STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of New York on July 18, 2007

COMMISSIONERS PRESENT:

Patricia L. Acampora, Chairwoman
Maureen F. Harris, recused
Robert E. Curry, Jr.
Cheryl A. Buley

CASE 01-M-0075 - Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc and National Grid USA for Approval of Merger and Stock Acquisition.

CASE 01-E-0011 - Contracts Related to the Sale of Nine Mile Point Nuclear Generating Facilities From Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Central Hudson Gas & Electric Corporation, Rochester Gas and Electric Corporation to Constellation Nuclear, LLC.

CASE 04-M-0159 - Proceeding on Motion of the Commission to Examine the Safety of Electric Transmission and Distribution Systems.

CASE 04-M-0938 - Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2004.

CASE 07-M-0173 - Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2007.

ORDER ADOPTING TERMS AND CONDITIONS OF THE PARTIES' STIPULATION

(Issued and Effective July 19, 2007)

BY THE COMMISSION:

INTRODUCTION

Case 01-M-0075 approved the merger between Niagara Mohawk Power Corporation (Niagara Mohawk or the Company) and National Grid Group, PLC and established delivery rates for a period extending through December 31, 2011.[1] One of the primary adjustment mechanisms included within that multi-year ratemaking plan provides for deferral accounting of various costs and revenues, subject to audit by Staff of the Department of Public Service (Staff). The plan provides that should the deferral account exceed $100 million as of June 30 in the year prior to resetting Niagara Mohawk's Competitive Transition Charge (CTC), Niagara Mohawk must submit a compliance filing including a forecast of deferrals to the end of the upcoming CTC reset period.

This portion of the proceeding began when the Company filed tariff amendments in July and September, 2005 estimating a deferral balance of $670 million through December 2007. In a December 2005 Order, we approved a proposal to increase electric delivery rates to reduce the deferral balance by $100 million between April and December 2006, and by an additional $200 million in 2007.[2] In addition, we extended the time for Staff's audit of these accounts through June 2007. It is this audit and the agreed-upon terms and conditions that would resolve it that are the primary concerns of this order.

Ultimately, the results of Staff's audit was filed in the form of direct testimony on July 28, 2006. Staff opposed the company on numerous of its deferral issues, on the characterization and impairment of goodwill, and on perceived deficiencies in the company's accounting system. Staff adjusted the company's deferrals for the period prior to June 30, 2005 by $160 million and its projected deferrals through December 31, 2007 by $397 million. Company responsive testimony was filed on September 1, reply testimony was filed September 19, and Company rebuttal was filed September 26, 2006. Evidentiary hearings

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[1] Case 00-M-0075, Opinion and Order Authorizing Merger and Adopting Rate Plan, Opinion No. 01-6 (issued December 3, 2001).

[2] Case 00-M-0075, Order Concerning the Second Competition Transition Charge Reset And Continuing the Expansion of the Low-Income Rate Discount Program (issued December 27, 2005).

were held from October 3-5, 2006 generating 1,517 pages of transcript and 112 exhibits.

During a break in the evidentiary hearings, the parties met with a Settlement Judge and ultimately undertook assisted settlement negotiations in accordance with our regulations and guidelines. On March 22, 2007, Staff, the Company, and Multiple Intervenors (MI) filed a document entitled "Stipulation of the Parties" (Stipulation). On April 17, 2007, Staff, Niagara Mohawk, and MI filed comments in support of the Stipulation and served them in each of the above captioned cases. No comments in opposition have been received, and no opposition was voiced at the evidentiary hearing held May 17, 2007. That hearing generated transcript pages 1519 through 1536 and five additional settlement exhibits.[3]

Summary of the Stipulation

The Stipulation states that it resolves the following:

> (a) all issues raised by Staff in its direct and responsive testimony of amounts deferred by the Company pursuant to provisions of the Joint Proposal accepted by the Commission in Opinion No. 01-06 (the "Merger Joint Proposal" or the "Rate Plan"), [footnote omitted];
>
> (b) the ratemaking treatment for the $1.215 billion of goodwill currently on the Company's books;
>
> (c) all outstanding issues in Case 01-E-0011 (dealing with the sale of the interest of Niagara Mohawk in the Nine Mile Point Unit 1 and Unit 2 Nuclear Generating Facilities ("Nine Mile")) except for the issues identified in Section 2.4.1;
>
> (d) all ratemaking issues raised in Niagara Mohawk's March 21, 2006 "Petition for Rate

[3] The Settlement exhibits include: Stipulation (Exhibit S-1) Errata Notice to the Stipulation (Exhibit S-2); Niagara Mohawk Statement in Support of Stipulation (Exhibit S-3); Multiple Intervenors Statement in Support of Stipulation (Exhibit S-4); and Staff Statement in Support of Stipulation (Exhibit S-5). Exhibits S-1 and S-2 are attached.

Relief” in Case 04-M-0159 that specifically dealt with the recovery of the incremental costs associated with the Commission’s Safety Orders;

(e) the issue in Case 04-M-0938 associated with the ratepayer and shareholder allocations of the pension settlement loss experience in fiscal year 2004;

(f) the issue raised in Case 07-M-0173 associated with the ratepayer and shareholder allocations of the pension settlement loss experience in fiscal year 2007;

(g) the portions of contractor costs for storm restoration and stray voltage testing and inspection as related to Company employee levels, that are eligible for deferral; and

(h) the petition filed January 14, 2004 [sic][4] by the Company in Case 01-M-0075 to modify the customer service targets established under Section 9.4.4 and attachment 9 of the Merger Joint Proposal for the percentage of meters read during 2003 and 2004.[5]

A summary of the agreements in each of the above areas is provided below.

Pre-July 2005 Deferrals

The Stipulation provides that upon approval, the Company’s deferral account as of June 30, 2005 would be adjusted downward by $93.149 million in addition to the $39.917 million, of reductions agreed to during the litigated phase of the proceeding.[6] The Stipulation recites all deferral issues for which agreements have been reached, as well as those few exceptions where future adjustments may be contemplated.[7] The Stipulation also recites agreements concerning station revenues

[4] Stipulation, p. 29. The actual date of this petition was August 12, 2003.

[5] Id., pp. 1-2.

[6] Id., p. 6.

[7] Id., pp. 7-8.

and provisions for calculating earnings should those revenues materialize.

Deferrals from July 1, 2005 – December 31, 2011

This section of the Stipulation sets forth various agreements regarding the Company's deferrals beginning July 1, 2005 and extending through the remainder of the Company's rate plan--December 31, 2011. Agreements in this area were reached concerning the general definition of incremental and detrimental expenses, station service deferrals, bonus depreciation, Medicare Act of 2003 tax credits, storm restoration deferrals, stray voltage deferrals, pension/OPEBs, lost revenues and expenses, and certain other deferrals for 2006 and 2007.[8]

Implementation and Miscellaneous Issues

Section 4 of the Stipulation addresses a number of implementation matters regarding internal accounting information, adjustments to bill loading factors, internal audits of deferral accounts, general book entry support, monthly financial reports, other reports and information requests, and follow-on merger credit compliance filings.[9]

Compliance Filings

Section 5 of the Stipulation specifies the required compliance filings by the Company. It also requires that all adjustments approved in this order be reflected on the Company's books and in the Company's reserve calculations within 60-90 days of the approval of the Stipulation's provisions.

Goodwill

The recording by the Company of $1.215 billion of goodwill on its books was a seriously contested issue in the proceeding. Section 6 of the Stipulation deals with the resolution which excludes the consideration of goodwill from the

[8] Id., pp. 9-18.

[9] Id.

Company’s earnings sharing mechanism, eliminates goodwill from the Company’s stated capital, and precludes its recovery in rates.

Case 01-E-0011 Resolution

Section 7 of the Stipulation[10] deals with the Company’s March 27, 2006 filing addressing the rate effects of a settlement between Niagara Mohawk and the Nine Mile cotenants regarding the sale of their ownership interests in the Nine Mile nuclear facilities. The Stipulation resolves issues concerning Niagara Mohawk’s legal costs, interest associated with a 1999 Curtailment Gain, a limitation on the Company’s receipt of a 2002 cash payment, the accounting for monies received from the Nine Mile cotenants as set forth in the Company’s March 27, 2006 filing, the treatment of Nuclear related costs or receipts that were unknown or unknowable as of the sale of the nuclear assets, and, finally, Staff’s agreement that all outstanding information requests in that case be deemed retracted. Staff recommends that this proceeding be closed.

Case Nos. 04-M-0938 and 07-M-0173

Section 8 of the Stipulation resolves issues raised by the Company’s pension settlement deferral petitions. On July 29, 2004 the Company filed a petition requesting authorization to defer a pension settlement loss in the amount of $21,576,000 for the year ending March 2004 (Case 04-M-0938). On February 7, 2007 the Company filed an additional petition requesting a pension loss deferral in the amount of $27 million (Case 07-M-0173). The Stipulation provides that 50% of the total pension settlement losses of $48,576,000 for 2004 and 2007 will be shared 50/50 with ratepayers.[11] Staff also recommends that these proceedings be closed.

[10] Id., pp. 26-27.

[11] Id., p. 27.

Case 01-M-0075 August 12, 2003 Petition

The Company filed a petition on August 12, 2003 requesting modification of customer service quality targets regarding percentage of meters read (as opposed to estimated) for the years 2003 and 2004. The Stipulation, section 9 recites the parties’ agreement that the petition be withdrawn.

Deferral Recoveries in 2008 and 2009

Section 10 of the Stipulation addresses the impact of deferral recoveries on electric delivery rates for 2008 and 2009 and provides that no additional deferral recoveries will be included in rates in those years above the $200 million annual deferral recovery authorized in our December 27, 2005 Order. The parties have reached this agreement notwithstanding the possibility that such an increase could otherwise be permitted under the Company’s rate plan.

Additional Provisions

Section 11 of the Stipulation includes various standard provisions regarding the integrated and entire agreement, the absence of admissions, prior agreements preserved, and settlement discussions remain confidential. Finally, the Stipulation includes a dispute resolution provision where an initial good faith attempt by the parties to negotiate a resolution of any dispute would be made, and, if the parties agree, the assistance of the Office of Hearings and Alternative Dispute Resolution for mediation or other ADR services could be requested.[12]

Parties’ Statements in Support

Staff

Staff’s Statement in Support first notes that the negotiation process undertaken with the assistance of a settlement judge conformed to the Commission’s settlement rules

[12] Parties should consider requesting such services before resorting to litigation.

and guidelines.[13] It concludes that the Stipulation is in the public interest and produces an outcome that is within the range of reasonable results. It notes, in fact, that many of the provisions in the Stipulation are identical to the positions Staff recommended in its testimony. Finally, Staff notes that the Stipulation reflects agreement on many hotly contested issues among parties who are normally adversarial.[14]

While the settlement write-off may not appear wholly in ratepayers favor, according to Staff, it notes that there are many interconnected provisions, and the ratemaking and related deferral allowances for the post June 30, 2005 period will provide very favorable treatment to ratepayers in the future. According to Staff, this in turn helps balance some of the other provisions in the Stipulation.[15]

Regarding the resolution of pre-July 2005 deferrals, Staff testified that, of the $334,605,000 sought by Niagara Mohawk for this period, the Company was only entitled to $150,159,000. Ultimately, the Stipulation reduces the Company’s claim by $133,065,000 including almost $40 million of corrected book balances accepted by the Company during litigation phase and a $93,149,000 settlement write-off adjustment.[16]

Regarding deferrals between July 2005 and December 2011, Staff notes the agreed upon guidelines, criteria, and methodologies in the Stipulation designed to resolve many future deferral issues and disputes. Staff summarizes the provisions which it expects to bring significant additional accounting certainty to station service deferrals, bonus depreciation, Medicare Act of 2003 tax credits, storm restoration deferrals, stray voltage deferrals, pension and OPEB deferrals, certain

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[13] 16 NYCRR Section 3.9; Case 90-M-0255, et. al., Settlement Procedures, Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines, Opinion No. 92-2 (issued March 24, 1992).

[14] Exhibit S-5, p. 2.

[15] Id.

[16] Id., pp. 3-6; Exhibit S-1, Attachment 1, Column 5.

other enumerated 2006-2007 deferrals, and lost revenue and expenses for the period after July 1, 2005.[17]

Staff's statement notes a concern with deficiencies in the Company's handling of its books and records during the audit process and points to three sections of the Stipulation which address the concerns.[18] Section 3 addresses specified deferral accounts and the "going forward" process for them; section 4 addresses more general accounting and reporting requirements; and section 5 sets forth required compliance filings. Section 4 provisions address internal accounting change issues, deferral audit problems, improved explanations supporting journal entries, more timely reports and responses to interrogatories, and, finally, various provisions regarding "follow-on merger savings" ratemaking.[19] According to Staff, these provisions should give the Company "a clear road map" that will help avoid accounting disputes during the balance of the term of the Company's rate plan.[20]

Staff's comments also note that the Niagara Mohawk-National Grid merger occurred at a premium above Niagara Mohawk's book value, and the Company therefore booked $1.215 billion of goodwill on its financial statements. Staff notes that the Stipulation requires the elimination of this goodwill balance for ratemaking purposes, which will alleviate potential goodwill accounting disputes in the future. Finally, Staff expresses its support of Section 6.3 of the Stipulation which provides that no portion of goodwill shall ever be recovered from the ratepayers.

Staff also supports the Stipulation's resolution of Nine Mile sale compliance issues as filed in Case 01-E-0011. Based on the Company's filing in that case, ratepayers would have been entitled to $6.326 million of an overall $14.881 million settlement among the cotenants. Staff recites that it

[17] Exhibit S-5, pp. 6-15.

[18] Id., p. 15.

[19] Id., pp. 15-18.

[20] Id., p. 15.

undertook a complete audit of the filing and reviewed numerous issues concerning the payment to Niagara Mohawk. It concludes on balance that the $93 million pre-July 2005 settlement write-off ". . . is much higher than it would likely have been if resolution of the Nine Mile sale compliance filing was not included herein . . ..."[21]

Concerning Niagara Mohawk's 2004 and 2007 pension settlement loss filings, Staff supports the Stipulation which shares the responsibility for these losses 50% shareholders and 50% ratepayers. Staff contends that similar results had previously been approved by the Commission,[22] and the result here is based on the same rationale.

Staff also notes the Company's agreement to withdraw its petition filed August 12, 2003 in Case 01-M-0075. In that petition, the Company sought to modify customer service targets regarding percent of meters read. Were the petition to be granted, the Company would avoid a penalty for failing to meet these meter reading targets. Staff notes that the penalty is being exercised and is included within the $93 million deferral write-off previously discussed. The Company has agreed to withdraw its petition.[23]

Existing rates allow the Company to collect $200 million in deferral surcharges per year beginning January 1, 2007. Section 10 of the Stipulation limits those surcharges to the amounts now in effect, regardless of the level of estimated deferrals. Given uncertain rate increases that may result from resetting the Company's CTC on January 1, 2008, Staff supports this provision as helping to mitigate any rate increases.

Staff reviews as a final matter the State Administrative Procedure Act (SAPA) notices that were provided in these cases. The Stipulation was noticed under SAPA No.

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[21] Id., p. 22.

[22] Case 03-M-0651, Petition of Niagara Mohawk Power Corporation for Permission to Defer Losses from Pension Settlement, Order Adopting Memorandum of Agreement (Issued August 11, 2004).

[23] Staff's Statement in Support, p. 26.

01-M-0075SA32, published in the April 25, 2007 State Register. The deadline for comments on that SAPA was June 9, 2007 and no comments have been received. Also in Case 01-M-0075, the January 14, 2004 Company petition on modification of customer service targets was noticed under SAPA No. 01-M-0075SA21 and no comments have been filed under that notice. The pension settlement deferral petition in 2004 was noticed under SAPA No. 04-M-0938SA1 and in 2007 under SAPA No. 07-M-0173SA1. No comments were received under either SAPA. No SAPA was filed in Case 01-E-0011 because the issues addressed here are in the context of a compliance filing. No SAPA notice was issued in Case 04-M-0159, but the Company’s petition in that case will be withdrawn.

Niagara Mohawk

Niagara Mohawk also strongly supports the Stipulation, providing a brief summary of its provisions and an overview of cases that are resolved in the document.[24] A repetition of these summaries, contained in both Staff’s Statement in Support (Exhibit S-5) and in the Stipulation (Exhibit S-1, attached) will not be repeated here.

