and received the 2005 Technology Project of the Year Award from the Technology Alliance of Central New York.

Last year, UK gas distribution invested £444 million in the reinforcement, extension and replacement of the UK gas distribution network compared with £359 million in 2004/05 (this excludes the investment in the four regional gas distribution networks that were sold on 1 June 2005). Replacement expenditure increased from £239 million in 2004/05 to £295 million in 2005/06 in line with the planned increase in the long-term cast iron mains replacement programme agreed with the Health and Safety Executive. This enabled us to decommission over 1,710 km (1,063 miles) of old gas pipe in 2005/06 compared with 1,458 km (906 miles) in 2004/05.

Ensuring the integrity of Great Britain's gas transmission network

Operating from a newly established control facility, the Gas National Control Centre (GNCC) is responsible for operating Great Britain's gas transmission network safely, reliably and efficiently, managing the flow of gas from suppliers to customers.
We ensure that all gas entering the gas transmission network meets the appropriate quality standards. We operate the system in accordance with appropriate legislation and the Health and Safety Executive safety case, while facilitating equitable and transparent access to all market participants.

GNCC operates 4,300 miles of high pressure transmission pipeline across Great Britain, facilitating the transportation of around 100 billion cubic metres of gas per year to power stations, industrial and commercial customers and approximately 20 million domestic customers.

Securing an alternative energy source

National Grid Grain owns and operates the liquefied natural gas (LNG) import facility located at the Isle of Grain, in Kent.

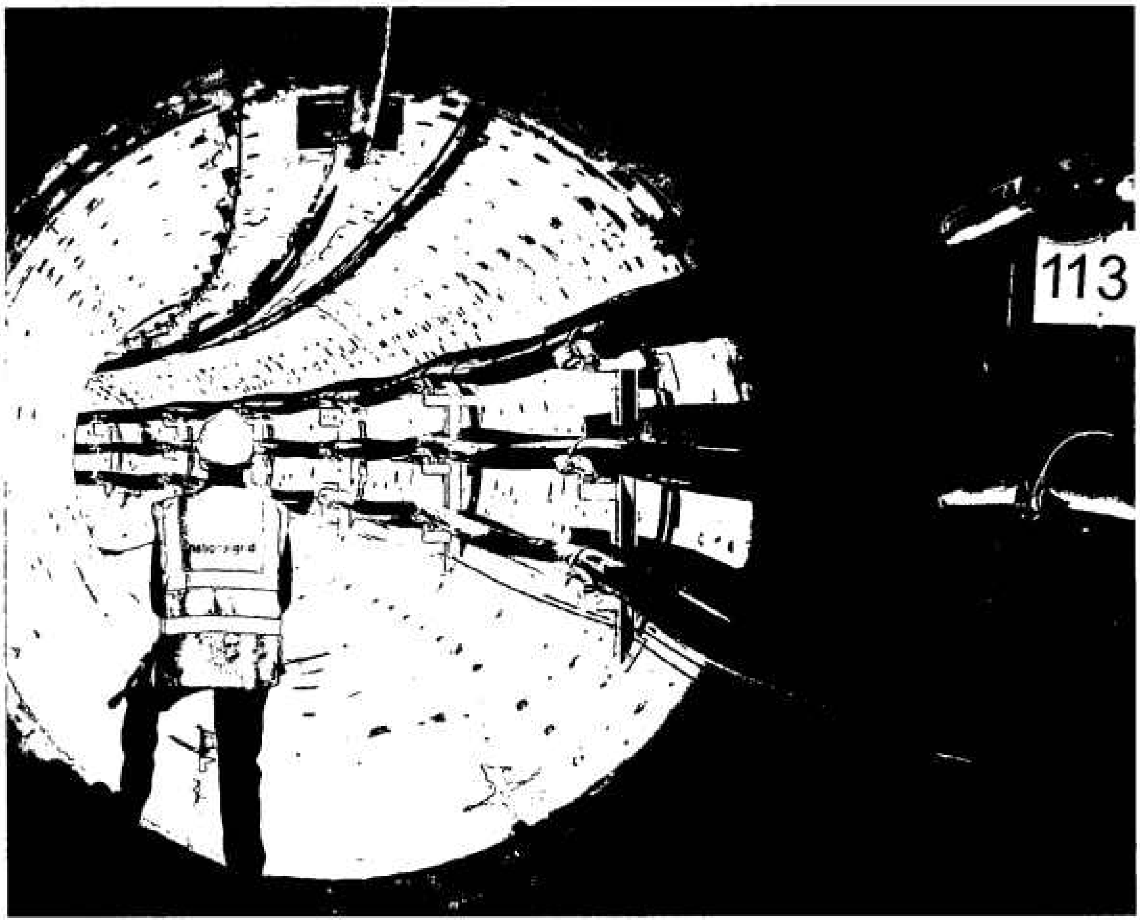
Commercial operations commenced on 15 July 2005. As at 31 March 2006, on the instruction of its customer BP/Sonatrach, 19 gas shipments had been received and around 16.1 TWh (terawatt hours) of gas delivered into the gas network. The facility currently has the capacity to import and process 3.3 million tonnes of LNG per year.

The business is incentivised to maintain plant availability and reliability and was available for 99% of the Winter period.

efficiency

"I believe we can continue to improve our efficiency and profitability, without compromising the reliability and integrity of our operations, for the benefit of all our stakeholders."

NICK WINSER, GROUP DIRECTOR



London connection

In September 2005, National Grid completed its £200 million London infrastructure tunnel project that links Elstree in Hertfordshire to St John's Wood, North London. This 12-mile tunnel houses the longest 400 kilovolt (kV) cross-linked polyethylene (XLPE) cable circuit in Europe. XLPE cable is insulated and cooled without the use of oil and hence is more environmentally friendly than traditional oil-cooled cables.

This project represents a major investment by National Grid to reinforce the transmission system. The new 400 kV circuit will enable us to continue to meet London's demand for electricity. By constructing a tunnel, most of the works carried out underground were invisible, inaudible at ground level and minimised traffic disruption.

Since works started in March 2000, in addition to the 12-mile tunnel, seven head house buildings and two new 400 kV substations have been constructed at existing National Grid sites at Elstree and St John's Wood.

Way Ahead

Following completion of the 'Way Ahead' restructuring programme in UK gas distribution, a series of strategic development initiatives has been successfully delivered in support of our aim to be the most efficient UK gas distribution network. Centralisation of many key processes has enabled us to place increased emphasis on safety and efficiency while sharing best practice across the organisation and delivering our office rationalisation programme. Having completed the Way Ahead transformation, we are now concentrating on continuous improvement techniques to refine our existing business processes.

Strategic review of estate management

Throughout the year, we have continued to derive further value from the procurement of property services for the UK businesses. This has been achieved by aggregating our business needs which in turn has enabled us to leverage better value from our supply chain. In addition, we continue to share best practice across the whole portfolio thus enabling us to maximise efficiencies in the delivery and administration of property services, while providing optimal service levels to occupiers.

Work and Asset Management project

Work and Asset Management (WAM) aims to reshape the way the Company manages its electricity transmission system assets in the UK.

WAM is about finding a smarter way of doing things. The changes to business processes supported by WAM and the implementation of new information systems will enable us to be smarter in capital planning, target investment more effectively and gain procurement efficiencies.

MWork rollout – access to data from crew cabs

'MWork' is National Grid's new mobile work management system in the US that automates the way work and work-related information are scheduled, received and reported in the field. MWork enhances the process of dispatching and managing work in the field ultimately to provide better customer service through cost-efficient and consistent work practices throughout National Grid's US service territory.

All metering services and certain operations field workers and supervisors who use MWork will have computers in their vehicles that provide real-time information online and right at their fingertips to help them serve customers more efficiently and effectively. MWork provides optimised routing assignments and all of the information necessary to perform and report work, including allocating work orders from the Customer Service and Operations systems, real-time work status and job closeouts – all delivered via the wireless computer in vehicles.

National Grid's UK electricity transmission business uses a similar version of this technology called 'Office in the Hand', and our UK gas distribution business uses another version called 'Quarterback5'.

Automated meter reading

Available to businesses via their gas suppliers, our UK National Grid Metering business is now installing smart meter units for monthly and six-monthly read gas meters. The new technology logs data remotely and uses either SMS text message or GPRS to send the meter reading data to the customer.

Without any disruption to supply, a bolt-on device is connected to the frequency output of the meter and counts the number of pulses as gas passes through it, converts them into a reading and then transmits the data to a digital hub using mobile communications. This accurate information is then forwarded to gas suppliers to provide consumption profiles at regular intervals. Benefits to commercial users include synchronised billing for multiple sites, identification of energy wastage and better management of cost.

Supporting the 2012 Olympics

National Grid is working to assist the successful delivery of the London 2012 Olympic Games and Paralympic Games through a range of activities. We are working with the London Development Agency and the Olympic Delivery Authority, primarily in the undergrounding of the power lines crossing the Olympic Park site in the Lower Lea Valley, to ensure continued security of electricity and gas supplies to the area. National Grid is also one of the two infrastructure providers for the UK digital switchover, due to take place by 2012.

Digital television

National Grid Wireless has a strong position in the growing digital television market. We hold two of the six UK digital terrestrial television licences and provide infrastructure services to all Freeview channels including the BBC and BSkyB.

During the year, the business successfully increased capacity on its multiplexes (used for digital broadcasting) to launch three new channels. This was made possible by taking advantage of improvements in infrastructure technology and maximising the value of scarce digital capacity.

This has allowed viewers of the Freeview service to have a greater variety of channels to choose from.

Responsibility

"It is important that we promote and maintain our reputation as a company that manages its business in a responsible way and contributes to all the societies in which we operate."

EDWARD ASTLE, GROUP DIRECTOR

Environmental considerations

As part of National Grid Australia's environmental approvals for the Basslink Project and our commitment to the environmental integrity of the Gippsland region, Victoria, we took responsibility for 280 hectares of run-down agricultural property to return it to its native state.

In doing this work, National Grid Australia will provide a minimum of 30,000 new large and medium-sized trees to replace the 1,000 native trees removed to build the overhead transmission line. The native trees selected for the project are being grown from seed collected from the nearby Mullundung Forest and nearby regions to ensure they are similar to what would have grown there originally. In the Spring (September to November) of 2005, 90 hectares of derelict agricultural land was replanted with seed and 50 hectares of scrubland was protected to assist in natural regeneration.

The remaining 140 hectares of land will be planted with 40 different species in the Spring of 2006.

Greening Australia has been contracted to National Grid Australia to undertake this work. They have more than 20 years' experience with replanting and rehabilitation works. National Grid Australia is keen to build good working relationships with farmers and landowners alike.

Group awarded top grade for apprentice scheme

National Grid has been ranked among the top 10% of UK employers for its engineering apprenticeship scheme. The Company has been awarded Grade 1 – one of the few UK energy organisations to achieve the top mark – for outstanding leadership and management of its scheme by the Adult Learning Inspectorate, the Government body that monitors the standards of industry education and training. The grade recognises National Grid's standards in a range of areas, including attraction and recruitment, learning plans for apprentices and contractual requirements set out by the Learning and Skills Council.