Niagara Mohawk argues that the Stipulation is in the public interest and should be approved given that it is the product of extensive auditing, litigation, and subsequent mediation among normally adversarial parties. The Company notes that the Stipulation resolves a broad array of issues and fully satisfies the Commission’s test for approving the terms and conditions of a settlement as in the public interest. According to Niagara Mohawk, the Stipulation carefully balances the interest of ratepayers, investors, and the long term viability of the utility. The Company also notes a number of the trade-offs in the provisions agreed to by parties, most of whom had significantly different litigation stances. The Company states that the Stipulation clarifies future accounting, reporting, and filing obligations, which are described by the

[24] Exhibit S-3, pp. 3-8.

Company as protections for consumers, fair to investors, and reasonably fostering the long term viability of the Company.

The Company also argues that the Stipulation is within the reasonable range of litigated outcomes. It notes the significant volume of discovery, testimony, and exhibits, the lengthy hearings for cross-examination, the intense mediation discussions over the course of several months, and thousands of person-hours devoted to sifting through the issues and crafting a balanced result for all interested parties. Niagara Mohawk, joining Staff and MI, concludes "without equivocation that the Stipulation provides for an outcome within the reasonable range of fully litigated outcomes."[25]

The Company agrees with Staff that the Stipulation is in full compliance with the Commission's standards for settlement approvals, reflects agreement among normally adversarial parties, and is based on an exhaustive factual record compiled in this proceeding. It therefore concludes that the Stipulation is in the public interest and should be approved by the Commission.

Multiple Intervenors

MI was also actively involved in the proceeding and is a signatory to the Stipulation. Its comments in support review the factual background of the Company's deferral recovery surcharges and rates, noting that one of the most positive aspects of the Stipulation is the preclusion of any additional deferral recovery surcharges during 2008 and 2009. MI estimates that at the end of 2007 the Company's deferral balance should be approximately $196 million, well below the $200 million per year that will be collected under existing rates for each of 2008 and 2009. MI notes in particular that the Stipulation does not preclude the implementation of a rate decrease to return any over-recovery of deferrals. According to MI, customers have borne substantial delivery rate increases during the term of the rate plan and ". . . two years of rate stability – even at the

[25] Id., p. 13.

current rate levels – would be beneficial and should not burden future customers unduly, if at all . . ..”[26]

MI also supports various other provisions in the agreement including the level of the settlement write-off ($93.149 million) and the benefits of settling now potentially recurring disputes through the end of the rate plan in 2011. MI concludes that the Stipulation is in the public interest because it resolves numerous issues, results in an immediate write-off of $93 million, reduces by approximately $196 million National Grid’s original calculation of deferrals through December of 2007, resolves issues that will minimize future deferral disputes, is supported by all active parties, and is opposed by no party.

DISCUSSION

The Stipulation before us resolves virtually all pre-2005 and many of the 2005-2011 accounting issues which have arisen or may arise under the terms of the Company’s Merger Rate Plan. It also resolves all issues in pending cases 01-E-0011 regarding the sale of the Company’s nuclear assets, and 04-M-0938 and 07-M-0173 regarding pension settlement losses, all of which will be closed. Finally, the Stipulation resolves the issues associated with two Company petitions (Case 04-M-0159 regarding stray voltage and related safety costs, and Case 01-M-0075 regarding customer service performance targets for meter reading) and both petitions will be withdrawn.

This case began with Staff’s audit of the Company’s July and September 2005 filings which reflected an estimated cumulative deferral balance owed by customers to the Company of approximately $670 million through 2007. As noted above, we increased rates in 2006 and 2007 to begin the recovery of the deferrals, but it was not possible for Staff to complete its audit of the deferral accounts prior to establishing those new rates. Accordingly, Staff’s audit was extended through June 2006.[27] Ultimately, Staff filed the results of its audit on

[26] Exhibit S-4, p. 8.

[27] Case 01-M-0075, Second CTC Reset Order, p. 21.

July 28, 2006, and, following the filing of Company reply, Staff responsive, and Company rebuttal testimony, three days of evidentiary hearings were held on October 3-5, 2006.

Following the close of the hearings and at the suggestion of the Administrative Law Judge, the parties agreed to explore the possibility of settling the contested issues with the assistance of a settlement judge. Ultimately, the parties' efforts were successful, resulting in the unopposed Stipulation before us today.

On the accounting issues, the Stipulation provides for a reduction in the Company's deferral accounts of approximately $133 million, and resolves numerous future accounting disputes through 2011, the end of the Company's rate plan. Given the thousands of hours invested in the audit and litigation of the deferrals and related issues in this case, establishing certainty and reducing or eliminating future disputes provides considerable value to all parties. This is especially true in light of Staff's assertion that the agreements about future accounting "are very favorable to ratepayers . . ..."[28]

In a similar fashion, the Stipulation's resolution of issues in the remaining dockets also provide benefits to all parties. The pending pension settlement losses are shared equally between customers and the Company, following Commission precedent and disposing of two cases. The resolution of the Nine Mile 2 compliance filing increased the deferral disallowance, which is higher than it otherwise would have been the case had it not been resolved. In a similar fashion, the deferral disallowance also reflects a penalty the Company incurred by failing to meet customer service targets in 2003. This resolves the Company's request to reconsider those targets in its August 12, 2003 petition in Case 01-M-0075.

Sections 3.7.1 through 3.7.5 of the Stipulation settle the ratemaking issues regarding stray voltage deferrals, and the

[28] Exhibit S-5, p. 4. These provisions should also help to make the Company's responsibilities under our prior orders more apparent and should improve the communications and efficiency of this auditing process.

Company has agreed to withdraw its March 21, 2006 petition in Case 04-M-0159 regarding such costs.

In considering the substantial record developed in this proceeding, both during the evidentiary phase and subsequent to the filing of the Stipulation, we conclude that the terms and conditions of the Stipulation as described in the record are in the public interest and are adopted. In addition, the parties should be complimented for agreeing to consider mediation and negotiation, despite a long and hard-fought proceeding through evidentiary hearings. Especially noteworthy here is the fact that the parties greatly expanded the issues under negotiation by bringing other cases and petitions to the table. This "expanding-the-pie" technique is often helpful in negotiations or other ADR processes, and we compliment the parties for successfully taking on the extra burden of these additional issues and cases.

CONCLUSION

For the reasons set forth above and based on the record and the attached Stipulation, we conclude that the terms and conditions of the Stipulation are in the public interest and are adopted as discussed herein.

The Commission orders:

1. The terms and conditions of the March 22, 2007 Stipulation of the Parties are approved and adopted as the terms and conditions of this Order.

2. Case 04-M-0938, Petition of Niagara Mohawk Power Corporation for Permission to Defer Actuarial Experience Pension Settlements That Occurred During Fiscal Year ended March 31, 2004 (filed in C. 9187), Case 07-M-0173, Petition of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement Loss for Fiscal Year 2007, and Case 01-E-0011, Joint Petition of Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, Central Hudson Gas & Electric Corporation, Constellation Nuclear, LLC and Nine Mile Point Nuclear Station,

LLC for Authority under Public Service Law Section 70 to Transfer Certain Generating and Related Assets and for Related Approvals are closed.

3. Niagara Mohawk is directed to withdraw its August 12, 2003 petition in Case 01-M-0075 and its March 21, 2006 petition in Case 04-M-0159.

4. Cases 01-M-0075 and 04-M-0159 are continued.

By the Commission,

(SIGNED) JACLYN A. BRILLING
Secretary

STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc and National Grid USA for Approval of Merger and Stock Acquisition	)	Case No. 01-M-0075
Contracts Related to the Sale of Nine Mile Point Nuclear Generating Facilities From Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Central Hudson Gas & Electric Corporation, Rochester Gas and Electric Corporation to Constellation Nuclear, LLC	)	Case No. 01-E-0011
Proceeding on Motion of the Commission to Examine the Safety of Electric Transmission and Distribution Systems	)	Case No. 04-M-0159
Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2004	)	Case No. 04-M-0938
Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2007	)	Case No. 07-M-0173

STIPULATION OF THE PARTIES

Submitted by:

Niagara Mohawk Power Corp.
d/b/a National Grid

New York State
Department of Public Service Staff

Multiple Intervenors

March 22, 2007

Filing Letter

nationalgrid

Carlos A. Gavilondo
General Counsel, New York Distribution

March 22, 2007

VIA OVERNIGHT MAIL

Honorable Jeffrey E. Stockholm
Administrative Law Judge
NYS Department of Public Service
3 Empire State Plaza
Albany, NY 12223-1350

Re: Case 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc. Niagara Mohawk Power Corporation, National Grid Group PLC and National Grid USA for Approval of Merger and Stock Acquisition

Case 01-E-0011 – Contracts Related to the Sale of Nine Mile Point Nuclear Generating Facilities from Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Central Hudson Gas & Electric Corporation, Rochester Gas and Electric Corporation to Constellation Nuclear, LLC

Case 04-M-0159 – Proceeding on Motion of the Commission to Examine the Safety of Electric Transmission and Distribution Systems

Case 04-M-0938 – Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2004

Case 07-M-0173 – Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2007

Case 01-M-0075 – Second Competitive Transition Charge Reset
<u>Deferral Account Audit – Stipulation of the Parties</u>

Dear Judge Stockholm:

Enclosed please find the Stipulation of the Parties ("Stipulation") presented by Niagara Mohawk Power Corporation ("Niagara Mohawk" or the "Company"), the Department of Public Service Staff ("Staff"), and Multiple Intervenors ("MI") (collectively, the "Parties" or "Signatories"). The Stipulation is the product a mediation process undertaken as part of the Commission's review of the Deferral Account Audit associated with the Second Competitive Transition Charge Reset in Case 01-M-0075. The mediation process was undertaken at the

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suggestion of Your Honor, and with the assistance of the Honorable William Bouteiller, who served and the Mediation Judge.

As described in the attached, the Stipulation resolves: (a) all issues raised by Staff in its direct and responsive testimony of amounts deferred by the Company pursuant to provisions of the Joint Proposal accepted by the Commission in Opinion No. 01-06 (the "Merger Joint Proposal" or the "Rate Plan");[1] (b) the ratemaking treatment for the $1.215 billion of goodwill currently on the Company's books; (c) most remaining issues in Case No. 01-E-0011 (dealing with the sale of the interests of Niagara Mohawk in the Nine Mile Point Unit 1 and Unit 2 nuclear generation facilities ("Nine Mile")); (d) Niagara Mohawk's March 21, 2006 "Petition for Rate Relief" in Case No. 04-M-0159 that dealt with recovery of incremental costs associated with the Commission's Safety Orders; (e) the issues in Case Nos. 04-M-0938 and 07-M-0173 associated with the ratepayer and shareholder allocations of the pension settlement losses experienced in fiscal years 2004 and 2007, respectively; (f) the portions of contractor costs for storm restoration and stray voltage testing and inspection, as related to Company employee levels, that are eligible for deferral; and (g) the petition filed January 14, 2004 by the Company in Case 01-M-0075 to modify the customer service targets for the percentage of meters read during 2003 and 2004. The specific Deferral Account adjustments reflected in the Stipulation are set forth in Attachment 1 of the document.

The Parties appreciate the opportunity to present this Stipulation, and respectfully request that the Stipulation be approved by Your Honor and the Commission as a complete resolution of the matters addressed therein. Copies of the Stipulation are being served on all persons on the Active Parties lists in the above-listed proceedings.

Thank you for your attention to this matter.

Sincerely,

Carlos A. Gavilondo

Encs.

cc: Active Party Lists Cases: 01-M-0075; 01-E-0011; 04-M-0159; 04-M-0938; 07-M-0173

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[1] Case No. 01-M-0075, *Niagara Mohawk Power Corporation – Opinion and Order Authorizing Merger and Adopting Rate Plan*, Opinion No. 01-6 (issued December 3, 2001).

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Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2004	)))	Case No. 04-M-0938
Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2007	)))	Case No. 07-M-0173

STIPULATION OF THE PARTIES

This Stipulation of the Parties ("Stipulation") is made by and among Niagara Mohawk Power Corporation ("Niagara Mohawk" or the "Company"), the Department of Public Service Staff ("Staff"), and Multiple Intervenors ("MI") (collectively, the "Parties" or "Signatories"; each of Niagara Mohawk, Staff, and MI individually a "Party" or "Signatory"). In general, this Stipulation resolves: (a) all issues raised by Staff in its direct and responsive testimony of amounts deferred by the Company pursuant to provisions of the Joint Proposal accepted by the

Commission in Opinion No. 01-06 (the "Merger Joint Proposal" or the "Rate Plan");[1] (b) the ratemaking treatment for the $1.215 billion of goodwill currently on the Company's books; (c) all outstanding issues in Case No. 01-E-0011 (dealing with the sale of the interests of Niagara Mohawk in the Nine Mile Point Unit 1 and Unit 2 nuclear generation facilities ("Nine Mile")) except for the issues identified in Section 2.4.1; (d) all ratemaking issues raised in Niagara Mohawk's March 21, 2006 "Petition for Rate Relief" in Case No. 04-M-0159 that specifically dealt with the recovery of the incremental costs associated with the Commission's Safety Orders; (e) the issue in Case No. 04-M-0938 associated with the ratepayer and shareholder allocations of the pension settlement loss experienced in fiscal year 2004; (f) the issue raised in Case No. 07-M-0173 associated with the ratepayer and shareholder allocations of the pension settlement loss experienced in fiscal year 2007; (g) the portions of contractor costs for storm restoration and stray voltage testing and inspection, as related to Company employee levels, that are eligible for deferral; and (h) the petition filed January 14, 2004 by the Company in Case 01-M-0075 to modify the customer service targets established under Section 9.4.4 and Attachment 9 of the Merger Joint Proposal for the percentage of meters read during 2003 and 2004 (together, the "Proceedings"). The Signatories have agreed to the resolution of the above pending issues in the Proceedings on the terms set forth in this Stipulation.

1. **Background**

1.1. **Case No. 01-M-0075**

The Merger Joint Proposal establishes, among other things, Niagara Mohawk's electricity delivery rates for a period extending through December 31, 2011 (the "Rate Plan Period"),

[1] Case No. 01-M-0075, *Niagara Mohawk Power Corporation – Opinion and Order Authorizing Merger and Adopting Rate Plan*, Opinion No. 01-6 (issued December 3, 2001). References in this Stipulation to the Merger Joint Proposal or Rate Plan shall be interpreted as references to the Merger Joint Proposal, as amended or supplemented by Commission actions through the date of this Stipulation.

subject to certain adjustment mechanisms set forth in the Rate Plan.[2] One of the primary adjustment mechanisms, which has been the focus of this proceeding, authorizes and requires Niagara Mohawk to defer certain changes in its costs and revenues by recording such changes in a Deferral Account, subject to audit by Staff. Section 1.2.3.4 of the Rate Plan provides that, if the balance in the Deferral Account (established pursuant to Section 1.2.4 of the Rate Plan) exceeds plus or minus $100 million as of June 30 in a year prior to which the Company is scheduled to reset the Competitive Transition Charge ("CTC") component of its rates, then Niagara Mohawk must submit a compliance filing to determine the excess in the Deferral Account, including a forecast of deferrals through the end of the upcoming CTC reset period, and Niagara Mohawk shall collect or refund, as applicable, any excess over $100 million through an adjustment to its electricity delivery rates.

On July 29, 2005, as supplemented September 26, 2005, Niagara Mohawk filed tariff amendments to reset CTCs and to recover a portion of the Deferral Account balance in accordance with the Rate Plan. In an Order issued in this case on December 27, 2005, the Commission approved Niagara Mohawk's alternative proposal to increase its electricity delivery rates to recover $100 million of deferrals in 2006 (in April through December of that year) and $200 million in 2007, to postpone recovery of additional deferrals, and to extend until June 30, 2006 the period for Staff's audit of deferrals.[3]

In a Procedural Ruling issued May 26, 2006, the Honorable Jeffrey Stockholm, Presiding Administrative Law Judge, established a schedule for litigation of Niagara Mohawk's deferrals

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[2] The summary description of certain Rate Plan provisions in this Stipulation is provided solely for the convenience of the Administrative Law Judge and the Commission and is not intended to modify the terms of the Rate Plan in any way or to be used as evidence of the intent of any signatory to the Merger Joint Proposal. In the event of any discrepancy between any statement in the Background section of this Stipulation and the Rate Plan, the Rate Plan shall control.