National Grid's apprentices are on a three-year scheme and receive practical on- and off-the-job training through our training centre at Eakring. They are trained in emergency and maintenance operations and in a range of electricity and gas roles, from electrical craftsperson to technician.

Inclusion and diversity

'Women in Networks' is a network for women in the UK and the US that provides an opportunity to come together for employees who share a common interest in making National Grid a great place to work. Its aim is to allow employees to share and explore some of the issues affecting women in the workplace.

Women in Networks was launched on 29 November 2005 with a live cross-Atlantic link. The UK event took place at the Heritage Motor Museum in Warwick, attended by about 200 people. The US held events at four locations – Buffalo, Albany, Syracuse and Westborough – at the same time for a similar number of people. Deputy Group Chief Executive Steve Holliday launched the UK event and Mike Jesanis, Chief Executive of National Grid in the US, did the same in the US via a link to the four American locations.

Electric and magnetic fields

Electric and magnetic fields (EMFs) can be generated from a wide variety of sources, including our distribution and transmission power lines and wireless infrastructure. National Grid recognises that there is some scientific evidence suggesting that certain adverse health effects are linked to EMFs.

We take these issues very seriously and continually assess the scientific evidence in this area, determine any implications for the way in which we conduct our business, and explain to society what the science is telling us.

In all our operations, as a minimum we comply with EMF regulations, guidelines or practices in force where we operate.

Responding to national emergencies

In the US, National Grid sends crews whenever possible to assist other utilities that have been hit hard by major storms that cause large-scale power outages. In Autumn 2005, National Grid sent crews to Florida in the wake of Hurricane Wilma to help restore power to 1.1 million customers. It marked the fifth time in a 13-month period that National Grid crews were dispatched to Florida and the Gulf Coast.

Nearly 550 National Grid workers logged tens of thousands of hours in those efforts. The Edison Electric Institute recognised National Grid with an Emergency Assistance Award for its contributions following Hurricane Wilma.

Energy delivery and climate change

Our Framework for Responsible Business includes a commitment to make a contribution to minimising climate change. The Board agreed our long-term strategy, mapping out how we will achieve this as well as contributing to the UK Government's long-term emission reduction targets.

During 2005/06, our direct and indirect emissions of greenhouse gases amounted to some 10.2 million tonnes CO_2 equivalent, the same as 2004/05 if the sold networks are excluded.

Compared with our verified baseline, we have already reduced our climate change impact in the UK by 14% – achieving both the Kyoto 12.5% obligation in the UK and what would have been an 8% Kyoto obligation in the US ahead of time.

National Grid continues its leadership in the US in the area of energy efficiency. The Company's cumulative investment in energy efficiency programmes has topped \$1 billion, participating customers having saved \$2.1 billion.

Administrative staff retraining in UK gas distribution

Two of our female administrative staff recently took up new roles as emergency gas engineers. They help to provide 24-hour cover for the country's domestic gas infrastructure and their duties include attending emergency gas leaks reported in people's homes.

The moves followed the closure of the Bolton office (as part of the rationalisation of office premises under the Way Ahead programme, see page 15) and the centralisation of many administrative roles to Hinckley and Northampton. The two assistants have been equipped with the required personal protection equipment and vehicles and are studying for the required qualification – SNVQ Core Gas Safety.

Board of Directors

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01 Sir John Parker
Chairman

(appointed October 2002) (Age 64) N (ch)
Sir John Parker became Chairman of the Group following the merger of National Grid Group plc and Lattice Group plc. He had been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. He had previously been a Non-executive Director of BG plc from 1997. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Chairman of the Peninsular & Oriental Steam Navigation Company, a Non-executive Director of Carnival plc and Carnival Corporation, Inc. and Senior Non-executive Director of the Court of the Bank of England. Sir John is a former Chairman of RMC Group plc, a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC and a former Non-executive Director of Brambles Industries plc, GKN plc and British Coal Corporation. He is a Fellow of the Royal Academy of Engineering.

02 Roger Urwin
Group Chief Executive

(appointed November 1995) (Age 60) E (ch), F
Roger Urwin became Group Chief Executive in October 2002 following the merger of National Grid Group plc and Lattice Group plc. Prior to the merger he had been appointed Group Chief Executive of National Grid Group plc in April 2001, where he played a key role in establishing the Company's international strategy and its successful expansion into the US. He joined the Group in 1995, initially as CEO of the Company's UK transmission business. Previously, Roger was Managing Director and Chief Executive of London Electricity from 1990 to 1995. He is also a Non-executive Director of Utilico Investment Trust plc and a Fellow of the Royal Academy of Engineering. He has announced his intention to retire from National Grid at the end of 2006.

03 Steve Holliday
Deputy Group Chief Executive

(appointed March 2001) (Age 49) E
Steve Holliday joined National Grid Group plc as Group Director, UK and Europe in March 2001. Immediately following the merger of National Grid Group plc and Lattice Group plc in October 2002, he was responsible for the Group's electricity and gas transmission businesses. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Steve's international experience includes a four-year spell in the US. He has also developed business opportunities in countries as diverse as China, Australia, Japan, Brazil and the former Soviet Union. He is a Non-executive Director of Marks and Spencer Group plc. Following the announcement of Roger Urwin's retirement he was appointed Group Chief Executive designate, becoming Deputy Group Chief Executive on 1 April 2006.

04 Steve Lucas
Group Finance Director

(appointed October 2002) (Age 52) E, F
Steve Lucas joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. He had been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc in 2000. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. A Chartered Accountant, he worked in private practice in the City of London until 1983. He then joined Shell International Petroleum Company, occupying a number of finance management positions and treasury roles, including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Committee membership

A	Audit
E	Executive
F	Finance
N	Nominations
R	Remuneration
R&R	Risk & Responsibility
(ch)	denotes Committee chairman

05 Nick Winser
Group Director

(appointed April 2003) (Age 45) E
Nick Winser joined the Board in April 2003 as Group Director responsible for UK and US Transmission operations. He was previously Chief Operating Officer of US Transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

06 Mike Jesanis
Group Director

(appointed July 2004) (Age 49) E
Mike Jesanis joined the Board in July 2004, becoming Group Director responsible for US Distribution. He became President of National Grid USA in November 2003, having been its Chief Operating Officer and responsible for day-to-day operations since January 2001. He was Chief Financial Officer of National Grid USA and New England Electric System (NEES) between March 1998 and January 2001, having joined NEES in July 1983. Mike is also Chairman of the Board of Trustees of Becker College (Worcester, Massachusetts) and a member of the Board of Trustees of Clarkson University (Potsdam, New York). He is a Director of the Massachusetts Taxpayers Foundation, Jobs for Massachusetts, Inc. and of the Boston Chamber of Commerce.

07 Edward Astle
Group Director

(appointed September 2001) (Age 52) E
Edward Astle joined the Board as Group Director, Telecommunications in September 2001 and is now Group Director responsible for Non-regulated Business and leads the Group's Business Development. He was Managing Director of BICC Communications from 1997 to 1999, and between 1989 and 1997 he held a variety of positions with Cable & Wireless. He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the Cable & Wireless board as Executive Director Global Businesses.

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08 Ken Harvey
Non-executive Director and Senior Independent Director

(appointed October 2002) (Age 65)
N, R, R&R

Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A Chartered Engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

09 John Allan
Non-executive Director

(appointed May 2005) (Age 57)
A, R (ch)

John Allan was appointed to the Board in May 2005. He is a member of the Management Board of Deutsche Post, having been appointed following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. John started his career in marketing, at Lever Brothers, moving to Bristol-Myers Company Limited and then Fine Fare Limited. He joined BET plc in 1985 and was appointed to the board in 1987. He is a member of the CBI's Presidents' Committee, the International Advisory Council of the Singapore Economic Development Board and the University of Edinburgh Campaign Board. John was previously a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc.

10 John Grant
Non-executive Director

(appointed November 1995) (Age 60)
A, N, R

John Grant was appointed a Director of the Group in November 1995. He is Chairman of Torotrak plc and Hasgo Group Limited and a Non-executive Director of Corac Group Plc, and The Royal Automobile Club Limited. He was Chief Executive of Ascot Plc from 1997 to 2000 and Finance Director of Lucas Industries plc from 1992 to 1996. He previously held a number of senior executive positions during 25 years with Ford Motor Company. John will retire from National Grid with effect from the close of the 2006 Annual General Meeting.

11 Paul Joskow
Non-executive Director

(appointed March 2000) (Age 58)
F (ch), N

Paul Joskow was appointed a Director of the Group in March 2000 following the acquisition of New England Electric System (NEES). He served as a Director of NEES between 1987 and its acquisition. He is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), a Director of the MIT Center for Energy and Environmental Policy Research, a Research Associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul is also an independent Trustee of the Putnam Mutual Funds and an independent Non-executive Director of TransCanada.

12 Stephen Pettit
Non-executive Director

(appointed October 2002) (Age 55)
F, R, R&R (ch)

Stephen Pettit was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of National Air Traffic Services, Halma plc and is Chairman of ROK Property Solutions plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum. Stephen was previously a Non-executive Director of KBC Advanced Technologies plc and Norwood Systems Limited.

13 Maria Richter
Non-executive Director

(appointed October 2003) (Age 51)
A, F, R&R

Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Director of Pro Mujer International, an international microfinance organisation, and was, until April 2006, a Director of the Western Electricity Co-ordinating Council.

14 George Rose
Non-executive Director

(appointed October 2002) (Age 54)
A (ch), N, R

George Rose was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He has been Finance Director of BAE Systems plc (formerly British Aerospace plc) since 1998, having joined the company in 1992. He is a member of the shareholder committee of Airbus SAS and is also a Non-executive Director of SAAB AB and a member of the Financial Reporting Review Panel. George is also a former Non-executive Director of Orange plc.

* Helen Mahy
Group Company Secretary and General Counsel

(appointed October 2002) (Age 45) E

Helen Mahy was appointed as Group Company Secretary following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed as General Counsel from October 2003. Previously, she was Group General Counsel and Company Secretary at Babcock International Group PLC. Helen was appointed a Non-executive Director of Aga Foodservice Group plc in March 2003. She is a barrister, member of the Bar Council and an Associate of the Chartered Insurance Institute.

Summary Operating and Financial Review

Financial performance

Years ended 31 March	2006 £m	2005 £m
Group revenue	**9,193**	7,382
Other operating income	**80**	70
Operating costs excluding exceptional items and remeasurements	**(6,746)**	(5,009)
Adjusted operating profit	**2,527**	2,443
Exceptional items and remeasurements	**(88)**	(301)
Total operating profit	**2,439**	2,142
Net finance costs excluding exceptional items and remeasurements	**(606)**	(706)
Exceptional items and remeasurements	**(57)**	–
Share of post-tax results of joint ventures	**3**	3
Profit before taxation	**1,779**	1,439
Taxation	**(562)**	(319)
Profit from continuing operations	**1,217**	1,120
Profit from discontinued operations	**2,633**	304
Profit for the year	**3,850**	1,424

The results for 2005/06 have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time this year, and so the comparative results for 2004/05 are different from the results reported last year under UK GAAP. As permitted, the comparatives were not changed on the adoption of new accounting policies on accounting for financial instruments in accordance with IAS 39 on 1 April 2005.

Revenue, operating costs and operating profit
The movements in the year in revenue and other operating income, operating costs and operating profit can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2004/05 results	7,452	(5,310)	2,142
Add back 2004/05 exceptional items and remeasurements	–	301	301
2004/05 adjusted results	7,452	(5,009)	2,443
Exchange on US operations	169	(125)	44
2004/05 constant currency results	7,621	(5,134)	2,487
UK electricity and gas transmission	715	(730)	(15)
US electricity transmission	13	(18)	(5)
UK gas distribution	113	(54)	59
US electricity and gas distribution	488	(516)	(28)
US stranded cost recoveries	84	(81)	3
Wireless infrastructure	114	(81)	33
Other activities	(26)	19	(7)
Sales between businesses	151	(151)	–
2005/06 adjusted results	9,273	(6,746)	2,527
2005/06 exceptional items and remeasurements	–	(88)	(88)
2005/06 results	9,273	(6,834)	2,439

Adjusted operating profit was up £40 million on a constant currency basis. This was driven by favourable results from UK capacity auctions in liquefied natural gas (LNG) storage and the French Interconnector, a continued focus on efficiencies, particularly in UK gas distribution, sustained volume growth in the US and a full-year contribution from the enlarged and growing wireless infrastructure business.

These factors more than offset an increase in depreciation charges in UK electricity and gas transmission, lower system operator incentive profits, also in UK electricity and gas transmission, and the timing of the recovery of certain pass-through costs in the US.

Net operating exceptional charges of £39 million for 2005/06 consisted of £60 million of restructuring costs, primarily cost-reduction programmes in UK gas distribution, and £21 million of gains relating to the disposals of joint venture investments. This compared with charges of £263 million in 2004/05, comprising £121 million in restructuring costs, £41 million in exceptional pension charges in the US and £101 million of increases in environmental provisions.

Operating remeasurements of £49 million (2004/05: £38 million) relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value arising from movements in energy prices.

Net finance costs
Excluding exceptional items and remeasurements, net finance costs have reduced by £100 million. This was principally as a consequence of lower levels of debt following the gas network sales.

Financial exceptional items and remeasurements comprised £49 million in debt redemption costs and B share issue costs, and net losses on derivative financial instruments and the financial element of commodity contract revaluations of £8 million.

Profit before taxation
The items described above have combined to deliver an 11% improvement in adjusted profit before tax from £1,740 million to £1,924 million and a 24% increase in profit before tax from £1,439 million to £1,779 million.

Taxation
Excluding the effect of net tax credits on exceptional items and remeasurements, the effective tax rate for 2005/06 and 2004/05 was 31% and 25% respectively, compared with a standard UK corporation tax rate of 30% for both years.

Earnings per share from continuing operations
After reflecting the impact of the share consolidation in August 2005, adjusted earnings per share from continuing operations are up 10% from 42.3p to 46.7p.

Earnings per share from continuing operations increased from 36.3p to 42.8p.

Discontinued operations
Discontinued operations primarily comprise the four regional gas distribution networks we sold on 1 June 2005 and include gains on the sales of £2,605 million.

Discontinued revenues, operating costs before exceptional items and adjusted operating profit from these networks were £168 million, £107 million and £61 million respectively in 2005/06, substantially lower than the respective results for 2004/05 of £1,102 million, £592 million and £510 million, as they relate to a two-month period rather than a full year. In addition, revenue for those two months is proportionally lower due to seasonality. An exceptional charge of £15 million in 2005/06 arose from the payment of a fine relating to one of the sold networks.

Dividends
The proposed total ordinary dividend for 2005/06 amounts to £709 million or 26.1 pence per ordinary share. This represents an increase of 10% over the previous year's ordinary dividend per share of 23.7 pence (£731 million). The above amounts exclude the return of £2 billion to shareholders through the B share scheme.

The final dividend proposed to shareholders for 2005/06 of 15.9 pence per share, amounting to £433 million, will be reported in the financial statements for the year ending 31 March 2007.

Dividend policy
The Board has confirmed that its dividend policy, which is to aim to increase dividends per ordinary share, expressed in sterling, by 7% nominal in each financial year to 31 March 2008, remains its policy.

Cash flow
Cash generated from continuing operations was £3,131 million in 2005/06 compared with £2,911 million in 2004/05. This includes cash outflows relating to exceptional items of £118 million and £120 million respectively. After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £2,971 million compared with £3,308 million in 2004/05.

Cash outflows from continuing operations investing activities fell from £2,652 million in 2004/05 to £1,713 million in 2005/06 as 2004/05 included £1,122 million in respect of the acquisition of the UK operations of Crown Castle International Corp. (£1,109 million) and a US telecommunications tower operation (£13 million). Cash flows relating to discontinued operations included £5,750 million of disposal proceeds and £115 million of cash outflows from investing activities, compared with £323 million in 2004/05.

Net cash used in financing activities of £5,712 million in 2005/06 (compared with £325 million in 2004/05) included £1,957 million in respect of the £2 billion return of value to shareholders.

Net debt and gearing
Net debt decreased by £2.7 billion from £13.6 billion at 31 March 2005 to £10.9 billion at 31 March 2006, primarily as a result of debt repayments following the disposals of the four regional gas networks for £5.8 billion, partially offset by the £2 billion return of value to shareholders and an increase of £0.4 billion relating to the adoption of IAS 39 on financial instruments.

Treasury policy
The funding and treasury risk management of the Group is carried out by a central department operating under policies and guidelines approved by the Board. The Finance Committee, a committee of the Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. The Group has a Treasury function that raises all the funding for the Group and manages interest rate and foreign exchange rate risk.

The Group has separate financing programmes for each of the main Group companies. The Finance Committee of the Board and the Finance Committee of the appropriate Group undertaking approve all funding programmes.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement. The use of derivative financial instruments is controlled by policy guidelines set by the Board. Derivatives entered into in respect of gas and electricity commodities are used in support of the business's operational requirements.

Going concern
Having made enquiries, the Directors consider that the Company and the Group have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the accounts.

US GAAP
The accounts have been prepared in accordance with IFRS, which differs in certain significant respects from US GAAP.

Net income for 2005/06 under US GAAP was £1,307 million compared with £1,304 million in 2004/05. This compared with the profit for the year under IFRS for 2005/06 and 2004/05 of £3,850 million and £1,424 million respectively.

Equity shareholders' funds under US GAAP at 31 March 2006 and 31 March 2005 were £9,747 million and £10,591 million respectively, compared with corresponding numbers under IFRS of £3,482 million and £2,111 million.

The principal adjustments from net income and equity shareholders' funds under IFRS to their equivalents under US GAAP mainly relate to adjustments arising from differences in accounting for regulatory assets in our US operations, the treatment of the business combination with Lattice Group plc as an acquisition instead of as a merger, accounting for pension scheme arrangements, derivative financial instruments and hedge accounting.

Summary Corporate Governance

The Board is committed to good governance. This commitment is based on compliance with the Combined Code and both established and emerging best practice. Documents relating to National Grid's governance (eg Board Committee terms of reference, codes of conduct and position statements) can be found on the Group website at www.nationalgrid.com/corporate/about+us.

The Board of National Grid currently consists of 14 Directors, comprising the Chairman, six Executive Directors and seven Non-executive Directors (including the Senior Independent Director).

The effectiveness of the Board, the Board Committees and each individual Director is vital to the overall success of the Group. The Board has a well established process to evaluate performance, which consists of questionnaires sent to each Director and certain Board Committee attendees and one-to-one meetings between the Chairman and each Director. The questionnaires consider the operation and performance of the Board and Board Committees and the performance of the Chairman and Committee chairmen, and the one-to-one meetings include discussions of individual performance and any knowledge gaps requiring training. The Non-executive Directors also meet separately under the chairmanship of the Senior Independent Director to consider the performance of the Chairman and to provide him with feedback.

During the year, the Group Chief Executive and Group Finance Director held regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. In addition, the Chairman reminds major shareholders, in writing, of his availability (along with that of the Senior Independent Director or Non-executive Directors where required) should there be issues that shareholders wish to raise. To ensure that the Board is effectively informed of shareholder views, it receives bi-annual feedback from the Company's brokers supplemented by the Group Head of Investor Relations. This ensures that all Board members, including the Non-executive Directors, are aware of the current views of major shareholders and of any outstanding issues they may have.

The principal method of communicating with the majority of shareholders is through the Annual Review. Shareholders may also attend the Company's Annual General Meeting where they have the opportunity to question Directors on any issues relating to the management of the Company. The Group also runs a very successful Shareholder Networking Programme, which allows a small number of shareholders to visit operational sites and meet senior managers, Directors and the Chairman. More details of the Shareholder Networking Programme are on page 29.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards. A statement in respect of the differences between the Group's governance practices and those required by the NYSE can be found on the Group website at www.nationalgrid.com/corporate/about+us.

Summary Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2005/06. Our policy of relating pay to the performance of the Group continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration.

Last year we thoroughly reviewed our remuneration policies. As a result, we have established revised performance criteria for the Performance Share Plan (our long-term incentive plan) and introduced a Deferred Share Plan as part of the annual bonus plan. We no longer operate the Share Matching Plan. We believe this reflects best practice and aligns executive incentive plans as closely as possible with the Group's strategic objectives and our shareholders' interests generally.

Our main focus in 2005/06 has been to review pension arrangements to take account of UK legislative changes effective from April 2006. The modifications to pension provision are outlined below.

Overall, we believe that salary levels and the mix between fixed and variable compensation are appropriate and we will continue to review the remuneration package to ensure it remains so.

We are confident that our approach continues to align Executive Directors' remuneration with the interests of shareholders generally, while maintaining the motivation and engagement of the team leading the Group.

Joint statement from chairmen, Remuneration Committee

John Grant
(1 April 2005 to 28 February 2006)

John Allan
(From 1 March 2006)

Role of Remuneration Committee and its terms of reference

The Remuneration Committee is responsible for developing Group policy on the Executive Directors' remuneration and that of other senior employees of the Group, and provides direction over the operation of the Group's share plans. The Remuneration Committee operates within terms of reference agreed by the Board, which are available on the Group's website or on request from the Group. The Board has accepted all the recommendations made by the Remuneration Committee during the year.

Remuneration policy

The Remuneration Committee determines remuneration policies and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Group operates. Remuneration policies are framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market;

- a significant proportion of the Executive Directors' total rewards will be performance based. These will be earned through the achievement of demanding targets for short-term business performance and personal performance, and long-term shareholder value creation; and
- incentive plans, performance measures and targets should be structured to operate soundly throughout the business cycle. They should be prudent and aligned as closely as possible with shareholders' interests.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of salary, the annual bonus including the Deferred Share Plan, the Performance Share Plan (long-term incentive), all-employee share plans, pension contributions and non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Group's operating activities along with the size, complexity and international scope of the business. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's experience in the role and salary practices prevailing for other employees in the Group.