[3] Case No. 01-M-0075, Order Concerning the Second Competitive Transition Charge Reset and Approving the Continuation and Expansion of the Low-Income Rate Discount Program, at 21-22.

that addressed discovery, the filing of testimony, and hearings.[4] A hearing for purposes of cross-examination was held before Judge Stockholm on October 3, 4, and 5, 2006. The hearing record included approximately 1,000 pages of pre-filed direct, responsive and rebuttal testimony from 13 Staff and Company witnesses or witness panels, approximately 1,000 pages of support contained in more than 100 exhibits, and approximately 500 transcript pages of cross examination of Staff and Company witnesses.

At the suggestion of Judge Stockholm during the hearing (Transcript pp. 420-21, 1512-13), the Signatories, who were the only parties to the proceeding choosing to participate, commenced mediation procedures with the assistance of the Honorable William Bouteiller, a Mediation Judge designated by the Commission's Office of Hearings and Alternative Dispute Resolution. The mediation process conducted under Judge Bouteiller's direction produced this Stipulation.

1.2. **Case No. 01-E-0011**

On March 27, 2006, Niagara Mohawk submitted a supplement to its February 5, 2002 compliance filing in Case No. 01-E-0011, in which the Commission granted approval of an agreement for the sale of Niagara Mohawk's interests in Nine Mile. The supplemental compliance filing was submitted to provide the final amount of costs incurred and to propose the accounting and ratemaking treatment for (1) additional transaction costs, (2) certain issues relating to the co-tenants' interests in Nine Mile, and (3) pension and other post-employment benefits ("OPEB") curtailment and settlement losses. Staff has conducted an audit of the supplemental compliance filing.

4 Case No. 01-M-0075, Procedural Ruling (issued May 26, 2006) at 1-3.

1.3. **Case No. 04-M-0159**

On March 21, 2006, Niagara Mohawk filed a petition in which the Company requested authorization to defer incremental costs incurred to implement the requirements of the Commission's "Order Instituting Safety Standards" and "Order on Petitions for Rehearing and Waiver" issued in Case No. 04-M-0159 (together, the "Safety Orders"). Niagara Mohawk's Petition was filed in compliance with the Safety Orders.

1.4. **Case No. 04-M-0938**

On July 29, 2004, Niagara Mohawk filed a verified petition for authorization to defer $21,576,073 of pension settlement losses recognized under Statement of Financial Accounting Standard No. 88 ("SFAS 88") associated with lump sum payments to Niagara Mohawk's employees upon their retirement during the fiscal year ended March 31, 2004 (the "2004 Actuarial Experience Pension Settlement"). The Company requested deferral of the entire $21,576,073 under the Commission's "Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement benefits other than Pensions" ("Statement of Policy"),[5] which authorizes companies to petition for deferral of pension settlement losses of this kind.

1.5. **Case No. 07-M-0173**

On February 7, 2007, Niagara Mohawk filed a verified petition for authorization to defer an estimated $27 million of pension settlement losses recognized under SFAS 88 associated with lump sum payments to Niagara Mohawk's employees upon their retirement during the fiscal year ended March 31, 2007 (the "2007 Actuarial Experience Pension Settlement"). The petition was noticed in the *New York State Register* on February 28, 2007. The Company's request for deferral treatment of the FY 2007 pension settlement paralleled the petition for the FY 2004

[5] The Statement of Policy was issued by the Commission on September 7, 1993 in Case No. 91-M-0890.

pension settlement loss. The amount of the proposed deferral was estimated based on nine months of actual experience and three months of estimated experience, and the request was conditioned on the reconciliation of the final actual 2007 pension settlement loss with the $27 million estimate, as verified by Staff audit.

1.6. January 14, 2004 Petition in Case 01-M-0075

On January 14, 2004, the Company filed a petition in Case 01-M-0075 for modification of customer service targets established under Section 9.4.4 and Attachment 9 of the Merger Joint Proposal for the percentage of meters read during 2003 and 2004. The Commission has not acted on this petition.

2. Resolution of Pre-July 2005 Deferrals under the Rate Plan

2.1. Deferral Account Adjustments

Upon the acceptance of this Stipulation by the Commission as the full and complete basis for the resolution of the audit adjustments and other issues raised in this proceeding, Niagara Mohawk shall adjust the balance in the Deferral Account as of June 30, 2005 downward by $93.149 million.[6] Niagara Mohawk shall also be permitted to record in the Deferral Account as of June 30, 2005 an increase in the amount of $38.937 million with respect to a nuclear-related Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109") balance. Attachment 1, page 1, sets forth the deferral balances at June 30, 2005, with adjustments for items agreed to in the litigation phase of the audit and in this Stipulation. Attachment 1, page 2, sets forth projected deferrals for the period July 2005 through December

[6] This is in addition to: (1) the $39.917 million of reductions to the June 30, 2005 deferral balance agreed to by the Company during the litigated phase of the proceeding; (2) the Company writing off the remaining $0.151 million of capitalized Dey Building leasehold improvements; and (3) the Company conditionally transferring $4.795 million of deferred internal accounting changes to plant-in-service (refer to Section 4.1.1).

2007 based on the Company's original CTC Reset projections as adjusted for the terms of this Stipulation.

2.2. **Scope of Resolution**

The Signatories stipulate and agree that the provisions of this Stipulation, including, without limitation, Niagara Mohawk's adjustment to the Deferral Account specified in Section 2.1: (a) fully, comprehensively and finally resolve the deferral balances through June 30, 2005 for the deferral accounts and deferral issues listed in Attachment 2 to this Stipulation, subject only to the provisions of Section 2.4, below; and (b) preclude any positive or negative adjustment, whether proposed by Staff, the Company, or another Signatory, to the specified deferral account balances and deferral issues as of June 30, 2005, except for any adjustment (i) required to implement this Stipulation or (ii) authorized in Sections 2.4, 2.5, and 2.6, below. The Signatories specifically agree that this provision forecloses any Party from making any adjustment to pre-June 30, 2005 balances, other than an adjustment authorized in the preceding sentence, even if the Company or the Staff subsequently determines that an error has been made or a practice has been changed that, if applied to the period through June 30, 2005, would have otherwise affected the deferral balances.

2.3. **Status of Audit**

Nothing in this Stipulation shall prohibit Staff or the Company from making adjustments to the deferral balances through June 30, 2005 for deferral accounts or deferral issues not listed in Attachment 2. The Staff shall complete its audit of the remaining open deferral balances through June 30, 2005, and as many post-June 2005 deferrals as possible, and identify issues associated with those deferrals, by June 1, 2008, provided: (a) sufficient Staff manpower is available and assigned to perform the audit; (b) the Company fully complies with the terms set forth in Section 4.2; and (c) the Company provides timely and accurate responses to information requests propounded by Staff in connection with the audit.

2.4. **Exceptions**

2.4.1. The deferral issue related to Staff's originally proposed, but later withdrawn, pension fair value deferral adjustment associated with the sale of Nine Mile is postponed until the next CTC reset deferral proceeding. At this time, the deferral balances include the Company's original level of pension fair value adjustments ($16.4 million). In addition, the deferral accuracy relating to the quantification of the nuclear transmission-related SFAS 109 balance is not resolved by this Stipulation. The amount included in Attachment 1 for nuclear transmission-related SFAS 109 is $8,630,000.

2.4.2. Adjustments shall be allowed on pre-July 1, 2005 deferral balances to reflect actual rebillings, refunds and reconciliations received by the Company after that date from the New York Independent System Operator ("NYISO"), if such adjustments affect pre-July 1, 2005 deferral balances for the NYISO's charges to Niagara Mohawk under Schedule 1 and/or Schedule 2 of the NYISO's tariff.

2.4.3. Adjustments shall be allowed on pre-July 1, 2005 deferral balances reflecting bonus depreciation only for any IRS final audit adjustments that affect the cumulative calculation as of June 30, 2005.

2.5. **Revenue from Divested Generators**

In the event Niagara Mohawk is permitted by a further change in law or regulation to collect, and actually collects, from generators divested by Niagara Mohawk, the Power Authority of the State of New York, or New York State Electric and Gas Corporation ("Divested

Generators”), revenues for full tariff service or standby service provided between February 2002 and June 2005, Niagara Mohawk shall credit fifty percent (50%) of the revenues actually received from those generators to the Deferral Account. Niagara Mohawk shall not be required to credit to the Deferral Account any revenues received from Divested Generators for full tariff service or standby service provided during the period July 1, 2005 through December 31, 2011.

2.6. **Lost Revenues and Expenses through June 30, 2005**

Lost revenues and expenses excluded from the Deferral Account as of June 30, 2005 shall nevertheless be recognized in Niagara Mohawk's earnings reports and shall reduce Niagara Mohawk's earnings under the Earnings Sharing Mechanism set forth in Section 1.2.5 of the Merger Joint Proposal for electric operations and in the earnings sharing analysis under the Gas Settlement referenced in Section 1.6.8 of the Merger Joint Proposal for gas operations for the calendar year in which the Stipulation is approved by the Commission.

3. **Stipulations As To Deferrals From July 1, 2005 – December 31, 2011**

3.1. **Scope**

The provisions of this Section 3 shall govern deferrals under the provisions of Section 1.2.4 of the Merger Joint Proposal for the period commencing on July 1, 2005 and extending for the remainder of the Rate Plan Period.

3.2. **General Test**

To the extent a deferral is not addressed by a specific provision of this Section 3 or as otherwise ordered by the Commission, in determining whether a change in Niagara Mohawk’s costs or revenues that falls within a provision of Section 1.2.4 of the Merger Joint Proposal is incremental or decremental, Niagara Mohawk’s actual cost or revenue for the year affected by the change shall be compared to the corresponding annual cost or revenue item reflected in the forecast underlying the Merger Joint Proposal rates. The cost or revenue forecast underlying the Merger Joint Proposal rates shall be as stated in the Merger Joint Proposal, or if not explicitly stated in the Merger Joint Proposal, then as derived from the Financial Forecast and Supporting Workpapers submitted to the Commission together with the Merger Joint Proposal, adjusted as appropriate for a share of the net synergy savings assumed in the Merger Joint Proposal rates.

3.3. **Station Service Deferrals**

3.3.1. Niagara Mohawk shall not be authorized under Sections 1.2.4.2 or 1.2.4.3 of the Merger Joint Proposal or Sections 2.1.2 and 2.1.3 of the Joint Proposal dated March 12, 2002 in Case No. 01-E-1847 (the "Standby Service Joint Proposal") to defer any loss of revenues that it might otherwise have been authorized to receive under its retail tariff for the provision of full tariff service or standby service to Divested Generators.

3.3.2. The deferral prohibition in Section 3.3.1 shall not encompass the loss of revenues from the Company's provision of full tariff service to independent generators, which, under the principle set forth in Section 1.2.4.3 of the Merger Joint Proposal are eligible for deferral to the extent such lost revenues exceed $2 million in any calendar year through December 31, 2011.[7]

3.3.3. The deferral prohibition in Section 3.3.1 shall not encompass the loss of revenues from the Company's provision of standby service to independent generators, which, under the principle set forth in Section 1.2.4.17 of the Merger Joint Proposal, as modified by Section 2.1 of the Standby Service Joint Proposal,

[7] The Merger Joint Proposal financial forecast included approximately 30 GWHs per year in sales to independent generators.

are eligible for deferral to the extent such lost revenues exceed $2 million in any calendar year through December 31, 2011.

3.3.4. As related to Sections 3.3.2 and 3.3.3, the $2 million annual threshold set forth in Section 1.2.4.2 of the Merger Joint Proposal remains in effect throughout the remainder of the Rate Plan, except that for the six-month period July 1, 2005 to December 31, 2005 the threshold for deferral is $1 million.

3.3.5. Niagara Mohawk shall not be authorized under Section 1.2.4.9 of the Merger Joint Proposal to defer any amount for customer service backout credits that would have been provided to Divested Generators.

3.4. **Bonus Depreciation**

Consistent with the principle set forth in Section 3.2, above, Niagara Mohawk shall credit the Deferral Account under Sections 1.2.4.2 and 1.2.4.3 of the Merger Joint Proposal only with bonus depreciation associated with the forecasted construction budget and plant additions underlying the Merger Joint Proposal rates. The method for determining the bonus depreciation benefit attributable to forecasted construction budget and plant additions will be developed and agreed to by the Company and Staff. A filing shall be made by the Company to the Secretary of the Commission within one hundred and twenty (120) days of the Commission Order in this proceeding detailing the agreed upon methodology. To the extent an agreement can not be reached on the proper method for determining the bonus depreciation benefit attributable to forecasted construction budget and plant additions, the dispute resolution procedures in Section 11.6 shall be utilized. Amounts recorded in the deferral account may be subsequently adjusted to reflect any IRS final audit adjustments that would affect the amount of bonus depreciation benefit realized.

3.5. **Medicare Act of 2003 Tax Credits**

Deferrals related to the Medicare Act of 2003 under Sections 1.2.4.2 and 1.2.4.3 of the Merger Joint Proposal, including credits realized prior to July 1, 2005, but booked after June 30, 2005, shall be based on 100% of the actual tax credits realized.

3.6. **Storm Restoration Deferrals**

The following provisions shall apply to deferrals of incremental costs relating to Major Storms under Section 1.2.4.5 of the Merger Joint Proposal:

3.6.1. Only for purposes of the deferral of costs under Section 1.2.4.5 of the Merger Joint Proposal, a period of adverse weather shall be considered a "Major Storm" if: (a) service interruptions affect at least 10 percent of the customers in an operating area; and/or (b) service interruptions result in at least 1 percent of the customers in an operating area being without electric service for durations of at least 24 hours.[8] Niagara Mohawk shall provide data showing that a period of adverse weather qualifies as a Major Storm by affected operating area as part of its backup support for the deferral of incremental costs.

3.6.2. In its summary of incremental costs to be deferred with respect to any Major Storm, Niagara Mohawk shall identify the portion of such incremental costs that represents payments to any affiliated company or companies separately from the portion of incremental costs that represents internal costs and costs paid to unaffiliated third-parties. Affiliated company costs shall be broken down into the same cost components as used for internal Company costs.

3.6.3. Niagara Mohawk shall not defer storm-related claims costs.

[8] For operational purposes, the criteria for determining whether a storm is classified as major remains unchanged, as set forth in 16 NYCRR Part 97.

3.6.4. Niagara Mohawk shall only be entitled to treat incremental payroll taxes on storm-related overtime for Company employees over an annual threshold of $241,800 as deferrable incremental costs.

3.6.5. The portion of Niagara Mohawk's costs of contractors that qualify for deferral as incremental costs shall be determined by application of the methodology set forth in Attachment 3.

3.6.6. The Signatories agree that the last sentence of Section 1.2.4.5 of the Merger Joint Proposal, which states that the $2.0 million deductible for each Major Storm resolves any and all issues relating to the Incremental Costs having the effect of reducing Niagara Mohawk's ongoing operating costs, is not intended to allow the deferral of costs that are not Incremental Costs within the meaning of that provision.

3.7. **Stray Voltage Deferrals**

The following provisions of this Section 3.7 shall apply to deferrals of stray voltage inspection and testing costs under Section 1.2.4.2 of the Merger Joint Proposal:

3.7.1. Niagara Mohawk shall be entitled to defer costs of "Incremental Stray Voltage and Inspection Activities" subject to the limitations of the remaining provisions of this Section 3.7. "Incremental Stray Voltage and Inspection Activities" are costs of new activities and programs undertaken by Niagara Mohawk to comply with the requirements of the Commission's January 5, 2005 and July 21, 2005 Orders in Case No. 04-M-0159. Incremental Stray Voltage and Inspection Activities include: (1) incremental inspections of underground facilities; (2) incremental inspections of street lighting standards; (3) stray voltage testing of all overhead distribution facilities each year; (4) stray voltage testing of all overhead transmission facilities each year; (5) stray voltage testing of all underground facilities each year; (6) stray voltage testing of all street lighting standards, traffic controls and municipal equipment each year; (7) stray voltage testing of all substation fences each year; (8) development and implementation of a quality assurance program, (9) any other testing and inspections ordered by the Commission in connection with Case No. 04-M-0159, and (10) the administration (excluding internal labor, overheads and transportation costs) of these activities. Incremental Stray Voltage and Inspection Activities shall not include electric inspection activities that Niagara Mohawk was carrying out before issuance of the referenced Commission orders, including the annual visual inspection of 20% of its overhead electric transmission and distribution systems.

3.7.2. The portion of Niagara Mohawk's costs of contractors that qualify for deferral as costs of Incremental Stray Voltage and Inspection Activities shall be 70% of the actual amount incurred for those activities, unless the exception provision noted in Section 3.7.5 is effectuated.

3.7.3. Niagara Mohawk shall be entitled to defer all Materials Outside Vendors (expense type M10), Materials from Inventory (expense type M20), hardware (expense type 300), software (expense type 350), and rents (expense type 500) costs related to Incremental Stray Voltage and Inspection Activities.

3.7.4. To the extent there is sales tax payable on any costs of otherwise deferrable Incremental Stray Voltage and Inspection Activities, Niagara Mohawk shall be entitled to defer all such sales taxes.

3.7.5. No internal Company labor, overheads, or transportation costs of Incremental Stray Voltage and Inspection Activities shall be deferrable. The $2.0 million minimum threshold ($1 million threshold for the six months ended December 31, 2005) for costs deferrable under Section 1.2.4.2 of the Merger Joint Proposal shall be deemed to be satisfied by the above noted internal Company labor costs. However, if and to the extent the level of internal Company labor costs incurred (direct labor plus a fixed 135% payroll loading factor, the formula for which would be: labor costs + (labor costs x 135%)) drops below $2.0 million in any calendar year ("the shortfall"), the level of actual contractor costs allowed to be deferred shall first be reduced by the shortfall before applying the methodology set forth in Section 3.7.2 above. Accordingly, all costs deferrable under Section 3.7.1 through Section 3.7.4 shall be eligible for deferral, with no minimum threshold with the possible "shortfall" exception noted herein.

3.7.6. Niagara Mohawk shall withdraw its March 21, 2006 petition in Case No. 04-M-0159 upon Commission acceptance of this Stipulation.

3.8. **Pension/OPEBs**

3.8.1. Niagara Mohawk shall determine the percentage of pension and OPEB costs that will be capitalized, and the corresponding entries into the pension and OPEB deferral accounts, using the methodology set forth on Attachment 4.

3.8.2. Deferred pension and OPEB costs shall be credited with the costs associated with employees covered by the Niagara Mohawk pension and OPEB plans that are transferred to and from the Service Company between valuations for each fiscal year to eliminate double-counting. The method for determining the credit is set forth in Attachment 5.

3.8.3. Within ninety (90) days of a Commission Order approving this Stipulation, the Company shall submit pension and OPEB internal reserve calculations through the end of the month in which the Commission issues its Order approving this Stipulation to include adjustments agreed upon in this Stipulation, as well as other adjustments agreed to during the litigation phase of this audit. The Company further agrees that the amount of pension and OPEB costs allocated to Service Company, net of pension and OPEB costs allocated back from Service Company and otherwise included in pension and OPEB cost deferrals, shall be funded on an as-incurred basis.

3.8.4. It is agreed that Niagara Mohawk may make up any shortfall in funding pension and OPEB internal reserves as a result of the adjustments agreed upon in this Stipulation within 3 days after the Order approving the Stipulation is issued by the Commission. If Niagara Mohawk does not complete this funding within 3 days of the Commission Order approving this Stipulation, it shall add a return to the unfunded amount calculated pursuant to the Statement of Policy commencing the 4^{th} day after the Commission Order approving this Stipulation until the date that the funding is completed.

3.9. **Certain Deferrals for 2006 and 2007**

For the period January 1, 2006 – December 31, 2007, the Company shall record the three adjustments addressed in the Commission's Order dated December 27, 2005 in Case 01-M-0075.

3.9.1. In approving partial recovery of deferral amounts for 2006 and 2007, the Commission permitted the Company to calculate carrying charges on unrecovered non-pension and OPEB deferrals during the period. Carrying charges on the non-pension/OPEB unrecovered balances are deferred credits of $788,222 and $3,259,124 for 2006 and 2007, respectively, as set forth on Attachment 6. Under the recovery outlined in the Merger Joint Proposal and the March 31, 2003 Memorandum of Agreement ("2003 MOA"), the unrecovered non-pension and OPEB deferrals was designed to be $100 million as of December 31, 2007. As shown in Attachment 6, under pro rata recovery, the unrecovered non-pension and OPEB deferral balance as of December 31, 2007 is projected to be $61,121,041 ($65,168,387 per Attachment 6 less $4,047,346 of carrying charges). As a result, as of December 31, 2007, the Company is projected to have recovered $38,878,959 more in non-pension and OPEB deferrals than it would have under the Merger Joint Proposal and the 2003 MOA, which would result in the Company being responsible for carrying charges on the overrecovered amount for 2008 and 2009. Upon the Commission's approval of this Stipulation, the Company will have the option of funding the shortfall between the actual non-pension and OPEB deferral balance as of December 31, 2007 and $100 million into the pension or OPEB external trusts. If and to the extent the Company funds any portion of the difference described above, the amount funded will: (1) reduce the December 31, 2007 pension and OPEB deferrals by the amount funded and (2) increase the December 31, 2007 non-pension and OPEB deferrals by the amount funded. To the extent the Company does not fully fund the difference by

January 1, 2008, it shall establish a deferred credit for carrying charges on the under-funded amount from January 1, 2008 until the date the funding is fully completed. For purposes of the internal reserve, Item (1) will be treated as a deferral recovery of the difference, with the recovery already funded.

3.9.2. In determining the sales forecast to be used to collect CTC and deferred costs in 2006 and 2007, the Company included sales to Divested Generators. The Company agreed that in the event it was not permitted to charge retail rates and recover CTC and deferred costs from these customers, a deferral would be recorded to capture the effect on rates had the sales not been included in the forecast. These two adjustments result in a net credit amount of $2.35 million as shown on Attachment 7.

3.10. **Lost Revenues and Expenses for the Period July 1, 2005 – December 31, 2011**

To the extent recorded on the Company’s books, lost revenues and expenses excluded from the Deferral Account between July 1, 2005 and December 31, 2011 shall nevertheless be recognized in Niagara Mohawk's earnings reports and shall reduce Niagara Mohawk's earnings under the Earnings Sharing Mechanism set forth in Section 1.2.5 of the Rate Plan for electric operations and in the earnings sharing analysis under the Gas Settlement referenced in Section 1.6.8 of the Rate Plan for gas operations, as applicable.

4. **Going Forward Implementation Process and Other Miscellaneous Issues**

4.1. **Internal Accounting Changes**

4.1.1. For the period through June 30, 2005, Niagara Mohawk deferred $4.795 million of expenses it considered to result from internal accounting changes under clause 1.2.4.2.2 of the Merger Joint Proposal. However, the internal accounting changes were not submitted to the Director of the DPS Office of Accounting and Finance as required under clause 1.2.4.2.2. Upon a successful demonstration by the Company that such costs were being capitalized in the Merger Joint Proposal's financial forecasts, and the recognition of the appropriate amount of depreciation expense on the costs capitalized, the Company shall be permitted to reclassify those items as capital. The Company has 60 days beyond the Commission's approval of this Stipulation to make the demonstration to the Director of the DPS Office of Accounting and Finance. To the extent the Company fails to make a timely filing or it can not successfully demonstrate to the Director of the DPS Office of Accounting and Finance that these costs were being capitalized in the Merger Joint Proposal's financial forecasts, such costs shall be written off to expense.

4.1.2. The terms and procedures of Section 4.1.1 also apply to the additional amounts deferred during the period July 1, 2005 through March 31, 2007 that result from internal accounting changes.

4.1.3. The terms and procedures of Section 4.1.1 also apply to any internal accounting changes deferred during the fiscal year ending through March 31, 2008 unless the Company decides to request internal accounting change approval following the procedures in 4.1.4 below.

4.1.4. Approval of DPS Director of the Office of Accounting and Finance is necessary before Niagara Mohawk records on its books any deferral for the net impact of an internal accounting change pursuant to Section 1.2.4.2.2 of the Merger Joint Proposal. If such approval is granted, the Company shall be allowed to book the deferral prospectively from the date of approval, regardless of whether the accounting change was previously reflected in an account other than the Deferral Account. The DPS Director of the Office of Accounting and Finance shall use best efforts to rule on any request for the deferral of the impact of an internal accounting change within 90 days of submission, provided that the Company's initial submission is complete and includes full support for the accounting change and the quantification of the net impact of the accounting change, including any required offsets.

4.2. **Accounting Information**

4.2.1. **Monthly Attachment 11 Deferral Submittal**. The monthly Attachment 11 update of the Deferral Account required by Section 1.2.4 of the Merger Joint Proposal shall be provided to on-site Staff as close as possible to the 15th day of the following month, but in any event no later than the 21st day of the month following closing. The monthly updates shall contain page referenced summaries, and shall include adequate and legible backup support; the pages shall be numbered, and the name and telephone number of the Company contact person responsible for each entry should be provided.

4.2.2. **Timely Correction of Errors and Adjustments.** When the Company finds an error on the Company's books of account regulated by the Commission or agrees to an adjustment proposed by Staff, a journal entry correcting the error or making the adjustment (the "Correction") shall be made. Where practicable, the journal entry shall be made during the month of the determination that the Correction was required. To the extent that a journal entry cannot be made before the close of the month in which the Correction was acknowledged and the Correction affects an entry in an account included in the Company's monthly Attachment 11 submittal, the Company shall note the pending journal entry in that monthly submittal, together with a brief description of the Correction, the date the Company acknowledged the Correction and, if possible, the amount of the Correction. In any event, the Company shall make a journal entry reflecting the Correction within three months.

4.2.3. **Adjustments to Billing Loading Factors.** Niagara Mohawk shall adjust third-party job order billings loading factors no more than twice each year (in April and September), provided however, that, in addition, Niagara Mohawk may adjust such loading factors at any other time in the event there is a change in such loading factor (whether positive or negative) of greater than 20 percent. The April adjustment shall also include any adjustment necessary to reconcile the loading factors used during the prior period to actual amounts. Further, the Company shall follow the same method for capitalizing fringe benefits into its construction costs, subject to Section 3.8.1 and Attachment 4 of this Stipulation.

4.2.4. **Internal Audits of Deferral Accounts.** For each fiscal year during the remainder of the Rate Plan Period, Niagara Mohawk shall conduct internal audits on at least two different accounts included in the Deferral Account established under the Merger Joint Proposal, except that, for the fiscal year ending March 31, 2007, Niagara Mohawk shall perform at least one internal audit on such accounts. When Niagara Mohawk develops its internal audit plan, it will advise on-site Staff which deferral accounts will be audited in the upcoming fiscal year. If Niagara

Mohawk proposes to audit the same deferral account in two consecutive years, Niagara Mohawk will discuss this with Staff and advise Staff of the basis for the consecutive audits. Prior to conducting each internal audit of a deferral account, Niagara Mohawk's internal audit department will interview on-site Staff to identify potential areas of concern with respect to the eligibility of costs or revenues in that account for deferral.

4.2.5. **Journal Entry Support.** Niagara Mohawk shall include with each Journal Entry provided to on-site Staff a summary explanation of the purpose of the Journal Entry and documentation supporting and, if needed, detailing the calculations of the amounts charged to the various accounts shown.

4.2.6. **Monthly Financial Reports.** Niagara Mohawk shall provide on-site Staff with monthly general ledger reports, monthly financial report(s), and Journal Entries, as close as possible to the 15th day of the following month, but in any event no later than the 21st day of the month following closing.

4.2.7. **Other Reports and Information Requests.** Niagara Mohawk will provide to on-site Staff on a timely basis other reports, which at a minimum shall include: Board of Director minutes, Commodity Adjustment Clause ("CAC") monthly filing, Transmission Revenue Adjustment Clause ("TRAC") monthly filing, PSC filings made by the Company, SEC filings, monthly budget variance reports, and financial performance reports. Supporting documentation for the filed CAC and TRAC amounts shall also be provided. The Company and Staff will meet semi-annually in May and November to review the population of reports being provided and to modify the reports in a manner that may be agreed upon. Niagara

Mohawk agrees to continue procedures instituted by the Judge Stockholm in Case 01-M-0075, modified as follows: a weekly IR status log shall be provided to the DPS Director of Accounting and Finance rather than to the Administrative Law Judge, and the status log for the last week of each month shall also include a complete listing and the status of the report submittals to be provided to Staff in accordance with this section.

4.2.8. **Follow-on Merger Credit Compliance Filings.** Niagara Mohawk shall make the compliance filing required by Section 1.2.4.19 of the Merger Joint Proposal to implement the credit for a share of synergy savings from mergers that take place during the term of the Rate Plan within sixty (60) days of the closing of any merger that is subject to that provision. The Parties reaffirm that, for any follow-on mergers that occur during the remainder of the Rate Plan period, the methodology for determining the Niagara Mohawk ratepayers' share of such follow-on merger credits shall be as set forth in Attachment 10 of the Merger Joint Proposal; however, the Parties have not resolved one issue relating to the application of Attachment 10, i.e., whether unregulated revenues must be included in the denominator of the formula in Attachment 10. If this issue concerning the application of Attachment 10 is not resolved in the Commission's ruling granting approval of any follow-on merger, the issue will be decided in the proceeding on the compliance filing made in accordance with this provision and Section 1.2.4.19 of the Merger Joint Proposal.

5. **Required Compliance Filings**

5.1. **Report of Deferral Account Adjustments**

Within sixty (60) days of the issuance of the Commission Order approving this Stipulation, Niagara Mohawk shall file a report with the Secretary's Office showing the entries it has made to the Deferral Account to implement the adjustments required by this Stipulation, as well as the adjustments to which the Company agreed during the litigated phase of this proceeding. The report shall include a full explanation of each entry and a schedule that includes the date, dollar amount and journal entry numbers used to record: the $39.917 million of deferral reductions through June 30, 2005 agreed to in the litigated phase of this proceeding; the nuclear-related SFAS 109 increase of $38.937 million and the $93.149 million of deferral reductions through June 30, 2005 agreed to in the mediation phase of this proceeding; and the $0.151 million write-off of the remaining Dey Building leasehold improvements. The filing will also include the post-June 30, 2005 adjustments required to reflect the going-forward (i.e., post-June 30, 2005) terms set forth in Section 4, above.

5.2. **Internal Reserve Calculation**

Within ninety (90) days of the issuance of the Commission Order approving this Stipulation, the Company shall submit pension and OPEB internal reserve calculations to include adjustments agreed upon herein.

6. **Goodwill**

6.1. **Goodwill in Earnings Sharing Mechanism**

For purposes of computing Niagara Mohawk's Electric Department's Cumulative Earned Return on Equity under the earnings sharing mechanism established by Section 1.2.5 of the Merger Joint Proposal, the $1.215 billion of goodwill previously recorded on Niagara Mohawk's books of account in connection with the acquisition of Niagara Mohawk by National Grid shall be excluded from the equity component of the Company's capitalization. Likewise, for purposes of computing Niagara Mohawk's Gas Department's Cumulative Earned Return on Equity under the earnings sharing mechanism established by Section 1.6.8 of the Merger Joint Proposal, the $1.215 billion of goodwill previously recorded on Niagara Mohawk's books of account in connection with the acquisition of Niagara Mohawk by National Grid shall be excluded from the equity component of the Company's capitalization.

6.2. **Goodwill in Commission Annual Report**

Niagara Mohawk will reverse the $1.215 billion of goodwill associated with the acquisition of Niagara Mohawk by National Grid that it has shown in the PSC annual report as if it had never been recorded. Thus, the goodwill will be eliminated, and stated capital reduced by $1.215 billion. The Company's income statement and retained earnings balance will not be affected by the reversal.

6.3. **Goodwill Not Recovered in Jurisdictional Rates**

Niagara Mohawk shall not recover any portion of the $1.215 billion in goodwill recorded in connection with the acquisition of Niagara Mohawk by National Grid, as shown in Attachment 8, in any rates regulated by the Commission during or after the period covered by the Merger Joint Proposal. In addition, no portion of such goodwill shall be included in the equity component of Niagara Mohawk's capitalization for purposes of calculating Niagara Mohawk's return, future revenue requirements or any other component of such rates after the period covered by the Merger Joint Proposal.