Annual bonus including the Deferred Share Plan

Annual bonuses are based on achievement of a combination of demanding Group, individual and, where applicable, divisional targets. The principal measures of Group performance are adjusted earnings per share (EPS) and cash flow; the main divisional measures are divisional operating profit and divisional cash flow. Individual targets are set in relation to key operating and strategic objectives and include overriding measures of safety and customer service performance. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents, or increase them in the event of exceptional value creation.

In 2005/06, all Executive Directors participated in the annual bonus arrangements with a maximum bonus opportunity of 100% of base salary. One half of any bonus earned is automatically deferred into National Grid shares (ADSs for the US-based Executive Director) through the Deferred Share Plan. The shares (or ADSs) are held in trust for three years before release. During this time they are not owned by the Executive Directors and therefore no dividends are paid. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares ensures that Executive Directors share a significant level of personal risk with the Group's shareholders.

In line with US market practice, the US-based Executive Director's bonus is pensionable. Mike Jesanis also participates in the USA Goals Program, a bonus plan covering a large number of US-based employees that can pay up to 5.7% of salary on the achievement of certain earnings and performance targets.

Long-term Incentive

Performance Share Plan (PSP)

Executive Directors receive an award over shares which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares constituting an award is subject to a maximum, for Executive Directors, of 125% of salary. Awards were made at the maximum percentage to Executive Directors in the year 2005/06. Shares vest after three years, subject to the satisfaction of the relevant performance criteria. Vested shares must then be held for a further year (the retention period) after which they are released. During the retention period, the Remuneration Committee has discretion to pay an amount, equivalent in cash or shares, to the dividend which would have been paid on the vested shares.

Awards made in June 2003 and June 2004 were based on the Group's Total Shareholder Return (TSR) performance over a three-year period relative to the TSR performance of a group of comparator companies which included companies in the energy distribution sector including UK and international utilities. The performance condition for the June 2005 award was amended, following consultation with our major shareholders, so that 50% of any award is based on the Group's TSR performance when compared to the FTSE 100 (as at 27 June 2005) and 50% is based on the annualised growth of the Group's EPS.

In calculating TSR for the 2005 award, it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Group's TSR over the three-year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released; 100% will be released for upper target performance where National Grid's TSR performance is 7.5% above that of the median company in the FTSE 100.

The EPS measure is calculated by reference to National Grid's real EPS growth. Where annualised EPS growth exceeds RPI (the general index of retail prices for all items) by 3% (threshold performance), 30% will be released; 100% where EPS growth exceeds RPI growth by 6%. For performance for either target between threshold and upper target, the number of shares released is calculated on a straight-line basis.

No re-testing of performance is permitted for any of the PSP awards that do not vest after the three-year performance period. If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Group does not justify the vesting of awards, it can declare that some or all of the award lapses.

All-employee share plans

- Sharesave: Employees resident in the UK, including Executive Directors, are eligible to participate in HM Revenue and Customs approved all-employee Sharesave schemes.
- Share Incentive Plan (SIP): UK-based Executive Directors are eligible to participate in the SIP.
- US Incentive Thrift Plan: The US-based Executive Director is eligible to participate in the Thrift Plan, a tax-advantaged savings plan (commonly referred to as a 401(k) plan) provided for employees of National Grid's US companies.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the 12 months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors who joined the Company after 31 May 1989 have been able to participate in an unfunded scheme in respect of those benefits earned on pay above the HM Revenue and Customs Earnings Cap. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet.

In response to the new pensions taxation legislation which came into force on 6 April 2006 (A Day), the Remuneration Committee ensured the pension policy post A Day did not provide the Executive Directors with additional benefit accrual as a result of the change in pensions taxation. The current UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish in the future. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

Mike Jesanis participates in a qualified pension plan and an executive supplemental retirement plan provided through National Grid's US companies. These plans are non-contributory defined benefit arrangements. Benefits are calculated using a formula based on years of service and highest average compensation over five consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, bonuses and incentive share awards (the Deferred Share Plan) but not share options or the PSP awards. The normal retirement age under the qualified pension plan is 65.

Non-cash benefits

The Group provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance and life assurance. UK-based Executive Directors with fewer than five years' continuous service, who were previously Executive Directors of National Grid Group plc, are provided with long-term ill-health insurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Director.

Flexible Benefits Plan

Additional benefits (eg healthcare and insurance products) may be purchased under the Flexible Benefits Plan (the Plan). In the UK, the Plan operates by way of salary sacrifice; the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. One Executive Director, Steve Lucas, participates in this Plan and details of the impact on his salary are shown in Table 1.

A similar plan is offered to US-based employees. However, it is not a salary sacrifice plan and therefore does not affect salary values. Mike Jesanis participates in this plan.

Share ownership guidelines

Executive Directors are encouraged to build up and retain a shareholding of at least 100% of annual salary.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party. The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Group. If this occurs, the departing Executive Director would be expected to mitigate any losses incurred as a result of the termination. Therefore, entitlement to the payment of 12 months' remuneration on early termination is not automatic, but based on the circumstances of the termination.

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors. Non-executive Directors' remuneration comprises an annual fee (£35,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£3,000). An additional fee is payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director (£12,500). The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in the annual bonus plan or in any long-term incentive scheme, nor do they receive any pension benefits from the Group.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice to give the Group reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders.

Directors' emoluments

The aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services in the year to 31 March 2006 was £6,534,000.

Table 1: Executive Directors

	Year ended 31 March 2006					Year ended 31 March 2005
	Salary £000s	Annual bonus £000s	Benefits in kind (cash) (i) £000s	Benefits in kind (non-cash) £000s	Total £000s	Total £000s
R Urwin (ii) (iii)	765	734	–	19	1,518	1,125
S Holliday (ii) (iv) (v)	425	425	–	20	870	660
S Lucas (ii) (vi) (vii) (viii)	417	407	–	24	848	648
N Winser (ii) (ix)	385	366	–	20	771	531
M Jesanis (ii) (x) (xi) (xii)	469	385	7	13	874	446
E Astle (ii) (xiii)	400	336	12	11	759	622
Total	**2,861**	**2,653**	**19**	**107**	**5,640**	**4,032**

(i) Benefits in kind comprise benefits such as a fully expensed car, driver, private medical insurance and life assurance.
(ii) Each of the Executive Directors is accruing retirement benefits under a defined benefit pension arrangement. No Executive Director except Mike Jesanis participates in any money purchase pension arrangement through the Group (see (xii) below).
(iii) Roger Urwin exercised four Share Match awards over 17,425 shares. The market price at the date of exercise was 528p and he was required to pay 100p per award. He also received £15,704 in respect of a cash payment in lieu of dividends on exercise of these Share Match awards.
(iv) Steve Holliday's salary was increased to £600,000 on 1 April 2006, on appointment to Deputy Group Chief Executive.
(v) The total for 2005 for Steve Holliday includes, as disclosed last year, an additional ex gratia bonus of £80,000 paid on completion of the sales of four of the UK gas distribution networks.
(vi) Steve Lucas participates in the Flexible Benefits Plan which operates by way of salary sacrifice, therefore his salary is reduced by the value of the benefits he has purchased. The value of these benefits (£3,050) is included in the benefits in kind (non-cash) figure.
(vii) Steve Lucas exercised a Sharesave option granted at 350p over 2,700 shares. The market price at the date of exercise was 603p.
(viii) In November 2005 101,057 shares, at a market price of 511.53p were automatically released at no cost to Steve Lucas under the Lattice Long Term Incentive Scheme.
(ix) Nick Winser exercised a Share Match award over 2,509 shares. The market price at the date of exercise was 598p and he was required to pay 100p in total. He also received £1,976 in respect of a cash payment in lieu of dividends on exercise of the Share Match award. Nick Winser also exercised Executive Share Option awards as follows: 10,633 shares with an exercise price of 375.75p and market price on exercise of 610.5p; 47,236 shares with an exercise price of 455.25p and market price on exercise of 610.5p; and 37,383 shares with an exercise price of 481.5p and market price on exercise of 598p.
(x) Mike Jesanis's values use an exchange rate averaged over the year 1 April 2005 to 31 March 2006, of US$1.79:£1. The exchange rate for the previous year was US$1.87:£1.
(xi) Mike Jesanis's bonus includes a payment worth £4,787 in respect of his participation in the USA Goals Program (described on page 23).
(xii) The Group made contributions in the US worth £6,058 to a money purchase pension arrangement in respect of Mike Jesanis's Thrift Plan participation. The exchange rate used, as at 31 March 2006, was US$1.74:£1.
(xiii) Edward Astle exercised an Executive Share Option over 74,841 shares with an exercise price of 434.25p and market price on exercise of 594.5p. He also exercised a Sharesave option granted at 397p over 2,392 shares. The market price at the date of exercise was 527p.

Table 2: Non-executive Directors

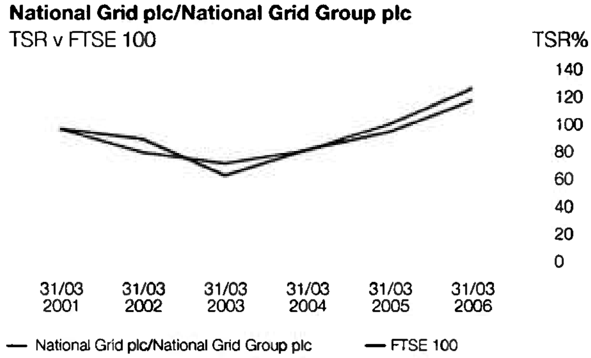
	Year ended 31 March 2006			Year ended 31 March 2005
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Sir J Parker (i)	400	45	445	406
K Harvey	67	–	67	58
J Allan (ii)	45	–	45	–
J Grant	67	–	67	65
P Joskow	74	–	74	73
S Pettit	68	–	68	58
M Richter	61	–	61	66
G Rose	67	–	67	61
Total	**849**	**45**	**894**	**787**

(i) Sir John Parker's other emoluments comprise benefits in kind such as a fully expensed car, driver, private medical insurance and life assurance.
(ii) John Allan's appointment to the Board was effective from 1 May 2005 and he became chairman of the Remuneration Committee on 1 March 2006.

Performance graph

The graph below represents the comparative TSR performance of the Group from 31 March 2001 to 31 March 2006. For the period before the merger of National Grid Group plc and Lattice Group plc, the TSR shown is that of National Grid Group plc.

National Grid plc/National Grid Group plc
TSR v FTSE 100



Source: Datastream

This graph represents the Group's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 7A to the Companies Act 1985.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date.

Summary Group Income Statement

for the years ended 31 March

Other operating income
Other operating income represents income on disposal of property, plant and equipment, principally properties disposed of by the Group's property management business.

Exceptional items and remeasurements
Material non-recurring items and certain remeasurement gains or losses arising from movements in the carrying value of commodity contracts and financial instruments.

Profit for the year from discontinued operations
The profit on disposal and results of four UK gas distribution networks sold on 1 June 2005 and Citelec, an Argentinian joint venture, sold in August 2004.

Earnings per share
Basic – profit attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the year.

Diluted – as per the basic calculation but assuming that new ordinary shares have been issued on the exercise of share options that have been granted.

Dividends per ordinary share
Paid during the year – represents cash paid to shareholders during the year ended 31 March.

Approved or proposed to be paid – represents the interim dividend paid and final dividend proposed in respect of the year ended 31 March.

	2006 £m	2005 (i) £m
Group revenue	**9,193**	7,382
Other operating income	**80**	70
Operating costs	**(6,834)**	(5,310)
Operating profit		
– Before exceptional items and remeasurements	**2,527**	2,443
– Exceptional items and remeasurements	**(88)**	(301)
Total operating profit	**2,439**	2,142
Interest income and similar income	**1,038**	946
Interest expense and other finance costs		
– Before exceptional items and remeasurements	**(1,644)**	(1,652)
– Exceptional items and remeasurements	**(57)**	–
	(1,701)	(1,652)
Share of post-tax results of joint ventures	**3**	3
Profit before taxation		
– Before exceptional items and remeasurements	**1,924**	1,740
– Exceptional items and remeasurements	**(145)**	(301)
Total profit before taxation	**1,779**	1,439
Taxation		
– Before exceptional items and remeasurements	**(597)**	(437)
– Exceptional items and remeasurements	**35**	118
Total taxation	**(562)**	(319)
Profit from continuing operations after taxation		
– Before exceptional items and remeasurements	**1,327**	1,303
– Exceptional items and remeasurements	**(110)**	(183)
Profit for the year from continuing operations	**1,217**	1,120
Profit for the year from discontinued operations		
– Before exceptional items	**43**	352
– Exceptional items	**2,590**	(48)
	2,633	304
Profit for the year	**3,850**	1,424
Attributable to:		
– Equity shareholders of parent company	**3,848**	1,424
– Minority interests	**2**	–
	3,850	1,424
Earnings per share from continuing operations		
– Basic	**42.8p**	36.3p
– Diluted	**42.6p**	36.2p
Earnings per share		
– Basic	**135.6p**	46.2p
– Diluted	**135.0p**	46.0p
Dividends per ordinary share: paid during the year	**25.4p**	20.4p
Dividends per ordinary share: approved or proposed to be paid	**26.1p**	23.7p

(i) Refer to Basis of Preparation and Accounting Policies on page 28 for the basis of preparation of comparatives under International Financial Reporting Standards.

Summary Group Balance Sheet

at 31 March

Total assets
Includes goodwill and other intangible assets, property, plant and equipment, investment in joint ventures, inventories, trade and other receivables, deferred tax assets, financial investments, derivative financial assets, cash and cash equivalents.

Total liabilities
Includes borrowings and overdrafts, derivative financial liabilities, trade and other payables, tax liabilities, provisions and pensions and other post-retirement benefit obligations.

Minority interests
Minority shareholders in certain of the Group's subsidiary undertakings.

	2006 £m	2005 (i) £m
Non-current assets	**22,106**	25,596
Current assets	**3,818**	1,964
Total assets	**25,924**	27,560
Current liabilities	**(5,683)**	(5,974)
Non-current liabilities	**(16,748)**	(19,465)
Total liabilities	**(22,431)**	(25,439)
Net assets	**3,493**	2,121
Equity		
Total shareholders' equity	**3,482**	2,111
Minority interests	**11**	10
Total equity	**3,493**	2,121

(i) Refer to Basis of Preparation and Accounting Policies on page 28 for the basis of preparation of comparatives under International Financial Reporting Standards.

This Summary Financial Statement was approved by the Board of Directors on 17 May 2006 and was signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Note to Summary Financial Statement

Difference between IFRS and US accounting principles

The Group prepares its accounts in accordance with IFRS, which differs in certain respects from US GAAP. The significant adjustments necessary to restate net income and equity shareholders' funds in accordance with US GAAP are set out below:

Net income	2006 £m	2005 £m
Profit for the year attributable to equity shareholders under IFRS	**3,848**	1,424
Adjustments to conform with US GAAP		
Depreciation of property, plant and equipment	**(127)**	(233)
US regulatory accounting	**(269)**	(246)
Pensions and other post-retirement benefits	**(56)**	2
Financial instruments	**(130)**	254
Severance costs	**(63)**	62
Revenue recognition	**(48)**	13
Amortisation of intangibles	**(2)**	(2)
Interest on discounted provisions	**(14)**	–
Deferred taxation	**208**	28
Discontinued operations	**(2,037)**	–
Other	**(3)**	2
Total US GAAP adjustments	**(2,541)**	(120)
Net income under US GAAP	**1,307**	1,304
Basic earnings per share	**48.2p**	48.2p
Diluted earnings per share	**48.0p**	47.9p

Total shareholders' equity	2006 £m	2005 £m
Total shareholders' equity under IFRS	**3,482**	2,111
Adjustments to conform with US GAAP		
Property, plant and equipment fair value adjustments	**2,162**	3,116
Goodwill	**2,689**	4,027
US regulatory accounting	**2,702**	2,746
Pensions and other post-retirement benefits	**886**	944
Financial instruments	**119**	117
Severance liabilities	**2**	65
Revenue recognition	**(42)**	6
Intangible assets	**28**	30
Provisions	**(154)**	(130)
Non-reversal of impairments	**(39)**	(29)
Deferred taxation	**(2,090)**	(2,441)
Other	**2**	29
Total US GAAP adjustments	**6,265**	8,480
Shareholders' equity under US GAAP	**9,747**	10,591

Basis of Preparation and Accounting Policies

The Summary Financial Statement represents an abridged version of the financial statements in the National Grid Annual Report and Accounts 2005/06, which are prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A reconciliation of net income and equity shareholders' funds from IFRS to US GAAP is shown in the note to the Summary Financial Statement.

Adoption of International Financial Reporting Standards

With effect from 1 April 2005, National Grid plc is required to report its consolidated financial statements in accordance with IFRS. The tables below present the impact of conversion from UK generally accepted accounting principles (UK GAAP) to IFRS on profit for the year ended 31 March 2005 and net assets at 31 March 2005.

For the year ended 31 March 2005	£m
Profit for the year before minority interests under UK GAAP	**907**
IFRS measurement adjustments	
Replacement expenditure	236
Derecognition of regulatory assets	151
Goodwill amortisation	109
Amortisation of intangible assets other than goodwill	(4)
Pensions and other post-retirement benefits	41
Deferred taxation	(11)
Other adjustments	(6)
	516
IFRS presentation adjustments	
Non-equity minority interests	(2)
Share of results of joint ventures	3
	1
Profit for the year under IFRS	**1,424**
Less: profit for the year under IFRS – discontinued operations	(304)
Profit for the year under IFRS – continuing operations	**1,120**

At 31 March 2005	£m
Net assets under UK GAAP	**1,391**
IFRS measurement adjustments	
Replacement expenditure	3,014
Derecognition of regulatory assets	(1,587)
Goodwill	28
Intangible assets other than goodwill	99
Pensions and other post-retirement benefits	(1,149)
Deferred taxation	(95)
Proposed final dividend	469
Other adjustments	(27)
	752
IFRS presentation adjustments	
Non-equity minority interests	(22)
Net assets under IFRS	**2,121**

Amounts shown above are net of any related deferred tax on the underlying IFRS adjustment.

Explanations of the UK GAAP to IFRS adjustments have been provided in the Group's Annual Report and Accounts 2005/06, available on the Group's website on www.nationalgrid.com.

Independent Auditors' Statement to the Members of National Grid plc

We have examined the Summary Financial Statement of National Grid plc, which comprises the Summary Group Income Statement, Summary Group Balance Sheet, Summary Directors' Report and Summary Directors' Remuneration Report.

Respective responsibilities of Directors and Auditors:
The Directors are responsible for preparing the summarised Annual Review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the summarised Annual Review with the annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985, and the regulations made thereunder. We also read the other information contained in the summarised Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. This statement, including the opinion, has been prepared for, and only for, the Company's members in accordance with Section 251 of the United Kingdom Companies Act 1985, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion:
We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement', issued by the Auditing Practices Board for use in the United Kingdom.

Opinion:
In our opinion the Summary Financial Statement is consistent with the annual financial statements, the Directors' Report and the Directors' Remuneration Report of National Grid plc for the year ended 31 March 2006 and complies with the applicable requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, 17 May 2006

Independent Verifier's Statement on Corporate Responsibility

National Grid has asked URS Verification Ltd (URSVL) to undertake third party assurance of the corporate responsibility elements of the Annual Report and Accounts 2005/06 and Annual Review 2005/06. Information on the scope of URSVL's assurance activities and its opinion may be found on page 90 of the Annual Report and Accounts 2005/06 and on the Group's website, www.nationalgrid.com/corporate/Our+Responsibility/Assurance.

Belinda Howell, Director
For and on behalf of URS Verification Ltd
London, May 2006

Shareholder Information

Annual Report and Accounts

National Grid shareholders will receive an Annual Review each year unless they have requested the Annual Report and Accounts. If you wish to receive the Annual Report and Accounts, a larger document containing the full accounts and notes to the accounts and more detailed information on the business, you should contact Capita Registrars.

For the assistance of visually impaired shareholders, audio tape, braille and large print versions of the Annual Review are available. If you wish to receive any of these documents, please contact Capita Registrars.

Duplicate accounts

If you received two or more copies of the Annual Review and multiple cheques for each dividend payment, you will have more than one shareholder account.

To receive just one Annual Review and one cheque for each dividend payment, please contact Capita Registrars and ask to amalgamate your accounts.

Dividends

National Grid normally pays dividends twice each year: an interim dividend in January and a final dividend in August.

Choosing to have dividends paid directly into your chosen bank or building society account means that: money will be available on the day of payment; there will be no delay paying cheques into your account; cheques cannot be lost; and a tax voucher is still provided for your records.

Over 530,000 National Grid shareholders already choose to have dividends paid to them directly. To request direct payment of your dividends, please contact Capita Registrars.

Dividend reinvestment plan

A dividend reinvestment plan (DRIP) has now been introduced that will allow participating shareholders to use dividend payments to purchase additional shares in National Grid. The DRIP will begin operation from the payment of the 2005/06 final dividend payment in August 2006. Shareholders wishing to participate should contact Capita Registrars.

Share dealing

A low-cost share dealing service is available from Capita Registrars, allowing you to buy and sell National Grid shares by telephone and online. Trading by telephone or online allows you to know the price of the shares at the time you deal.

For more information, please call 0870 458 4577 (8am – 4.30pm) or visit www.capitadeal.com.

A postal dealing service is also available. For a postal dealing form, please call 0870 162 3116.