7. **Resolution of Nine Mile Sale Compliance (Case No. 01-E-0011)**

All remaining issues in Case No. 01-E-0011, including all issues associated with the Company's March 27, 2006 Supplemental Compliance Filing, which filing addressed the rate effects on Niagara Mohawk of a settlement between Niagara Mohawk and the Nine Mile cotenants with respect to rights and obligations arising from their ownership interests in Nine Mile, are resolved in accordance with the provisions of this Section 7 and Section 2.1, except for the issues discussed in Section 2.4.1.

7.1. Legal costs of $125,836 that Niagara Mohawk had proposed to net against recoveries from the Department of Energy related to the cases of *Florida Power & Light v. U.S.,* U.S. Court of Claims Docket No. 96-644C, and *Florida Power & Light v. U.S.,* U.S. Court of Claims Docket No. 01-589C, will be absorbed by the Company since the Company has a rate allowance for those costs in base rates.

7.2. Niagara Mohawk shall credit to electric customers the interest associated with reversal of the 1999 Curtailment Gain in the amount of $800,000.

7.3. Niagara Mohawk shall take credit for only its portion ($23.76 million) of the $36.46 million cash payment that was required to be made in 2002 to the purchaser of the Nine Mile interests when the Company calculates its OPEB and pension internal reserve balances.

7.4. Niagara Mohawk's accounting for the $14.9 million received from the Nine Mile cotenants shall be as specified in Exhibit D of the Company's March 27, 2006 supplemental compliance filing in Case No. 01-E-0011, subject only to the amendment prescribed by Section 7.2 above, and shall not otherwise be subject to adjustment. This accounting also results in an impact on Niagara Mohawk's pension and OPEB internal reserves equal to a net addition of $3.4 million in reserve funding as of August 2004.

7.5. With the exception of accounting resolved by Sections 7.1 - 7.4 above, nuclear-related costs or receipts that were unknown or unknowable at the time of the sale of the nuclear assets (for example, the results of sales tax audits, NEIL refunds, etc.) shall be governed by precedent established in Case No. 01-E-0011 or Case No. 01-M-0075. Any adjustments resulting from any such historic or prospective costs or receipts shall be subject to audit by Staff.

7.6. All outstanding information requests propounded in Case No. 01-E-0011 are deemed retracted and no response is required. The retraction of the outstanding requests in Case No. 01-E-0011 is without prejudice to the submission of new information requests seeking the same or similar information in connection with another case with respect to which the information sought is relevant and material.

8. **Resolution of Pension Settlement Deferral Petitions (Case Nos. 04-M-0938 and 07-M-0173)**

The Signatories agree to resolve all the issues presented in Case Nos. 04-M-0938 and 07-M-0173 as described in this Section 8.

8.1. Niagara Mohawk shall be authorized to include $23,993,168, representing 50 percent of the combined total pension settlement losses of $48,576,073 for FY 2004 and FY 2007 under SFAS 88, net of service company allocations for FY 2004 not otherwise charged back to the Company, in its electric and gas deferral accounts. The method for determining the recoverable amount is presented in Attachment 9. Eighty three percent of this amount, or $19,914,330, shall be included in the electric deferral account under Section 1.2.4.13 of the Merger Joint Proposal and the remainder, $4,078,838, shall be included in the gas deferral account under Section 1.6.1.4 of the Merger Joint Proposal. The amounts deferred shall be subject to adjustment to ensure proper quantification of the final FY 2007 pension settlement amount, net of service company allocations not otherwise charged back to the Company, as verified by Staff's audit thereof.

8.2. The 50 percent of the FY 2004 and FY 2007 pension settlement loss amounts that are disallowed represent pension expenses that were recognized early under the accounting standards set forth in SFAS 88, and although these expenses will not be deferred for later recovery from customers, they will be recognized as expenses in Niagara Mohawk's earnings reports and will reduce Niagara Mohawk's earnings under the Earnings Sharing Mechanism set forth in Section 1.2.5 of the Merger Joint Proposal for electric operations and in the earnings sharing analysis under the Gas Settlement referenced in Section 1.6.8 of the Merger Joint Proposal for gas operations.

8.3. Niagara Mohawk will fund the disallowed portion of the pension settlement losses through contributions to its pension trusts, including amounts allocated to Service Company, but not charged back to the Company and included in pension deferral calculations. An illustration of the determination of the required funding amount is included in Attachment 6. However, if such funding creates tax inefficiencies, the Company shall have the discretion to fund the disallowed portion of the pension settlement losses through contributions to its OPEB trusts. Such pension or OPEB funding will be made within 3 days of the date of the Commission Order approving this Stipulation, and no return shall accrue on those amounts prior to the time that they are funded under Section III.A.7 of Appendix A to the Statement of Policy. If Niagara Mohawk does not complete this funding within 3 days of the Commission Order approving this Stipulation, it shall add a return to the unfunded amount calculated pursuant to the Statement of Policy commencing the 4th day after the Commission Order approving this Stipulation until the date that the funding is completed.

9. **Resolution of January 14, 2004 Petition in Case 01-M-0075**

The Signatories agree that upon approval of this Stipulation by the Commission, the petition dated January 14, 2004 in Case 01-M-0075 requesting modification of customer service quality targets relating to the percentage of electric meters read in 2003 and 2004 shall be deemed withdrawn.

10. **Limitation on Deferral Recovery in 2008 and 2009**

Niagara Mohawk shall not increase its electric delivery rates for 2008 and 2009 to recover additional deferrals above the $200 million annual recovery authorized for 2007 in the Commission's December 27, 2005 Order in Case No. 01-M-0075, even if Niagara Mohawk believes that such an increase would otherwise be permitted under Section 1.2.3.4 of the Rate Plan. If and to the extent the Commission's approved level of deferrals recoverable pursuant to the Third CTC Reset under the Rate Plan and this Stipulation would have permitted an increase in electric delivery rates in 2008 and 2009 in the absence of this provision, Niagara Mohawk shall be authorized to include in the Deferral Account carrying charges at the rate applicable under Attachment 1 of the Rate Plan on the forgone rate recovery of non-pension/OPEB deferrals. The methodology for calculating such carrying charges shall be as set forth in Attachment 10. Nothing in this provision shall affect: (a) Niagara Mohawk's right to defer lost revenues and expenses in accordance with the Rate Plan and the other provisions of this Stipulation; (b) Niagara Mohawk's right to recover allowable deferrals in electric delivery rates after 2009; or (c) Niagara Mohawk's obligation to reduce electric delivery rates in 2008 and 2009 in accordance with Section 1.2.3.4 of the Rate Plan and the right of any other Party to seek such a reduction.

11. **Additional Provisions**

11.1. **Integrated Agreement**

The terms of this Stipulation are submitted as an integrated whole. If the Commission does not accept this Stipulation as the basis of the resolution of all of the Proceedings without change or condition, each Signatory shall have the right to withdraw from this Stipulation upon written notice to the Commission within 30 days of the Commission Order. If the Company gives such notice, this Stipulation shall be deemed withdrawn, it shall not constitute part of the record of any of the Proceedings or any future proceeding addressing any of the issues within the scope of this Stipulation, and it shall not be used in evidence or cited against any Signatory or used for any other purpose.

11.2. **No Admissions**

The making of this Stipulation shall not be construed, interpreted or otherwise deemed in any respect to constitute an admission by any Signatory regarding any allegation, contention, or issue raised in any of the Proceedings or addressed in this Stipulation.

11.3. **Prior Agreements Preserved**

Except to the extent a provision of this Stipulation explicitly sets forth the means, approach, or mechanism through which a provision of the Merger Joint Proposal is to be applied or implemented, all terms of the Merger Joint Proposal and the 2003 MOA, as each has been approved by the Commission, shall remain in full force and effect.

11.4. **Entire Agreement**

This Stipulation, including all attachments and appendices, represents the entire agreement of the Signatories with respect to the matters resolved herein.

11.5. **Discussions Privileged**

The discussions that have produced this Stipulation have been conducted on the explicit understanding that any and all prior proposals and discussions relating thereto are and shall be privileged, shall be without prejudice to the positions of any Signatory or other participant presenting such proposal or participating in such discussions, and are not to be used in any manner in connection with these or any other proceedings.

11.6. **Dispute Resolution**

In the event of any disagreement over the interpretation of this Stipulation or the implementation of any provision of this Stipulation that cannot be resolved informally among the Signatories, the Signatories shall promptly convene a conference and in good faith shall attempt to resolve such disagreement. As part of that process, the Signatories may mutually agree to request the assistance of the Commission's Office of Alternative Dispute Resolution through mediation or other appropriate process. If any such disagreement cannot be resolved by the Signatories, any Signatory may petition the Commission for relief on a disputed matter.

11.7. **Captions**

All titles, subject headings, section titles and similar items herein are provided for the purpose of reference and convenience only and are not intended to affect the meaning, the content or the scope of this Stipulation.

11.8. **Commission Authority**

Nothing in this Stipulation shall be construed to limit the Commission's authority under the Public Service Law.

Respectfully submitted,

NIAGARA MOHAWK POWER CORPORATION
d/b/a NATIONAL GRID

By its Attorneys:

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Dated: March 22, 2007

NEW YORK DEPARTMENT OF PUBLIC SERVICE

By: ______________________________

Jane C. Assaf
Staff Counsel
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Dated: March 22, 2007

MULTIPLE INTERVENORS

By: ______________________________

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Dated: March 22, 2007

Attachment 1

Deferral Balances as of June 30, 2005 and
Projected Deferrals Through December 2007

SECOND COMPETITIVE TRANSITION CHARGE RESET
ANALYSIS OF JUNE 2005 BALANCE

	Actual 6/2005 Balance	Company Adjustments Before Mediation	Additional Issues Identified	As Adjusted Per Company 6/2005 Balance Before Mediation	Mediation Adjustments	Adjusted 6/2005 Balance
Regulatory Assets						
1 Storm Restoration Costs	$ 25,310,487	$ (327,054)		$ 24,983,433	$ (5,401,917)	$ 19,581,516
2 Pension Settlement Loss	12,022,765			12,022,765	-	12,022,765
3 CSBC (pre-9/01)	10,309,579			10,309,579		10,309,579
4 NYPA Transmission Access (NTAC)	13,050,967			13,050,967		13,050,967
5 NYISO Schedule 1 Costs	88,081,322	(1,348,845)		86,732,477		86,732,477
6 NYISO Schedule 2 Costs	13,280,454			13,280,454		13,280,454
7 Generation Sale Incentive	18,556,040			18,556,040		18,556,040
8 CSBC post 9/01	49,984,665			49,984,665	(616,214)	49,368,451
9 Pension Expense Deferred	79,440,330	(5,743,116)		73,697,214		73,697,214
10 OPEB Expense Deferred	69,503,600	(9,411,517)		60,092,083		60,092,083
11 Religious Rates	246,673			246,673		246,673
12 City of Buffalo Settlement Agreement	684,320			684,320		684,320
13 Customer Outreach & Education Program	122,143	(122,143)		-		-
14 SC7 Standby Service Lost Revenue	5,661,876			5,661,876	-	5,661,876
15 SC7 Standby Lost Revenue Offset	(3,666,667)			(3,666,667)		(3,666,667)
16 SIR Program Costs	44,069,960	(1,047,640)		43,022,320		43,022,320
17 Generation Stranded Costs Adjustments	63,291,374	(16,319,917)	38,937,000	85,908,457	(39,125,108)	46,783,349
18 Stray Voltage	-			-		-
19 Incentive Return on Retirement Funding	21,447,426			21,447,426		21,447,426
20 Disputed Station Lost Revenues	46,309,144			46,309,144	(46,309,144)	-
21 Pension & OPEB Offsets	-			-		-
22 Internal Accounting Changes	-		4,795,197	4,795,197	(4,795,197)	-
Subtotal Regulatory Assets	**557,706,458**	**(34,320,232)**	**43,732,197**	**567,118,423**	**(96,247,580)**	**470,870,843**
Regulatory Liabilities						
1 NYPA MOU	(20,620,745)	(237,961)		(20,858,706)	-	(20,858,706)
2 Electric Customer Service Penalties	(10,423,000)	(1,530,000)		(11,953,000)	(1,696,300)	(13,649,300)
3 Loss on Sale of Buildings	(481,191)	9,877	-	(471,314)		(471,314)
4 Petroleum Tax Audit Refund	(5,752,659)			(5,752,659)		(5,752,659)
5 Affiliate Rule Employee Transfer Credits	(166,725)			(166,725)		(166,725)
6 Pension/OPEB Curtailment/Settlement Gains	(23,552,091)			(23,552,091)		(23,552,091)
7 Delay in Merger Rate Plan Start Date	(12,555,000)			(12,555,000)		(12,555,000)
8 Currently Provided Incidental Services	(191,815)	(40,366)		(232,181)		(232,181)
9 NYS Sales Tax Refund (1992-1998)	(1,477,332)			(1,477,332)		(1,477,332)
10 Economic Development Fund	(5,058,393)	14,755		(5,043,638)		(5,043,638)
11 Meter Read Conn/Disconenct Service Charge	(86,663)			(86,663)		(86,663)
12 Low Income Discount Program	(92,902)			(92,902)		(92,902)
13 Bonus Depreciation Adjustment	(9,446,984)			(9,446,984)		(9,446,984)
14 Medicare Act of 2003	-			-		-
15 NYS GRT Tax Refund (1991-1994)	-	(3,300,422)		(3,300,422)		(3,300,422)
16 IRS Income Tax Refund (1989-1990)	-	(48,100)		(48,100)		(48,100)
17 Service Re-establishment Charges	-	(464,158)		(464,158)		(464,158)
18 Carrying Charges on Non-pension/OPEB deferrals	-			-		-
19 Remaining Unallocated Settlement $					-	-
Subtotal - Regulatory Liabilities	**(89,905,500)**	**(5,596,375)**	**-**	**(95,501,875)**	**(1,696,300)**	**(97,198,175)**
PowerChoice Appendix E Netting	**(79,599,407)**	**-**	**-**	**(79,599,407)**	-	(79,599,407)
MRA Interest Savings Deferred	**(92,534,022)**	**-**	**-**	**(92,534,022)**	-	(92,534,022)
Total Regulatory Assets/Liabilities	**$ 295,667,529**	**$ (39,916,607)**	**$ 43,732,197**	**$ 299,483,119**	**$ (97,943,880)**	**$ 201,539,239**

SECOND COMPETITIVE TRANSITION CHARGE RESET
ANALYSIS OF PROJECTED DECEMBER 2007 BALANCE

	Adjusted 6/2005 Balance After Mediation	Company's Orig 7-2005 to 12-2007 Forecast of Activity	Company's 7-2005 to 12-2007 Agreed Upon Adjustments	7-2005 to 12-2007 Mediation Adjustments (1)	Adjusted Projected 12/2007 Balance
Regulatory Assets					
1 Storm Restoration Costs	$ 19,581,516	$ -			$ 19,581,516
2 Pension Settlement Loss	12,022,765	8,954,070	(244,740)	11,205,000 (2)	31,937,095
3 CSBC (pre-9/01)	10,309,579	-			10,309,579
4 NYPA Transmission Access (NTAC)	13,050,967	-			13,050,967
5 NYISO Schedule 1 Costs	86,732,477	-			86,732,477
6 NYISO Schedule 2 Costs	13,280,454	-			13,280,454
7 Generation Sale Incentive	18,556,040	-			18,556,040
8 CSBC post 9/01	49,368,451	55,463,585		(1,000,000)	103,832,036
9 Pension Expense Deferred	73,697,214	80,739,980	(4,136,502)		150,300,692
10 OPEB Expense Deferred	60,092,083	129,240,817	(12,141,143)		177,191,757
11 Religious Rates	246,673	2,434,542			2,681,215
12 City of Buffalo Settlement Agreement	684,320	-			684,320
13 Customer Outreach & Education Program	-	84,000	(84,000)		-
14 SC7 Standby Service Lost Revenue	5,661,876	10,086,800		(5,082,009)	10,666,667
15 SC7 Standby Lost Revenue Offset	(3,666,667)	(5,000,000)			(8,666,667)
16 SIR Program Costs	43,022,320	37,350,000			80,372,320
17 Generation Stranded Costs Adjustments	46,783,349	(10,942,045)	3,145,000	6,494,000	45,480,304
18 Stray Voltage	-	14,781,817		(10,524,198)	4,257,619
19 Incentive Return on Retirement Funding	21,447,426	28,800,530			50,247,956
20 Disputed Station Lost Revenues	-	26,139,250		(26,139,250)	-
21 First CTC Reset Stat Svc Sales Adjustment	-	-		(2,350,188)	(2,350,188)
Subtotal Regulatory Assets	**470,870,843**	**378,133,346**	**(13,461,385)**	**(27,396,645)**	**808,146,159**
Regulatory Liabilities					
1 NYPA MOU	(20,858,706)	4,181,800			(16,676,906)
2 Electric Customer Service Penalties	(13,649,300)	-			(13,649,300)
3 Loss on Sale of Buildings	(471,314)	(1,441,698)	24,693		(1,888,319)
4 Petroleum Tax Audit Refund	(5,752,659)	-			(5,752,659)
5 Affiliate Rule Employee Transfer Credits	(166,725)	-			(166,725)
6 Pension/OPEB Curtailment/Settlement Gains	(23,552,091)	-		(2,000,000)	(25,552,091)
7 Delay in Merger Rate Plan Start Date	(12,555,000)	-			(12,555,000)
8 Currently Provided Incidental Services	(232,181)	(92,074)	(75,000)		(399,255)
9 NYS Sales Tax Refund (1992-1998)	(1,477,332)	-			(1,477,332)
10 Economic Development Fund	(5,043,638)	27,388,869	(29,920,840)		(7,575,609)
11 Meter Read Conn/Disconenct Service Charge	(86,663)	(72,090)			(158,753)
12 Low Income Discount Program	(92,902)	3,092,902			3,000,000
13 Bonus Depreciation Adjustment	(9,446,984)	(11,910,000)		2,804,000	(18,552,984)
14 Medicare Act of 2003	-	(26,201,771)			(26,201,771)
15 NYS GRT Tax Refund (1991-1994)	(3,300,422)	-			(3,300,422)
16 IRS Income Tax Refund (1989-1990)	(48,100)	-			(48,100)
17 Service Re-establishment Charges	(464,158)	-			(464,158)
18 Carrying Charges on Non-pension/OPEB deferrals	-	-	(4,047,346)		(4,047,346)
	-				-
Subtotal - Regulatory Liabilities	**(97,198,175)**	**(5,054,062)**	**(34,018,493)**	**804,000**	**(135,466,730)**
PowerChoice Appendix E Netting	(79,599,407)	-			(79,599,407)
MRA Interest Savings Deferred	(92,534,022)	-			(92,534,022)
Total Regulatory Assets/Liabilities	**$ 201,539,239**	**$ 373,079,284**	**$ (47,479,878)**	**$ (26,592,645)**	**$ 500,546,000**

(1) Amounts are estimates based on the terms of the Stipulation and projected account activity. Actual amounts will differ, but will also reflect the terms of the Stipulation.
(2) Subject to adjustment for final actual result and Service Company allocation, and to audit and adjustment, if any, by Staff.
Note: the forecast of 7-2005 to 12-2007 activity has not been updated, except for the Economic Development Fund to reflect Commission authorized full tariff prices effective 1-1-2006.

SECOND COMPETITIVE TRANSITION CHARGE RESET
DEFERRAL ACCOUNT AUDIT
ADJUSTMENTS AGREED TO IN LITIGATION AND IN MEDIATION
FOR JUNE 2005 BALANCE

	ADJUSTMENTS	**Company Adjustments Before Mediation**	**Additional Issues Identified**	**Mediation Adjustments**
Regulatory Assets				
1	Storm Restoration Costs			
a	1/31/02 Storm Damage Adjustment for Costs Allocable to Pre-Rate Plan Period	$ -		$ (5,401,917)
b	Transportation - Pooled Vehicles Not Considered Incremental	(322,188)		-
c	Overtime Expenses	(4,866)		-
		(327,054)	-	(5,401,917)
2	NYISO Schedule 1 Costs			
a	NYISO Schedule 1 NYPA Reimbursement grandfathered PJM contracts	$ (730,316)		
b	NYISO Schedule 1 errors post-Dec. 31 2001	(589,875)		
c	Regulatory Deferral IR #12 - NYISO Sched 1 refunds	(28,654)		
		(1,348,845)	-	-
3	CSBC post 9/01			
a	Back out Credits Provided to Former Utility Owned Station Service Customers			(616,214)
4	Pension Expense Deferred			
a	Change in percentage of Pension Cost Capitalized	(5,818,886)		
b	Incremental Intercompany Billing of Pension Cost Credited to Deferral (Pre-ERP)	(380,359)		
c	Reverse 3rd Party Billing Revenue (Post-ERP) - Pension Component	456,129		
		(5,743,116)	-	-
5	OPEB Expense Deferred			
a	Change in Percentage of OPEB Cost Capitalized	(9,614,908)		
b	Incremental Intercompany Billing of OPEB Component Credited to Deferral (Pre-ER	(431,254)		
c	Reverse 3rd Party Billing Revenue (Post-ERP) - OPEB Component	634,645		
		(9,411,517)	-	-
6	Outreach and Education			
a	Customer Outreach & Education Program Costs Not Exceeding Threshold	(122,143)		
7	SIR Program Costs			
a	SIR - Appraisal Value of Fulton Street Svc Center	(162,000)		
b	SIR related to employee contractor fraud	(43,607)		
c	SIR related to fraudulent O&M & Capital Costs built into 1992-2001 rates	(279,581)		
d	SIR related to fraudulent O&M & Capital Costs built into 2002-2011 rates	(562,452)		
		(1,047,640)		
7	Generation Stranded Costs Adjustments			
a	Gen. Stranded Costs - RAV-32.b - Officer Benefits	(286,710)		
b	Lost decommissioning fund earnings	(19,422)		
c	Purchase Price Adjustment related to targeted LLW amounts in the APA	(396,974)		
d	Limit NM1 refueling outage deferral to $12M	(595,000)		
e	Unrecognized Amount of NYSIT liability on non-deductibility of nuclear stranded cos	(12,208,907)		
f	Crediting Ratepayers for Services Provided to Constellation Services	(861,811)		
g	Gen. Stranded Costs - Eliminate NYS income tax on nuclear real estate taxes	(1,382,000)		
h	Gen. Stranded Costs - Reduce NYS income tax liability on non-ded of nuclear stran	(569,093)		
i	Correcting Nuclear FAS 109 balance for tax basis and NYSIT	-	38,937,000	
j	Interest on 1999 Curtailment Gain per Nuclear Compliance IR PSC-10			-
k	Nuclear Stranded Cost Amortization in January 2002			(11,200,000)
l	FAS 109 disallowance (non-transmission components only)			(27,925,108)
		(16,319,917)	38,937,000	(39,125,108)
9	Disputed Station Lost Revenues			
a	Eliminate 100% of Station Service Lost Revenues pre MJP			(19,416,530)
b	Eliminate 100% of Station Service Lost Revenues during MJP			(26,892,614)
c	Adjust for CTC and Deferral Surcharge for Station Service Customers			-
		-	-	(46,309,144)
#	Internal Accounting Changes-Reclassify To Deferral			
a	Reclassify to Deferral		4,795,197	
b	Allow Reversal of Internal Accounting Changes			(4,795,197)
	Subtotal Regulatory Assets	**$ (34,320,232)**	**$ 43,732,197**	**$ (96,247,580)**

SECOND COMPETITIVE TRANSITION CHARGE RESET
DEFERRAL ACCOUNT AUDIT
ADJUSTMENTS AGREED TO IN LITIGATION AND IN MEDIATION
FOR JUNE 2005 BALANCE

Regulatory Liabilities				
1 NYPA MOU				
a	Correct Sept. 2003 deferral balance IR RAV-38 NYPA MOU	(237,961)		
2 Electric Customer Service Penalties				
a	Reflect penalty for 2003 "percent meter read"			(1,696,300)
b	Eliminate reversing adjustment for pre-2002 booked penalty	(1,530,000)		
3 Loss on Sale of Buildings				
a	Eliminate Deys Building deferral related to leasehold improvements	9,877		
4 Currently Provided Incidental Services		-		
a	Energy Check On-Line Services to be Credited	(40,366)		
5 Economic Development Fund				
a	To reflect additional SC-12 optional discounts in Jan. 2002	14,755		
5 NYS GRT Tax Refund (1991-1994)-Reclassify into Deferral		(3,300,422)		
6 IRS Income Tax Refund (1989-1990)-Reclassify into Deferral		(48,100)		
7 Service Re-establishment Charges-Reclassify Into Deferral		(464,158)		
Subtotal - Regulatory Liabilities		**$ (5,596,375)**	**$ -**	**$ (1,696,300)**
Total Regulatory Assets/Liabilities		**$ (39,916,607)**	**$ 43,732,197**	**$ (97,943,880)**

Note: The Company also agrees to write off $151,317 of remaining net book value of Dey's Building leasehold improvements.

SECOND COMPETITIVE TRANSITION CHARGE RESET
DEFERRAL ACCOUNT AUDIT
ADJUSTMENTS AGREED TO IN LITIGATION AND IN MEDIATION
FOR JULY 2005 THROUGH DECEMBER 2007 FORECAST

	Estimated Company Adjustments Before Mediation	Estimated Mediation Adjustments
ADJUSTMENTS		
Regulatory Assets		
1 Pension Settlement Loss		
a Estimated Pension Settlement Loss-50% of Net Loss After Service Company Allocation for FYE March 2007		11,205,000
b Adjust FYE March 2004 Pension Settlement Loss For Proper Service Company Allocation	(244,740)	
2 CSBC post 9/01		
a Back out Credits Provided to Former Utility Owned Station Service Customers		(1,000,000)
3 Pension Expense Deferred		
a Change in percentage of Pension Cost Capitalized	(4,600,001)	
b Reverse 3rd Party Billing Revenue (Post-ERP) - Pension Component	463,499	
	(4,136,502)	-
4 OPEB Expense Deferred		
a Change in Percentage of OPEB Cost Capitalized	(12,832,107)	
b Reverse 3rd Party Billing Revenue (Post-ERP) - OPEB Component	690,964	
	(12,141,143)	-
5 Customer Outreach & Education Program Not In Excess of Threshold	(84,000)	
6 SC7 Standby Service Lost Revenue to Exclude Former Utility Generator Accounts		(5,082,009)
7 Generation Stranded Costs Adjustments		
a Recognized Amount of NYSIT liability on non-deductibility of nuclear stranded costs	3,145,000	
b Recording the Effects of the Nuclear Compliance Filing		6,494,000
	3,145,000	6,494,000
8 Limitation on Stray Voltage contractor and internal labor deferral		(10,524,198)
9 Disputed Station Lost Revenues Associated with Former Utility Generator Accounts		(26,139,250)
10 First CTC Reset Station Service Sales Adjustment		(2,350,188)
Subtotal Regulatory Assets	$ (13,461,385)	$ (27,396,645)
Regulatory Liabilities		
1 Loss on Sale of Buildings		
a Eliminate Deys Building deferral related to furniture	24,693	
2 Pension/OPEB Curtailment/Settlement Gains Resulting From Nuclear Compliance Filing		(2,000,000)
3 Currently Provided Incidental Services		
a Energy Check On-Line	(75,000)	
4 Economic Development Revised Forecast	(29,920,840)	
5 Bonus Depreciation		
a To Apply Deferral Only to Capital Expenditures Forecast in the MJP		2,804,000
6 Carrying Charges on Non-pension/OPEB deferrals	(4,047,346)	
Subtotal - Regulatory Liabilities	(34,018,493)	804,000
Total Regulatory Assets/Liabilities	$ (47,479,878)	$ (26,592,645)

Attachment 2

Deferral Accounts and Issues Resolved
Through June 30, 2005

ATTACHMENT 2

Deferral Accounts and Issues Resolved Through June 30, 2005

A. With the exception of adjustments authorized in the Stipulation, no further adjustments to the following June 2005 deferral account balances may be made by either the Company or Staff for any reason, including but not limited to post- June 2005 third party transactions. The titles referred to below are as set forth in Attachment 6, page 4 of 4 of the Second CTC Reset filing dated July 29, 2005 in Case 01-M-0075, where applicable.

1. NIMO Other Disputed Station Service and SC 7 Standby Service Lost Revenue, for generators divested by Niagara Mohawk, the Power Authority of the State of New York, or New York State Electric and Gas ("Divested Generators")
2. Bonus Depreciation Adjustment
3. NYPA MOU
4. Loss on Sale of Buildings
5. Electric Customer Service Penalties
6. Customer Service Backout Credits (Pre-Merger)
7. NYPA Transmission Access Charge (NTAC)
8. Generation Sale Incentive
9. City of Buffalo Settlement Agreement
10. Petroleum Business Tax Audit Refund
11. Affiliate Rule Employee Transfer Credit
12. Delay in Start Date
13. Currently Provided Incidental Services
14. NYS Sales Tax Refund (1992 – 1998)
15. Meter Read Connect / Disconnect Service Charge
16. Low Income Allowance Discount Program
17. PowerChoice Appendix E Netting
18. MRA Interest Savings Deferral
19. 1991-1994 NYS GRT Refund ($3.3M)
20. 1989-1990 FIT Refund ($0.048 million)
21. Service Re-establishment Charge Revenues ($0.464 million)

B. With the exception of adjustments authorized in the Stipulation, no further adjustments to the June 30, 2005 deferral account balances may be made by either the Company or Staff for the following specific issues raised in Staff's direct and responsive testimony which impact those deferral account balances:

1. Storm #55645 – Allocation of Costs to January 31, 2001
2. Storm Transportation – Pool Vehicle Expenses for all major storms
3. Storm #82950 and #55645 Management Overtime
4. Storm #82978 Contractor Costs
5. Pension & OPEB % Capitalized
6. Potential Storm deferral doublecounts (TR 1395 – 1398)

7. Pension & OPEB Offsets related to the 2004 Union Contract, the Management pension plan (March 31, 2005) and the Management OPEB plan (February 1, 2002)[1]
8. Pension & OPEBs related to Transferred Employees
9. Generation Stranded Costs
   a. NYS Income Taxes
   b. Miscellaneous Nuclear Stranded Costs
   c. Revenues for Services Provided to Constellation
   d. Nuclear Decommissioning Funds
   e. Adjustment to Limit Nuclear Write-off to Amount in Merger Joint Proposal
   f. Deferred NM1 Refueling Outage Costs
   g. NM1 Selling Price Adjustment
   h. SFAS 109 – Procedural Issue as to whether such cost changes are deferrable under the terms of the NM Sale JP and Merger JP.
10. SIR Program Costs
    a. Transfer Price on Sale of Fulton Street Service Center
    b. Employee / Contractor Fraud
11. New Services – Energy Check Online revenues
12. Economic Development Fund – SC-12 Optional Tariff Discounts in January 2002
13. CSBCs for Direct Customers – tariff violation issue only
14. Potential Refund of 2004-2005 SC-7 Deferral Surcharges related to the Divested Generators

For the MOA related issues raised at TR 1275 – 1289, 1419 – 1425, 431 – 456, and 517 – 523, post-June 2005 adjustments to the deferral account balances as of June 30, 2005 will be allowed, but only for third party rebillings, refunds and reconciliations.

C. No further adjustments to the June 30, 2005 deferral account balances may be made by either the Company or Staff for the following specific issues raised during the mediation phase of this Proceeding:

1. Major storm claims expense deferred (reference Section 3.6.3)
2. Incremental payroll taxes on Company internal labor related to major storms (reference Section 3.6.4)
3. Incremental contractor costs related to major storms (reference Section 3.6.5)

[1] Moreover, no further pension and OPEB offset adjustments for these specific items are permitted for the period July 1, 2005 – December 31, 2011.

Attachment 3

Calculation of Deferrable Major Storm Response and Restoration Contractor Costs

ATTACHMENT 3

Calculation of Deferrable Major Storm Response and Restoration Contractor Costs

Purpose of the Adjustment

Section 1.2.4.5 of the Merger Joint Proposal allows for the deferral of incremental costs of major storms in excess of specified deductibles. Straight time pay for internal employees responding to the major storm is not included as an incremental cost, as such costs are considered recovered in base rates. As the Company has reduced internal staffing in represented job classifications that respond to storm restoration, and used contractors to supplement these represented job classifications, an adjustment is appropriate to contractor storm restoration costs otherwise deferrable, for an equivalent straight time exclusion from the storm deferral. The method described below will be applied to the costs of each major storm subsequent to June 30, 2005 through the end of the Merger Joint Proposal.