These details are provided for information only and any action you take is at your own risk. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Individual Savings Accounts (ISAs)

ISAs for National Grid shares are available from Stocktrade. Options include: National Grid Maxi stocks and shares ISA; and National Grid Mini stocks and shares ISA. Further information may be obtained from the Account Manager:

Stocktrade,
81 George Street, Edinburgh EH2 3ES
Telephone: 0131 240 0443
Website:
www.stocktrade.co.uk/NGT_Sharedealing/sharedealing_main.htm

You may also consolidate other PEPs and ISAs by transferring them to your National Grid account. National Grid cannot advise you on what action, if any, you should take.

ShareGift

If you hold only a few shares and feel that it would be uneconomical or just not worthwhile to sell them, you could consider donating your shares to charity.

ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give small holdings of shares to benefit charitable causes. There are no capital gains tax implications (ie no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Since its launch in 1996, ShareGift has been able to give millions of pounds to hundreds of different UK charities.

Further information can be obtained at www.ShareGift.org or from Capita Registrars.

Shareholder Networking

National Grid continues to operate its Shareholder Networking Programme allowing shareholders to learn more about the business by visiting operational sites and meeting Directors, senior managers and staff.

These visits allow us to explain the business to shareholders in person and for shareholders to ask any questions about the Group. This year's visit is planned for early December.

If you would like to take part in this visit, please write to:

Shareholder Networking Organiser,
National Grid House, Warwick Technology Park, Gallows Hill,
Warwick CV34 6DA

Participants will be selected from those applying, with priority given to those who have not previously attended.

Website

More information about National Grid is available on the Group website at www.nationalgrid.com, and includes: current and historical share price information; previous Annual Reports and Accounts; and information about each of the Group businesses.

Capita Registrars

Telephone: 0870 242 2379
(from outside the UK +44 20 7098 1198)

Email: nationalgrid@capitaregistrars.com
Website: www.nationalgrid.com/shareholders

The Bank of New York

Telephone: 1-800-466-7215
(for international calls +1-212-815-3700)

Email: shareowners@bankofny.com
Website: www.adrbny.com

Financial calendar

The following dates have been announced or are indicative of future dates:

7 June 2006	Ordinary shares ex-dividend
9 June 2006	Ordinary share 2005/06 final dividend record date
12 July 2006	DRIP application deadline 2005/06 final dividend
31 July 2006	2006 Annual General Meeting
7 Aug 2006	B share continuing dividend payment date
8 Aug 2006	Further repurchase of B shares as elected
23 Aug 2006	Ordinary share 2005/06 final dividend payment date
16 Nov 2006	2006/07 interim results
29 Nov 2006	Ordinary shares ex-dividend
1 Dec 2006	Ordinary share 2006/07 interim dividend record date
8 Dec 2006	DRIP application deadline 2006/07 interim dividend
24 Jan 2007	Ordinary share 2006/07 interim dividend payment date
May 2007	2006/07 preliminary results
June 2007	Ordinary shares ex-dividend
June 2007	Ordinary share 2006/07 final dividend record date
July 2007	DRIP application deadline 2006/07 final dividend
July 2007	2007 Annual General Meeting
Aug 2007	B share continuing dividend payment date
Aug 2007	Final repurchase of B shares as elected
Aug 2007	Conversion of remaining B shares
Aug 2007	Ordinary shares 2006/07 final dividend payment date

Queries – ordinary shareholders

Any queries from holders of ordinary shares should be directed to Capita Registrars:

National Grid Share Register,
Capita Registrars,
Northern House,
Woodsome Park,
Fenay Bridge,
Huddersfield HD8 0LA

Telephone: 0870 242 2379
(from outside the UK +44 20 7098 1198)
Textphone: 18001 0870 242 2379
Fax: 0870 240 1286
(from outside the UK +44 1484 600 702)
Email: nationalgrid@capitaregistrars.com
Website: www.nationalgrid.com/shareholders

Queries – American Depositary Shares

Any queries from holders of American Depositary Shares should be directed to The Bank of New York:

The Bank of New York,
Shareholders Correspondence,
PO Box 11258,
Church Street Station,
New York NY 10286-1258

Telephone: 1-800-466-7215
(for international calls +1-212-815-3700)
Email: shareowners@bankofny.com
Website: www.adrbny.com

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Cautionary Statement
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Because these forward-looking statements are subject to assumptions, risks and uncertainties, actual future results may differ materially from those expressed in or implied by such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, including those required to complete the announced US acquisitions when or as planned, unseasonable weather affecting demand for electricity and gas, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, the impact of changes to accounting standards and technological developments. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate the businesses relating to the announced US acquisitions with the Group and realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities, the impact of the sales of businesses by the Group, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, the failure to retain key management, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of our pension schemes and the regulatory treatment of pension costs, and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (and in particular the 'Risk Factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Except as required by law or regulation, National Grid does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this document.

National Grid plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 4031152

UK Shareholder enquiries: 0870 242 2379
US Shareholder enquiries: 1-800-466-7215
www.nationalgrid.com

Appendix 8

KEDNY

(a) Amount and classes of stock authorized by law or certificate of incorporation, as last amended.
Brooklyn Union's authorized share of capital stock pursuant to its Certificate of Incorporation consists of 100 shares of Common Stock with a par value of $0.01.

(b) Case number and date of the Order of Authorization of the capital stock authorized by the Commission.
(1) Common Stock
None

Case No.	Date of Order/Amendment
N/A	N/A

(2) Preferred Stock
None

Brooklyn Union Gas Company D/B/A KEDNY

(1) Amount actually paid to corporation for such stock

(a) Common Stock

Case No.	No of Shares of Stock	Par Value Per Share	Total Par Value	Premiums Received	Amount Paid to Corporation
N/A	100	$0.01	$1.00	$472,627,081	$472,627,082

(b) Preferred Stock
None

NOTES:

4. Terms of Preference of each class of preferred stock: None.

5. Statement of each class of non-par stock showing amount transferred from Unappropriated Retained Earnings or other accounts: None

Notes 6, 7 and 8. A brief description of debt is as follows:

Gas Facilities Revenue Bonds: KEDNY can issue tax-exempt bonds through the New York State Energy Research and Development Authority. Whenever bonds are issued for new gas facilities projects, proceeds are deposited in trust and subsequently withdrawn by KEDNY to finance qualified expenditures. There are no sinking fund requirements for any of KEDNY's Gas Facilities Revenue Bonds.

On November 1, 2005, two 6 3/4% GFRBs' at a face value of $41,000,000 each were redeemed and replaced by a new issuance of $82,000,000 at the interest rate of 4.70% which mature February 1, 2024.

On November 1, 2005, a 5.60% GFRB was redeemed and repalced by a new issuance of $55,000,000 at variable rate of interest that is due weekly. This bond will mature June 1, 2025.

Following is a schedule of bonds, notes, or other evidence of indebtedness by series where applicable.

Brooklyn Union Gas Company D/B/A KEDNY

Description	Case Number	Date of Order	Interest Rate	Date Issued	Date of Maturity	Amount Authorized and Issued	Amount Outstanding 12/31/2005
<u>Bonds (Account 221)</u>							
Gas Facilities Bonds - (issued through NYSERDA)							
6.368% Series 1993A and Series 1993B Due 2020			6.368%	04/29/1993	04/29/2020	75,000,000	75,000,000
4.7% Series A 2005 Due 2024			4.70%	11/01/2005	02/01/2024	82,000,000	82,000,000
Variable 2005 Series B Due 2025			Var %	11/01/2005	06/01/2025	55,000,000	55,000,000
6.95% Series 1991A 1991B Due 2026			6.95%	06/16/1993	06/16/2026	100,000,000	100,000,000
5.635% Series 1993 D1 & D2 Due 2026			5.635%	06/16/1993	06/16/2026	50,000,000	50,000,000
5.5% Series 1996 Due 2021			5.50%	01/15/1996	01/01/2021	153,500,000	153,500,000
Variable % GFRB 1997 Series Due 2020				01/16/1997	12/01/2020	125,000,000	125,000,000
Hedging Gains					03/02/2024		(1,666,877)
Unamortized Discount							(757,637)
				Total Debentures			638,075,486
				Total Long Term Debt Outstanding			638,075,486

Brooklyn Union Gas Company D/B/A KEDNY

As of Dec. 31, 2005

9. Statement of Advances or other indebtedness to affiliated interests:		
Notes Receivable from Associated Companies (145)	-	
Accounts Receivable from Assoc. Companies (146)	(23,558,955)	
Accounts Payable to Associated Companies (234)	46,562,111	
Notes Payable to Associated Companies (233)	547,650,809	
Indebtedness to affiliated interests		570,653,965
10. Statement of other indebtedness:		
(a) Customer Advances for Construction		-
(b) Current and Accrued Liabilities:		
Accounts Payable (232)	199,121,320	
Customer Deposits (235)	28,173,007	
Taxes Accrued (236)	25,711,487	
Interest Accrued (237)	7,879,325	
Dividends Declared (238)	-	
Matured Long-Term Debt (239)	-	
Matured Interest (240)	-	
Tax Collections Payable (241)	2,445,331	
Miscellaneous Current and Accrued Liabilities (242)	47,096,225	
		310,426,694
Total Other Indebtedness		881,080,659

As of March 31, 2006

9. Statement of Advances or other indebtedness to affiliated interests:		
Notes Receivable from Associated Companies (145)	0	
Accounts Receivable from Assoc. Companies (146)	(1,103,634,121)	
Accounts Payable to Associated Companies (234)	1,231,326,352	
Notes Payable to Associated Companies (233)	462,055,272	
Indebtedness to affiliated interests		589,747,503
10. Statement of other indebtedness:		
(a) Customer Advances for Construction		-
(b) Current and Accrued Liabilities:		
Accounts Payable (232)	30,071,880	
Customer Deposits (235)	26,271,977	
Taxes Accrued (236)	27,821,590	
Interest Accrued (237)	6,630,149	
Dividends Declared (238)	-	
Matured Long-Term Debt (239)	-	
Matured Interest (240)	-	
Tax Collections Payable (241)	3,746,784	
Miscellaneous Current and Accrued Liabilities (242)	38,756,591	
		133,298,971
Total Other Indebtedness		723,046,474

11. Amount of interest accrued:

	As of Dec. 31, 2005	As of March 31, 2006
6 3/4% Series 1989A Due 2024	(230,625)	0
6 3/4% Series 1989B Due 2024	(230,625)	0
5.60% Series 1990C Due 2025	(256,667)	1
6.95% Series 1991A 1991B Due 2026	(740,326)	(483,444)
5.635% Series 1993 D1 & D2 Due 2026	(132,485)	(45,329)
6.368% Series 1993A and Series 1993B Due 2020	(356,762)	(642,348)
Variable % GFRB 1997 Series Due 2020	(290)	4,057
5.5% Series 1996 Due 2021	(4,221,250)	(2,110,625)
4.7% Series A 2005 Due 2024		(1,605,833)
Variable 2005 Series B Due 2025	(11,458)	(5,347)
Deferred Interest on GAC Imbalance	(856,250)	(716,298)
Accrued Interest Pipeline Refunds	(404,443)	(434,555)
Accrued Interest Customer Deposits	(417,229)	(569,513)
Accrued Interest TAC	(20,915)	(20,915)
	(7,879,325)	(6,630,149)