Principles

1. The adjustment for contractor straight time is to be applied separately to two activities: (1) line restoration and (2) line clearance (e.g. clearing vegetation from lines).
2. The baseline and the month prior to the storm internal employee counts are defined using job titles, which are set forth in Table 2. The Parties agree that these job titles represent union employees with primary responsibility for line restoration and line clearance activities and are the functions most likely to be supplemented with contractors during a storm response. If job titles are changed, the Company will provide a detailed explanation and reconciliation of prior job titles to new job titles for purposes of applying the adjustment. The employee count shall pertain only to Niagara Mohawk.
3. In addition to providing reports for the major storms incurred as of the date of this Stipulation, commencing in the month following approval of this Stipulation, the Company will provide a monthly report by the three Divisions of internal staffing levels for the job titles defined in Table 2.
4. The Parties agree the Merger Joint Proposal baseline employee counts for Line Restoration and Line Clearance are 1,288 and 178, respectively.
5. The billing rate applied to the contractor hours to determine the straight time adjustment will be developed from each major storm. The day with the highest contractor storm response staffing level will be used to develop a weighted average. The rate will be fully loaded, including equipment billing rates. Charges for lodging and food will not be included in the rate.
6. An example of how the calculation will be developed is presented in Table 1, below.
7. In the event the Company uses contractors for other activities beyond line restoration and line clearance (e.g., damage assessment), it agrees to apply the straight time

adjustment method to all the contracted staff used for those activities. The billing rate will be derived based on the rates of those specific contractors, and will be fully loaded with applicable equipment charges. The contractor count on line [D] will exclude these services. The charges for contractors providing services beyond line restoration and line clearance will not be factored in to the rate developed for Line [K], as illustrated by Table 3

8. Employees of Company affiliates shall be treated as contractors.
9. In the event the Company employs more internal employees in the specified job titles than indicated in Principle 4, above, the Company may petition the Commission for an adjustment to the storm deferral to account for the incremental straight time of the additional employees.

Illustrative Example

Table 1 is an example of the template agreed to for calculating the adjustment to deferrable contractor storm costs. The example reflects contractor and applicable employee storm response and restoration staffing and costs for several days after the October 12, 2006 Buffalo storm. This example is presented to illustrate the method and the sources of the data to be used, and is not intended to reflect the final or agreed upon deferrable cost of the storm.

Explanation of Lines on Tables 1 and 2

Line [A] - See column titled "Line [A]" in Table 2, for the agreed upon list of qualifying job titles for Line Restoration (Page 1 of 2) and Line Clearance (Page 2 of 2). The counts represent all Niagara Mohawk employees within each job title. This data should not change during the Rate Plan Period.

Line [B] - The column titled "Line [B]" in Table 2, reflects the number of Niagara Mohawk Power Corporation employees at the end of the month prior to the month in which the major storm occurs, that have the qualified job titles in Line [A] of Table 2. The Company will provide by the 15^{th} of every month, the number of employees (by job titles, by division) that were in qualifying positions per Line [A] of Table 2 for both Line Restoration and Line Clearance. If a listed job title is reclassified for operational reasons, such as when the job title "One Person Line/ Trouble Crew" was created, the Company will notify and provide a detailed explanation to on-site Staff of the reclassification. However, listed job titles cannot be commingled with other job titles not subject to this clause.

Line [C] – Employees, with listed job titles that worked the storm on that particular day, based upon their time sheets. The Directors of Divisional Operations, for the divisions not impacted by the storm, will justify the number of employees (who have listed job titles) retained in their home divisions, for each day that contractors perform storm restoration. This justification will be provided to on-site Staff, as part of the storm report.

Line [D] – Contractors who provided Line Restoration or Line Clearance services during the storm on that particular day. The source will be the Company-maintained contractor logs (headcount by vendor) measured during the middle of the day for every day in which the storm restoration occurs. The straight-time for contractors who provide services other than Line Restoration or Line Clearance will not be deferrable. The manager of the storm will notify NY Accounting and NY Regulatory of any contractors providing services other than Line Restoration or Line Clearance.

Line [E] -- Threshold which floors and caps (Lines [F] through [I]) are compared to. Threshold is calculated by dividing Line [A] by Line [B], and then multiplying the results by Line [C]. The resulting product is then reduced by Line [C]. Shown as a formula:

$$= \big((\text{Line [A]} / \text{Line [B]}) \ \text{x Line [C]}\big) - \text{Line [C]}.$$

Line [F] -- Data to be used in Lines [G] and [I]. It is the reduction of listed employees in the division (East, Central, or West) in which the major storm occurs, from the 2001 budgeted levels (remains constant during the Rate Plan Period) to levels in the month preceding a major storm.

Line [G] -- The floor established in Line [F] cannot be lower than the actual number of contractors performing Line Restoration (or Line Clearance work if calculating the adjustment for Line Clearance), so this line represents the lower of Line [F] or Line [D].

Line [H] -- The level of non-deferrable contractors can not exceed the number of listed employees reduced system-wide from the 2001 budgeted levels (remains constant during the Rate Plan Period) to levels in the month preceding a major storm.

Line [I] -- The threshold established in Line [E] cannot be lower than the reduction of listed employees in the division (East, Central, or West) in which the major storm occurs from the 2001 budgeted levels (remains constant during the Rate Plan Period) to current levels (Line [F]).

Line [J] -- The level of non-deferrable contractors is the lower of the cap established in Line [H] or Line [I].

Line [K] -- Rate determined for each major storm by taking the actual labor rate (including any fringe benefits) of all contractors for their first eight hours of work, plus hourly equipment rental rate (including transportation vehicles) for the day which has the greatest number of relevant contractors. This could be two different days for Line Clearance and Line Restoration. If there are rate premiums for weekends or Sundays, separate rates will be calculated for each labor rate premium category. Table 3 provides an example of how this rate would be determined.

Line [L] -- Eight hours of straight-time per day.

Line [M] -- Daily straight-time adjustment prior to the expense/capital allocation as determined for each storm, which is the result of multiplying Lines [J], [K] and [L].

Line [N] -- Amount of listed employees’ labor costs charged to expense, plus contractors’ labor costs charged to expense, divided by the sum of listed employees’ total labor costs and contractors’ total labor costs, as applicable to each storm. There will be separate calculations for Line Restoration and Line Clearance.

ATTACHMENT 3
Table 1

Example using the Buffalo Storm
Determination of Incremental Contractor Costs Offset for Major Storms
Line Restoration
Per Application of Section 3.6.4 of the March 23, 2007 Stipulation of the Parties and Section 1.2.4.5 of the Merger Rate Plan (MRP)

Region: west

		12-Oct-06	13-Oct-06	14-Oct-06	15-Oct-06	16-Oct-06
Actual Line Restoration Employees @ 1/3/2001		1,122				
Portion of 192 represented employees added to Line Restoration in MRP		166				
Actual Line Restoration Employees @ Time of MRP \	[A]	1,288	1,288	1,288	1,288	1,288
Actual Line Restoration Employees during month of Major Storm	[B]	995	995	995	995	995
Actual Line Restoration Employees Involved in Major Storm	[C]	218	751	803	949	1,044
Actual Line Restoration Contractors Involved in Major Storm	[D]	161	388	796	1,352	1,534
Non-deferrable Contractor Threshold: [A] / [B] x [C] - [C]	[E]	64	221	236	279	307
Floor 1 - divisional represented headcount reduction	[F]	110	110	110	110	110
Floor 2 - Floor can't be higher than actual contractors used [D]	[G]	110	110	110	110	110
Cap - lower of headcount reduction [A] -[B] or actual contractors used [D]	[H]	161	293	293	293	293
Floor 3 - higher of Calculated threshold [E] or Floor 2 [G]	[I]	110	221	236	279	307
Non-Deferrable Contractor lower of Cap [H] or Floor 3 [I]	[J]	110	221	236	279	293
Straight-time Rate	[K]	133	133	133	133	133
Straight-time Hours per day	[L]	8	8	8	8	8
Daily Straight-time adjustment before capital adjustment [J] x [K] x [L]	[M]	117,040	235,302	251,595	297,339	311,752
Percentage of Line Restoration labor and contractor charged to expense	[N]	87%	87%	87%	87%	87%
Daily Straight-time adjustment [M] x [N]	[O]	**102,059**	**205,184**	**219,391**	**259,280**	**271,848**

ATTACHMENT 3
Table 1
Page 2 of 2
Example using the Buffalo Storm
Determination of Incremental Contractor Costs Offset for Major Storms
Line Clearance
Per Application of Section 3.6.4 of the March 23, 2007 Stipulation of the Parties and Section 1.2.4.5 of the Merger Rate Plan (MRP)

Division: west

		12-Oct-06	13-Oct-06	14-Oct-06	15-Oct-06	16-Oct-06
Actual Line Clearance Employees @ 1/3/2001		152				
Portion of 192 represented empliyees added to Line Clearance in MRP		26				
Actual Line Clearance Employees @ Time of MRP	[A]	178	178	178	178	178
Actual Line Clearance Employees during month of Major Storm	[B]	59	59	59	59	59
Actual Line Clearance Employees Involved in Major Storm	[C]	22	22	22	27	32
Actual Line Clearance Contractors Involved in Major Storm	[D]	117	236	471	933	1,296
Non-deferrable Contractor Threshold: [A] / [B] x [C] - [C]	[E]	44	44	44	55	64
Floor 1 - regional represented headcount reduction	[F]	45	45	45	45	45
Floor 2 - Floor can't be higher than actual contractors used [D]	[G]	45	45	45	45	45
Cap - lower of headcount reduction [A] -[B] or actual contractors used [D]	[H]	117	119	119	119	119
Floor 3 - higher of Calculated threshold [E] or Floor 2 [G]	[I]	45	45	45	55	64
Non-Deferrable Contractor lower of Cap [H] or Floor 3 [I]	[J]	45	45	45	55	64
Straight-time Rate	[K]	$63.42	$ 63.42	$ 63.42	$77.72	$ 63.42
Straight-time Hours per day	[L]	8	8	8	8	8
Daily Straight-time adjustment before capital adjustment [J] x [K] x [L]	[M]	22,831	22,831	22,831	34,175	32,234
Percentage of Line Clearance labor and contractor charged to expense	[N]	100%	100%	100%	100%	100%
Daily Straight-time adjustment [M] x [N]	[O]	**22,831**	**22,831**	**22,831**	**34,175**	**32,234**

ATTACHMENT 3
Table 2
Page 1 of 2
Determination of Incremental Contractor Costs Offset
For Major Storms - Line Restoration
Per Application of Section 3.6.4 of the March 23, 2007 Stipulation of the Parties and
Section 1.2.4.5 of the Merger Rate Plan (MRP)

	Line [A] of Table 1, Page 1 of 2 (Never changes)	**Line [B] of Table 1, Page 1 of 2** End of Month prior to Storm
Qualifying Job Title	**01/03/2001**	**09/30/2006**
Cable Splicer A	12	9
Cable Splicer B	4	11
Cable Splicer C	14	16
Cable Splicer Helper	3	
Chief Cable Splicer A	29	31
Chief Line Mech A Htstick	359	248
Chief Maint Mech A	59	50
Chief Mechanic A	40	26
Chief St LGT Serv Mech A	3	3
Electrician C	30	14
Line Mechanic A	50	37
Line Mechanic B	13	83
Line Mechanic C	28	76
Line Mechanic Helper	15	27
Line Mechanic-Hot Stick	257	151
Maintenance Mechanic C	78	69
Mechanic A	1	7
Mechanic B	9	3
Mechanic C	89	51
One Person Line/Tbl Mechanic	-	48
Street Light Svc Mech A	3	
Street Light Svc Mech B	7	2
Street Light Svc Mech C	-	13
Trouble Mech C Hot Stick	5	4
Trouble Mech D Hot Stick	4	5
Utility Mechanic A	-	8
Utility Mechanic C	10	3
Total	1,122	995
Additions per 2001 budget	166	
Line [A] of Table 1 for Line Restoration	1,288	
Line [B] of Table 1 for Line Restoration		995

ATTACHMENT 3
Table 2
Page 2 of 2
Niagara Mohawk Power Corporation
Determination of Incremental Contractor Costs Offset
For Major Storms - Line Clearance
Per Application of Section 3.6.4 of the March 23, 2007 Stipulation of the Parties and

	Line [A] of Table 1, Page 2 of 2 (Never changes)	**Line [B] of Table 1, Page 2 of 2** End of Month prior to Storm
Qualifying Job Title	**01/03/2001**	**09/30/2006**
Chief Tree Trimmer A	75	39
Tree Trimmer C	30	19
TREE TRIMMER A	23	
TREE TRIMMER B	8	1
TREE TRIMMER HELPER	12	
Laborer	4	See Note Below
Total	152	59
Additions per 2001 budget	26	
Line [A] of Table 1 for Line Clearance	178	
Line [B] of Table 1 for Line Clearance		59

Note: Actual employees with the job title "Laborer" who work on storms will not be included in Line [B].

ATTACHMENT 3
Table 3
Example using the Buffalo Storm
Determination of Incremental Contractor Costs Offset
For Major Storms
Per Application of Section 3.6.4 of the March 23, 2007 Stipulation of the Parties and Section 1.2.4.5 of the Merger Rate Plan (MRP)

Vendor A - bills separated per day (peak day data below)

Job	Quantity	Hours		Hourly Rate	Relevant Hourly Rate	Quantity	Weighted Total
Lineman	40	8	Straight-time	100	100	40	4,000
		9	Overtime	150			
Foreman	30	8	Straight-time	125	125	30	3,750
		9	Overtime	187.5			
	Cost	**Hours**					
Equipment	40,000	1190		33.61			2,353
	$33.61 = 40,000/(70*17)			2353 = $33.61 x70			

Vendor B - bills weekly

Job	Quantity	Hours		Hourly Rate	Relevant Hourly Rate	Quantity	Weighted Total
Lineman	50	40	Straight-time	100	100	50	5,000
		20	Overtime	150			
		80	double-time	200			
Foreman	10	40	Straight-time	120	120	10	1,200
		20	Overtime	180			
		80	double-time	240			
	Cost	**Hours**		Rate			
Equipment	140,000	9,600		14.58			875
	$14.58 = 140,000/(60*160)			875 = $14.58 x 60			

Vendor C - bills weekly single rate

Job	Quantity	Hours	Hourly Rate	Relevant Hourly Rate	Quantity	Weighted Total
Lineman	50		125	125	50	6,250
Foreman	10		135	135	10	1,350

Vendor D - bills for 3 days including peak, rates include equipment

		Hours				
Lineman	20	24	100	100	20	2,000
		27	150			
Foreman	30	20	120	104.5	30	3,135
		27	180			

104.5 = ((20*120)+((24-20)x180))/24

	Quantity	Weighted Total	Table 1 Rate Line [K]
Total of Vendors A-D	240	29,913	**124.64**

Note: A separate rate is to be developed and applied for Line Restoration and Line Clearance.

Attachment 4

Capitalization of Pension and OPEB Costs

ATTACHMENT 4

Capitalization of Pension and OPEB Costs

For both the electric and gas departments, the percentage of pension and OPEB costs to be capitalized shall be determined as follows:

1. The Company shall calculate a capitalization rate at the beginning of each fiscal year using the actuarial estimates of pension and OPEB expenses for the year, along with all other fringe benefit costs subject to capitalization, and will adjust this rate for updated actuarial and other estimates provided in September of each year. The rate may also be adjusted at other times throughout the year if there is a fluctuation in the rate of greater than +/- 20 percent.

2. After the close of each fiscal year, the Company shall compare the amount of fringe benefits (including pension and OPEB costs), payroll taxes and workers compensation actually capitalized on the books, to the amount capitalized resulting from the methodology established in its response to Information Request PSC-276 in Case No. 01-M-0075. Based on the results of this annual reconciliation, the Company will adjust the amount capitalized associated with fringe benefits (which includes, but is not limited to pension and OPEBs). In addition, the Company will adjust the applicable pension and OPEB deferral accounts to reflect the capitalized pension and OPEB costs determined pursuant to the methodology set forth in the same Information Request response.

3. Attachment 1, page 2 to this Stipulation reflects adjustments to pension and OPEB deferred costs for correcting the capitalization rate through March 31, 2006. The balances shall not be adjusted further through this date for capitalization issues as long as the correcting journal entries are recorded by the Company.