Brooklyn Union Gas Company D/B/A KEDNY

Long Term Debt Interest: Bonds (Account 427)	Period 1/1-12/31/05	Period 1/1-3/31/06
6.368% Series 1993A and Series 1993B Due 2020	4,871,519	1,201,531
6 3/4% Series 1989A Due 2024	2,767,500	(230,625)
6 3/4% Series 1989B Due 2024	2,767,500	(230,625)
5.60% Series 1993C Due 2025	3,080,000	(256,668)
5.635% Series 1993 D1 & D2 Due 2026	9,858,252	2,097,023
5.5% Series 1996 Due 2021	8,442,500	2,110,625
4.7% Series 2005 A Due 2024		1,605,833
Variable 2005 Series B Due 2025	294,006	465,407
Variable % GFRB 1997 Series Due 2020	3,024,100	958,326
	35,105,376	7,720,828

Other Interest Expense (Account 431)		
Interest on Customer Deposits	816,547	204,441
Interest on Gas Pipeline Refunds	60,843	30,112
Interest on Deferred Compensation	69,365	18,465
Interest on Rate Settlement	874,120	254,713
Interest on Tax Assessments	43	26,043
CC Imbalance Old vs New SIT	(134,402)	201,165
Interest Expense on Dial America Lawsuit	51,276	-
GAC Interest Expense	112,280	(152,661)
Interest on TBA	(17,706)	(76,114)
Interest Rate Swap	70,067	17,517
Reserve ACCR Interest onNYCIT	1,669,082	-
Derivatives	314,786	73,059
Other Interest Expense	25,766	
	3,912,067	596,740

12. Rate and amount of dividends declared during each of the five years last preceeding and amount of dividends paid:

Period	Amount
03/31/2006	0
12/31/2005	4,850,000
03/31/2005	-
12/31/2003	53,000,000
12/31/2002	223,500,000
12/31/2001	-
12/31/2000	70,000,000
12/31/1999	86,000,000

Preferred Stock
None.

13. Statement of contingent assets and liabilities.
See the attached excerpt from the notes for the Company's contractual obligations, financial instruments, and contingencies disclosed in the Company's financial statements for the period ended December 31, 2005. These contingent assets and liabilities have not materially changed during the three months ended March 31, 2006.

Period Ended

Deferred Debits	12/31/2005	03/31/2006
DEFERRED DEBITS		
Unamortized Debt Expense	20,292,422	21,011,131
Other Regulatory Assets	299,634,066	304,918,253
Miscellaneous Deferred Debits	(40,580,017)	(49,834,495)
Research, Devel. and Demonstration Expend.	0	-
Accumulated Deferred Income Taxes	70,352,577	11,329,904
Clearing Accounts	0	659,130
TOTAL Deferred Debits	349,699,048	288,083,921

Unamortized Debt Expense	12/31/2005	03/31/2006
6.368% Series 1993A and Series 1993B Due 2020	2,001,472	1,934,007
% GFRB 2005 A	134,650	4,927,532
% GFRB 2005 B	129,900	2,608,886
6 3/4% Series 1989A Due 2024	956,552	-
6 3/4% Series 1989B Due 2024	955,978	-
5.60% Series 1990C Due 2025	3,146,854	-
5.5% Series 1996 Due 2021	5,769,416	4,410,967
Variable % GFRB 1997 Series Due 2020	5,130,506	5,043,695
Series 1991A & B	2,067,095	2,086,044
	20,292,422	21,011,130

Other Regulatory Assets	12/31/2005	03/31/2006
Def Environmental Costs Ci	226,939,904	226,079,827
DEF Incremental - Transaction Expenses	12,370,042	10,762,042
DEF Incremental Transition Expenses	9,568,790	8,702,792
FAS109 Reg Asset Dfit	56,318,185	56,318,185
FAS109 Reg Liab Dfit	(2,916,500)	(2,916,500)
Derivative Asset	-	7,968,885
Rate Making Excess	(12,769,083)	(10,681,950)
2004 Deferral MTA Gross Income	1,220,199	914,027
MTA - SIT Current Adjustment	5,832,602	802,736
Deferral MTA Gross Income 2005	1,415,336	2,084,743
Deferred Gas Cost Hedging	-	3,154,242
Exp Related to Property Sale	109,895	124,757
Stock Options	7,712	9,098
FACIL SUPPORT	27,652	31,475
ESCO/HEFPA	1,509,332	1,563,893
	299,634,065	304,918,252

Miscellaneous Deferred Debits	12/31/2005	03/31/2006
CSC Reimbursable	7,865,597	8,939,630
Derivative Asset	11,836,429	2,358,186
Deferred Gas Cost Hedging	1,046,474	682,566
Deferred Off System Sales	(18,759,972)	(40,913,435)
FAS109 Reg Asset Dfit	(20,054,835)	(21,598,067)
Deferred GRI Surcharge Firm/Trsp	(2,504,943)	(1,483,857)
Deferred Gas Cost	(22,700,275)	(7,884,226)
Interest Deferred GAC	(381,850)	(942,274)
Area Developmnet Loan Invest	1,622,423	3,127,904
Commercial Misc. Cashier Items	1,452,594	273,631
Interest On Marketer Penalty Refu	(1,659)	(4,582)
	(40,580,017)	(57,444,525)

Accumulated Deferred Income Taxes	12/31/2005	03/31/2006
Interest Expense Capital Lease	169,153	190,297
FAS 109	(323,391)	(363,815)
Asset retirement Obligation	261,714	261,714
Deferral - Hedging	-	-
FIT on OCI	11,241,707	11,241,707
	11,349,183	11,329,904

Period Ended

Deferred Credits	12/31/2005	03/31/2006
Accumulated Deferred Invest Tx Cr	11,804,666	11,175,995
Deferred Rate Case True Ups	23,277,390	22,669,863
Transition Balancing A/C	(3,135,152)	(11,966,006)
Deferred Gas Cost Hedging	1,046,474	-
Derivative Liability	70,359,160	5,337,888
Reg Asset NYS Income Tax	0	-
AEGIS Settlement	12,115,942	12,115,942
Accumulated Deferred IncTax	334,938,788	275,287,757
Miscellaneous Deferred Credits	16,680,224	13,105,701
Total	467,087,491	327,727,139

Rate Settlements	7,142,393	6,280,153
Rate Settlements - Interest on Rate Settlements	16,134,998	16,389,711
	23,277,390	22,669,863

TBA - Meter Testing	6,825,090	6,825,167
TBA - Marketers Incentive	(6,745,702)	(6,745,702)
TBA - Delivery Service Credit	(23,956,800)	(23,956,800)
TBA - Deferred Special Franchise	6,376,980	(1,672,778)
TBA - KIAC Settlement	1,600,000	1,500,000
TBA - Deferred Excess Earnings Credit	11,401,000	11,401,000
TBA - Deferred Interest on TBA	3,473,354	3,367,810
TBA - Newton Property	6,891,423	6,891,423
TBA - O&E Program	(1,277,612)	(1,277,612)
TBA - Electronic Data Interface - EDI	(1,709,793)	(1,709,793)
TBA - Virtual Customer Care - VCC	(793,000)	(793,000)
TBA - Single Bill Option - SBO	(3,144,385)	(3,144,385)
TBA - Enhanced Transportation	(1,232,000)	(1,232,000)
TBA - Merchant Backout Credit	(14,147,486)	(15,668,714)
TBA - Avoided Costs	76,000	76,000
TBA - Transportation Service Adj	557,011	557,011
TBA - Transition Charges	12,670,767	13,616,367
	(3,135,152)	(11,966,006)

16. Statement of Income for the periods from January 1, 2005 through December 31, 2005 and January 1, 2006through March 31, 2006 see page 13a. Balance Sheets December 31, 2005 and March 31, 2006 with analysis of various accounts-- see Pages 14 and 15.

INCOME STATEMENT

	For the Twelve Month Ended December 31, 2005 Total	For the Three Month Ended March 31, 2006 Total
UTILITY OPERATING INCOME		
Operating Revenues (400)	$2,236,282,286	$899,196,222
Operating Expenses:		
Operation Expense (401)	1,732,029,310	675,849,405
Maintenance Expenses (402)	63,248,185	15,219,057
Joint Expenses (402.1)		
Depreciation Expense (403)	71,457,424	18,066,540
Amortization and Depletion of Utility Plant (404)	1,678,298	423,550
Amortization of Other Utility Plant (405)	9,958,353	2,210,305
Amortization of Utility Plant Acq. Adj. (406)		
Amort. of Property Losses (Elec. 407, Gas 407.1)		
Amortization of Conversion Expenses (Gas 407.2)	9,895,992	2,484,464
Amortization of Regulatory Debits (407.3)		
Taxes Other Than Income Taxes (408.1)	121,851,776	38,975,431
Income Taxes (409.1, 410.1,411.1,411.4,411.8)	60,613,126	48,102,637
Gains from Disposition of Utility Plant (411.6)		
Losses from Disposition of Utility Plant (411.7)		
Total Operating Expenses	2,070,732,464	801,331,390
Net Operating Revenues	165,549,822	97,864,832
Revenues from Utility Plant Leased to Others (412)		
Expenses of Utility Plant Leased to Others (413)		
Other Utility Operating Income (414)		(1,603,644)
Total Utility Operating Income	165,549,822	96,261,188
OTHER INCOME		
Income from Merchandising, Jobbing, and Contract Work (415,416)	(107,500)	(15,000)
Income from Nonutility Operations (417,417.1)	81,825	(17,063)
Nonoperating Rental Income (418)		
Equity in Earnings of Subsidiary Companies (418.1)	6,809,800	1,799,630
Interest and Dividend Income (419)	(971,902)	(502,391)
Allowance for Funds Used During Construction (419.1)	719,025	276,815
Miscellaneous Nonoperating Income (421)	26	0
Gain on Disposition of Property (421.1)	75,199	0
Total Other Income	6,606,473	1,541,991
OTHER INCOME DEDUCTIONS		
Loss on Disposition of Property (421.2)		
Miscellaneous Amortization (425)		
Miscellaneous Income Deductions (426)	4,963,407	636,055
Total Other Income Deductions	4,963,407	636,055
TAXES-OTHER INCOME AND DEDUCTIONS		
Taxes Other Than Income Taxes (408.2)	1,071	217
Income Taxes (409.2,410.2,411.2,411.5,420)	(910,728)	(227,682)
Total Taxes-Other Income and Deductions	(909,657)	(227,465)
Net Other Income and Deductions	2,552,723	2,405,511
INTEREST CHARGES		
Interest on Long-term Debt (427)	35,105,376	7,720,828
Amortization of Debt Disc. and Expense (428)	1,407,756	415,723
Amortization of Premium on Debt-Credit (429)		
Interest on Debt to Associated Companies (430)	9,673,925	5,703,335
Other Interest Expenses (431)	3,912,067	596,740
(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)	(278,807)	
Total Interest Charges	49,820,317	14,436,626
Income Before Extraordinary Items	118,282,228	84,230,073
EXTRAORDINARY ITEMS		
Extraordinary Income (434)		
Extraordinary Deductions (435)	(378,643)	
Income Taxes, Extraordinary Items (409.3)		
Net Extraordinary Items		
Net Income	$117,903,585	$84,230,073

Account Title	December 2005	March 2006
UTILITY PLANT		
Utility Plant (101-106, 114)	$2,635,923,618	$2,645,343,200
Construction Work in Progress (107)	36,017,462	56,779,698
TOTAL Utility Plant (Enter Total of lines 2 and 3)	2,671,941,079	2,702,122,898
(Less) Accum. Prov. for Depr. Amort. Depl. (108,111,115)	882,846,551	896,849,216
Net Utility Plant (Enter Total of line 4 less 5)	1,789,094,529	1,805,273,682
Nuclear Fuel (120.1-120.4, 120.6)		
(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)		
Net Nuclear Fuel (Enter Total of line 7 less 8)	-	-
Net Utility Plant (Enter Total of lines 6 and 9)	1,789,094,529	1,805,273,682
Utility Plant Adjustments (116)		
Gas Stored Underground - Noncurrent (117)	857,650	857,650
OTHER PROPERTY AND INVESTMENTS		
Nonutility Property (121)		326,778
(Less) Accum. Prov. for Depr. and Amort. (122)		
Investments in Associated Companies (123)		
Investment in Subsidiary Companies (123.1)	49,759,830	51,559,460
(For Cost of Account 123.1, See Footnote Page 224, line 42)		
Noncurrent Portion of Allowances		
Other Investments (124)	1,808,516	112,601
Special Funds (125-128)		
TOTAL Other Property and Investments (Total of lines 14-17, 19-21)	51,568,346	51,998,839
CURRENT AND ACCRUED ASSETS		
Cash (131)	21,090,054	9,076,793
Special Deposits (132-134)	4,568,466	
Working Fund (135)		
Temporary Cash Investments (136)		
Notes Receivable (141)		0
Customer Accounts Receivable (142)	183,391,276	317,701,158
Other Accounts Receivable (143)	76,242,904	61,920,413
(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)	25,400,584	32,356,877
Notes Receivable from Associated Companies (145)		-
Accounts Receivable from Assoc. Companies (146)	23,558,955	1,103,634,121
Fuel Stock (151)		
Fuel Stock Expenses Undistributed (152)		
Residuals (Elec) and Extracted Products (153)		
Plant Materials and Operating Supplies (154)	8,734,783	8,675,395
Merchandise (155)		
Other Materials and Supplies (156)		
Nuclear Materials Held for Sale (157)		
Allowances (158.1 and 158.2)		
(Less) Noncurrent Portion of Allowances		
Stores Expense Undistributed (163)	0	0
Gas Stored Underground - Current (164.1)	371,026,266	239,092,596
Liquefied Natural Gas Stored and Held for Processing(164.2-164.3)	10,032,868	9,562,902
Prepayments (165)	55,983,546	19,291,003
Advances for Gas (166-167)		
Interest and Dividends Receivable (171)	13,608	13,973
Rents Receivable (172)	4,105,821	4,634,270
Accrued Utility Revenues (173)	262,844,419	202,778,998
Miscellaneous Current and Accrued Assets (174)	43,727,823	879,293
Derivative Instruments Assets (175)		
Derivative Instruments Assets - Hedges (176)		
TOTAL Current and Accrued Assets (Enter Total of lines 24 thru 53)	1,039,920,205	1,944,904,037
DEFERRED DEBITS		
Unamortized Debt Expense (181)	20,292,422	21,011,131
Extraordinary Property Losses (182.1)		
Unrecovered Plant and Regulatory Study Costs (182.2)		
Other Regulatory Assets (182.3)	299,634,066	304,918,253
Prelim. Survey and Investigation Charges (Electric) (183)		
Prelim. Survey and Investigation Charges (Gas) (183.1, 183.2)		
Clearing Accounts (184)		659,130
Temporary Facilities (185)		
Miscellaneous Deferred Debits (186)	(40,580,017)	(49,834,495)
Def. Losses from Disposition of Utility Plt. (187)		
Research, Devel. and Demonstration Expend. (188)		
Unamortized Loss on Reacquired Debt (189)		
Accumulated Deferred Income Taxes (190)	70,352,577	11,329,904
Unrecovered Purchased Gas Costs (191)		
TOTAL Deferred Debits (Enter Total of lines 54 thru 67)	349,699,048	288,083,921
TOTAL Assets and Other Debits (Enter Total of lines 10, 11, 12, 22, 54, and 70)	$3,231,139,778	$4,091,118,130

Account Title	December 2005	March 2006
Common Stock Issued (201)	$1	$1
Preferred Stock Issued (204)		
Capital Stock Subscribed (202, 205)		
Stock Liability for Conversion (203, 206)		
Premium on Capital Stock (207)	472,627,082	472,627,082
Other Paid-in Capital (208-211)		
Installments Received on Capital Stock (212)		
(Less) Discount on Capital Stock (213)		
(Less) Capital Stock Expense (214)		
Retained Earnings (215, 215.1, 216)	514,685,122	603,925,364
Unappropriated Undistributed Subsidiary Earnings (216.1)	60,241,733	55,231,562
(Less) Reacquired Capital Stock (217)		
Accumulated Other Comprehensive Income (219)	(20,877,456)	(23,929,006)
TOTAL Proprietary Capital (Enter Total of lines 2 thru 14)	1,026,676,482	1,107,855,003
LONG-TERM DEBT		
Bonds (221)	638,833,123	638,850,640
(Less) Reacquired Bonds (222)		
Advances from Associated Companies (223)		
Other Long-Term Debt (224)		
Unamortized Premium on Long-Term Debt (225)		
(Less) Unamortized Discount on Long-Term Debt-Debit (226)	757,637	737,700
TOTAL Long-Term Debt (Enter Total of Lines 16 thru 21)	638,075,486	638,112,940
OTHER NONCURRENT LIABILITIES		
Obligations Under Capital Leases - Noncurrent (227)		
Accumulated Provision for Property Insurance (228.1)		
Accumulated Provision for Injuries and Damages (228.2)		
Accumulated Provision for Pensions and Benefits (228.3)		
Accumulated Miscellaneous Operating Provisions (228.4)	194,660,705	190,742,452
Accumulated Provision for Rate Refunds (229)		
TOTAL Other Noncurrent Liabilities (Enter Total of lines 24 thru 29)	194,660,705	190,742,452
CURRENT AND ACCRUED LIABILITIES		
Notes Payable (231)		
Accounts Payable (232)	199,121,320	30,071,880
Notes Payable to Associated Companies (233)	547,650,809	462,055,272
Accounts Payable to Associated Companies (234)	46,562,111	1,231,326,352
Customer Deposits (235)	28,173,007	26,271,977
Taxes Accrued (236)	25,711,487	27,821,590
Interest Accrued (237)	7,879,325	6,630,149
Dividends Declared (238)		
Matured Long-Term Debt (239)		
Matured Interest (240)		
Tax Collections Payable (241)	2,445,331	3,746,784
Miscellaneous Current and Accrued Liabilities (242)	47,096,225	38,756,591
Obligations Under Capital Leases - Current (243)		
Derivative Instrument Liabilities (244)		
Derivative Instrument Liabilities - Hedges (245)		
TOTAL Current and Accrued Liabilities (Enter Total of lines 32 - 47)	904,639,615	1,826,680,595
DEFERRED CREDITS		
Customer Advances for Construction (252)		
Accumulated Deferred Investment Tax Credits (255)	11,804,666	11,175,995
Deferred Gains from Disposition of Utility Plant (256)		
Other Deferred Credits (253)	16,680,147	13,105,701
Other Regulatory Liabilities (254)	103,663,890	28,157,688
Unamortized Gain on Reacquired Debt (257)		
Accumulated Deferred Income Taxes (281 - 283)	334,938,788	275,287,757
TOTAL Deferred Credits (Enter Total of lines 50 thru 56)	467,087,491	327,727,140
TOTAL Liabilities and Other Credits (Enter Total of lines 15, 23, 31, 48 and 57)	$3,231,139,778	$4,091,118,130

Common Capital Stock and Premium on Capital Stock

	Common Capital Stock		
Common Stock Issued	No of Shares of Stock	Par Value Per Share	Total Par Value
	100	$0.01	$1.00

Premiums Received	Amount Paid to Corporation
$472,627,081	$472,627,082

	12/31/2005	03/31/2006
Balance -- Beginning of Year	408,441,337	521,494,920
Balance Transferred from Income (Account 433 less Account 418.1)	111,093,785	82,430,442
Appropriations of Retained Earnings (Account 436)		
TOTAL Appropriations to Retained Earnings (Acct. 436)		
Dividends Declared -- Preferred Stock (Account 437)		
TOTAL Dividends Declared -- Preferred Stock (Acct. 437)		
Dividends Declared -- Common Stock (Account 438)		
Cash Dividend	4,850,000	
Distribution of Subsidiary Investment		
TOTAL Dividends Declared -- Common Stock (Acct. 438)	4,850,000	-
Transfers from Acct. 216.1, Unappropriated Undistributed Subsidiary Earnings		
Balance -- End of year	514,685,122	603,925,362
TOTAL Appropriated Retained Earnings (Account 215)	-	-
TOTAL Appropriated Retained Earnings -- Amortization Reserve, Federal(Account 215.1)		
TOTAL Appropriated Retained Earnings (Account 215, 215.1)	-	-
TOTAL Retained Earnings (Account 215, 215.1, 216)	514,685,122	603,925,362
Balance -- Beginning of Year (Debit or Credit)	53,431,933	53,431,933
Equity in Earnings for Year (Credit) (Account 418.1)	6,809,800	1,799,630
(Less) Dividends Received (Debit)		
Other Changes (Explain)		
Balance -- End of Year	60,241,733	55,231,563

Additional Information
None.

KEDLI

(a) Amount and classes of stock authorized by law or certificate of incorporation, as last amended.
KeySpan Gas East Corporation D/B/A KEDLI authorized share of capital stock pursuant to its Certificate of Incorporation consists of 100 shares of Common Stock with a par value of $0.01.

(b) Case number and date of the Order of Authorization of the capital stock authorized by the Commission.
(1) Common Stock
Joint Petition of the Long Island Lighting Company and the Brooklyn Union Gas Company for authorization under section 70 of the Public Service Law to Transfer Ownership to an Unregulated Holding Company and Other Related Approvals.

Case No.	Date of Order/Amendment
97-M-0567	04/14/1998

(2) Preferred Stock
None

(1) Amount actually paid to corporation for such stock

(a) Common Stock

Case No.	No of Shar of Stock	Par Value Per Share	Total Par Value	Premiums Received	Amount Paid to Corporation
97-M-0567	100	$0.01	$1.00	$582,861,727	$582,861,728

(b) Preferred Stock

None