4. Table 1 illustrates the method that will be used for the annual reconciliation described in paragraph 2, above. Table 2 includes payroll information supporting the calculation on Table 1.

<u>Journal Entry Details</u>

<u>Monthly Deferral:</u>

Pursuant to Attachment 16 of the Merger Joint Proposal, actual pension and OPEB expense comprise the following four elements:

1) Expense booked directly by the Company pursuant to FAS 87 or FAS 106, derived from actuarial reports.
2) Amortization of the regulatory asset “Unrecognized Pension Loss” or “Unrecognized OPEB Loss” created by the fair value adjustment.

3) Pension/OPEB expense allocated from the Service Company. The amount allocated from the Service Company is reduced by any SERP-related amounts as directed in Attachment 16.
4) A reduction to pension/OPEB expense for the amount capitalized, adjusted to exclude third party billings for capital work. The amount capitalized will be determined based upon the allocation process described above, but will also be subject to adjustment annually based on a reconciliation as shown in Table 1.

Monthly, the sum of the four elements noted above are compared against a pre-established level of pension/OPEB expense contained in Attachment 16 (page 4 of 5). This pre-established level changes annually in January, and the Company takes the annual amounts contained in this schedule and divides them by twelve in order to perform a monthly reconciliation. The amount above or below the threshold is the amount deferred monthly. Separate entries are recorded for the pension and OPEB deferrals:

Pension Deferral Account:	FERC 182553, Deferred Pension Costs
OPEB Deferral Account:	FERC 182554, Deferred OPEB Costs
Pension Expense Account:	FERC 926000, Employee Pensions and Benefits, Activity AG1060
OPEB Expense Account:	FERC 926000, Employee Pensions and Benefits, Activity AG1070

Annual Reconciliation Adjustment:

An adjusting entry will be made annually, but no later than May of the subsequent fiscal year, for the reconciliation of fringe benefits capitalized to the amount to be capitalized pursuant to PSC-276 as discussed above. The entry for the reconciliation adjustment, based on the illustration included in Table 1 is as follows:

O&M Accounts	$2,400,748	
Capital Accounts		$2,400,748
Deferral Accounts	$1,707,741	
O&M Accounts		$1, 707,741

Attachment 4
Table 1

No.	Item	Amount	Per Company New Method	Per Staff PSC 276	Difference
1	Total Payroll		326,363,043		
2	3rd Party				
3	Cost of Removal				
4	Other				
5	Associated				
6	Payroll Accrual				
7	Incremental Overtime		(23,620,426)		
8	Less: Transportation Clearing Labor charged to O&M (66%)				
9	Less: Stores Clearing Labor charged to O&M (19%)				
10	Less: Non- Productive Time		(52,479,958)		
11	**NET BASE PRODUCTIVE LABOR**		250,262,659	291,203,811	
	Fringe Benefits:				
12	Thrift Plan (Expense Type B07)	7,627,200	3.05%	2.62%	
13	FAS 112 (Expense Type B02)	4,456,000	1.78%	1.53%	
14	Group Insurance (Expense Type B04)	2,631,900	1.05%	0.90%	
15	Medical Care & Prescription Plans (Expense Type B03)	32,099,300	12.83%	11.02%	
16	Pension (Expense Type B06)	81,756,500	32.67%	28.08%	
17	OPEB (Expense Type B01)	117,507,147	46.95%	40.35%	
18	**TOTAL FRINGE BENEFITS**	246,078,047	**98.33%**	**84.50%**	
19	Workers Compensation (Expense Type B08)	8,064,200	3.22%	2.77%	
20	Payroll Taxes (Expense Type B09)	25,983,200	10.38%	8.92%	
21	**Total percentage to be applied to base productive Company labor for Payroll Taxes, Fringe Benefits and OPEBs:**	280,125,447	**111.93%**	**96.20%**	
22	CWIP		61,453,841		
23	Time Not Worked				
24	Cost of Removal		7,075,245		
25	3rd Party				
26	Associated Company				
27	Incremental Overtime				
28	**Capital**		68,529,086	77,244,254	
	Capital percent		27.38%	26.53%	
	Capitalized Amounts for:		Per Company	Per Staff	Difference
	Pension		22,387,272	21,686,598	700,674
	OPEBs		32,176,823	31,169,757	1,007,067
	All Other Fringes		12,819,124	12,417,912	401,212
	Worker's Compensation		2,208,209	2,139,097	69,112
	Payroll Taxes		7,114,945	6,892,262	222,683
	Total Amounts Capitalized		76,706,373	74,305,625	2,400,748

Note: For lines 1-10 above, refer to Table 2

Attachment 4
Table 2

2006 Payroll Data

	P10	P15	P20	P25	Subtotal	P21	P26	Total	TNW
CWIP	43,132,505	12,510,646	5,554,476	256,215	61,453,841	3,189,649	127,049	64,770,539	12,886,841
COR	5,764,364	333,047	950,526	27,307	7,075,245	557,536	13,654	7,646,435	1,483,675
TNW	42,062,345	8,077,555	2,339,324	734	52,479,958	-	-	52,479,958	(52,479,958)
Associated Co. Billings	2,532,727	1,277,898	65,446	8,239	3,884,310	37,781	3,476	3,925,568	814,538
3rd Party Billings	905,542	270,604	642,152	142,615	1,960,913	544,318	61,608	2,566,839	411,202
O&M	112,828,479	37,053,120	11,416,619	689,158	161,987,376	16,960,387	1,710,169	180,657,932	33,968,674
Stores Clearing	3,143,014	542,862	259,278	4,202	3,949,357	135,673	1,651	4,086,680	828,178
Transportation Clearing	6,743,024	1,043,496	485,417	1,307	8,273,243	264,195	654	8,538,091	1,734,895
Other	1,526,330	128,599	23,445	-	1,678,374	12,627	-	1,691,001	351,954
Total	218,638,330	61,237,827	21,736,682	1,129,778	302,742,616	21,702,165	1,918,261	326,363,043	(0)

CWIP	Construction Work in Progress
COR	Cost of Removal
TNW	Time Not Worked
P10	Regular Represented Labor
P15	Regular Management Labor
P20	Base OT - Represented
P25	Base OT - Management
P21	Incremental OT - Represented
P26	Incremental OT - Management

Attachment 5

Determination of Credit for Transfer of
Employees to Service Company

ATTACHMENT 5

Determination of Credit for Transfer of Employees to Service Company

The annual adjustment to be made to pension and OPEB expense to account for employees who transferred to or from National Grid USA Service Company, Inc. (Service Company) throughout the year required by Section 3.8.2 of the Stipulation shall be calculated as follows:

After the close of each fiscal year, the Company shall: (1) identify all employees who transferred from Niagara Mohawk to the Service Company or from the Service Company to Niagara Mohawk during the fiscal year; and (2) making the hypothetical assumption that all employee transfers occurred on January 1 of the fiscal year, calculate the difference in pension and OPEB expense allocated between Niagara Mohawk and the Service Company for (a) the capitalized portion of pension and OPEB expense; and (b) the company's share of the monthly Service Company allocation. This adjustment for (b), above, shall be subject to Niagara Mohawk's ability to provide support to Staff that the annual pension and OPEB costs for Service Company are derived from actuarial estimates of Service Company pension and OPEB expenses for the year. The revised valuations as of January 1 will be provided by the Company's actuaries. The credit determination, if any, resulting from this Attachment 5 shall follow the determination set forth in the preceding Attachment 4.

An example calculation of the adjustment described above will be applicable from April 2006 forward and is presented in Table 1 of this Attachment.

Pension Expense

A	B	C	D	E	F	G	H	I	J	K	L
	# of Employees Transferred to Svc. Co.	Total NM Pension Expense	Pension Expense Originally Allocated to Svc. Co.	Revised Pension Expense Allocated to Svc. Co	Decrease NM Pension Expense Change	Capital %	Decrease for Amount Capitalized	Pension Adj	Svc Co Allocation % to NM	NM Share of Serv Co Allocation	Final Pension Adj
FYE 3/31/04	156	$ 50,204,699	$ 3,065,129	$ 3,363,347	(298,218)	23.95%	(71,423)	(226,795)	26.09%	(77,805)	(148,990)
FYE 3/31/05	39	$ 60,190,372	$ 4,439,886	$ 4,524,106	(84,220)	26.04%	(21,931)	(62,289)	29.20%	(24,592)	(37,697)
FYE 3/31/06	86	$ 77,659,992	$ 6,141,852	$ 6,395,794	(253,942)	26.18%	(66,482)	(187,460)	31.09%	(78,951)	(108,509)
Total Pension Adj		$ 188,055,063	$ 13,646,867	$ 14,283,247	(636,380)		(159,836)	(476,544)		(181,348)	(295,196)

OPEBs Expense

A	B	C	D	E	F	G	H	I	J	K	L
	# of Employees Transferred to Svc. Co.	Total NM OPEB Expense	OPEB Expense Originally Allocated to Svc. Co.	Revised OPEB Expense Allocated to Svc. Co	Decrease NM OPEBs Expense Change	Staff Capital %	Decrease for Amount Capitalized	OPEB Adj	Svc Co Allocation % to NM	NM Share of Serv Co Allocation	Final OPEB Adj
FYE 3/31/04	156	$ 29,370,462	$ 2,151,210	$ 2,360,509	(209,299)	23.95%	(50,127)	(159,172)	24.27%	(50,797)	(108,375)
FYE 3/31/05	39	$ 30,079,311	$ 3,646,731	$ 3,715,905	(69,174)	26.04%	(18,013)	(51,161)	28.78%	(19,908)	(31,253)
FYE 3/31/06	86	$ 33,322,910	$ 3,872,117	$ 3,944,719	(72,602)	26.18%	(19,007)	(53,595)	31.01%	(22,514)	(31,081)
Total OPEB Adj		$ 92,772,683	$ 9,670,058	$ 10,021,133	(351,075)		(87,147)	(263,928)		(93,219)	(170,709)

Column	
A	Fiscal YE
B	Number of Employees transferred to NGUSA Service Company during the fiscal year
C	Total NMPC Pension/OPEB Expense per Hewitt
D	Pension/OPEB expense originally allocated to NGUSA Service Company, excluding employees transferred during the year (based on actuarial valuations)
E	Revised pension/OPEB expense allocated to NGUSA Service Company, including employees transferred during the year (based on revised actuarial valuations)
F	Column (D) - Column (E)
G	Percentage of pension/OPEB expense capitalized (per method described in PSC-276, and as reconciled to under section 3.8.1 of the stipulation)
H	Decrease for amount capitalized (F x G)
I	Adjustment w/out service company allocation adjustment (F - H)
J	Percentage of pension/OPEB expense originally allocated from NGUSA Service Company to NM
K	Column (F) x Column (J)
L	Column (I) - Column (K)

Note: The final pension and OPEB adjustment (Column L), must be further allocated between electric and gas departments to determine the amount to be posted to electric and gas pension and OPEB deferrals.

Attachment 6

Quantification of 2006 – 2007 Carrying Charges
On Non-Pension/OPEB Unrecovered Balances

ATTACHMENT 6

Calculation of Carrying Charges for 2006 and 2007

	Pre-Recovery				MRP/MOA Recovery			Target - Unrecovered Balance		
	Cash	P/OPEB	Total		Cash	P/OPEB	Total	Cash	P/OPEB	Total
Dec-2005	87,440,208	180,412,656	267,852,863	Forecast				87,440,208	180,412,656	267,852,863
Jan-2006	90,146,031	187,560,702	277,706,733	Even		16,858,056	16,858,056	90,146,031	170,702,646	260,848,677
Feb-2006	92,851,854	194,708,749	287,560,603	Even		16,858,056	16,858,056	92,851,854	160,992,637	253,844,491
Mar-2006	95,557,677	201,856,796	297,414,473	Even		16,858,056	16,858,056	95,557,677	151,282,628	246,840,305
Apr-2006	98,263,500	209,004,843	307,268,343	Even		16,858,056	16,858,056	98,263,500	141,572,619	239,836,119
May-2006	100,969,323	216,152,890	317,122,213	Even	-	16,858,056	16,858,056	100,969,323	131,862,609	232,831,933
Jun-2006	103,675,146	223,300,936	326,976,083	Even	-	16,858,056	16,858,056	103,675,146	122,152,600	225,827,746
Jul-2006	106,380,969	230,448,983	336,829,953	Even	-	16,858,056	16,858,056	106,380,969	112,442,591	218,823,560
Aug-2006	109,086,792	237,597,030	346,683,822	Even	-	16,858,056	16,858,056	109,086,792	102,732,582	211,819,374
Sep-2006	111,792,616	244,745,077	356,537,692	Even	-	16,858,056	16,858,056	111,792,616	93,022,573	204,815,188
Oct-2006	114,498,439	251,893,124	366,391,562	Even	-	16,858,056	16,858,056	114,498,439	83,312,563	197,811,002
Nov-2006	117,204,262	259,041,170	376,245,432	Even	-	16,858,056	16,858,056	117,204,262	73,602,554	190,806,816
Dec-2006	119,910,085	266,189,217	386,099,302	Forecast	-	16,858,056	16,858,056	119,910,085	63,892,545	183,802,630
Jan-2007	123,311,437	272,662,368	395,973,806	Even	-	16,858,056	16,858,056	123,311,437	53,507,640	176,819,077
Feb-2007	126,712,790	279,135,519	405,848,309	Even	-	16,858,056	16,858,056	126,712,790	43,122,735	169,835,525
Mar-2007	130,114,143	285,608,670	415,722,813	Even	-	16,858,056	16,858,056	130,114,143	32,737,830	162,851,972
Apr-2007	133,515,495	292,081,821	425,597,316	Even	-	16,858,056	16,858,056	133,515,495	22,352,925	155,868,420
May-2007	136,916,848	298,554,972	435,471,820	Even	-	16,858,056	16,858,056	136,916,848	11,968,019	148,884,867
Jun-2007	140,318,200	305,028,123	445,346,323	Even	-	16,858,056	16,858,056	140,318,200	1,583,114	141,901,315
Jul-2007	143,719,553	311,501,274	455,220,827	Even	8,801,791	8,056,265	16,858,056	134,917,763	0	134,917,763
Aug-2007	147,120,906	317,974,425	465,095,331	Even	10,384,905	6,473,151	16,858,056	127,934,210	0	127,934,210
Sep-2007	150,522,258	324,447,576	474,969,834	Even	10,384,905	6,473,151	16,858,056	120,950,658	0	120,950,658
Oct-2007	153,923,611	330,920,727	484,844,338	Even	10,384,905	6,473,151	16,858,056	113,967,105	0	113,967,105
Nov-2007	157,324,963	337,393,878	494,718,841	Even	10,384,905	6,473,151	16,858,056	106,983,553	0	106,983,553
Dec-2007	160,726,316	343,867,029	504,593,345	Forecast	10,384,905	6,473,151	16,858,056	100,000,000	-	100,000,000
2 year	31.85%	68.15%		Total	60,726,316	343,867,029	404,593,345			0.0
Year 1	31.06%	68.94%								

ATTACHMENT 6

Calculation of Carrying Charges for 2006 and 2007

	Alternatiwe Recovery			Unrecovered Balance			Monthly	Net of DFIT			
	Cash	P/OPEB	Total	Cash	P/OPEB	Total	Difference in Cash	60%	Annual	Rate	Carrying Charge
				87,440,208	180,412,656	267,852,863	-				
Dec-2005	-	-	-	90,146,031	187,560,702	277,706,733	-	-			
Jan-2006	-	-	-	92,851,854	194,708,749	287,560,603	-	-			
Feb-2006	-	-	-	95,557,677	201,856,796	297,414,473	-	-			
Mar-2006	3,450,755	7,660,356	11,111,111	94,812,745	201,344,487	296,157,232	(3,450,755)	(2,070,453)			
Apr-2006	3,450,755	7,660,356	11,111,111	94,067,812	200,832,178	294,899,990	(6,901,511)	(4,140,907)			
May-2006	3,450,755	7,660,356	11,111,111	93,322,880	200,319,869	293,642,749	(10,352,266)	(6,211,360)			
Jun-2006	3,450,755	7,660,356	11,111,111	92,577,947	199,807,561	292,385,508	(13,803,022)	(8,281,813)			
Jul-2006	3,450,755	7,660,356	11,111,111	91,833,015	199,295,252	291,128,267	(17,253,777)	(10,352,266)			
Aug-2006	3,450,755	7,660,356	11,111,111	91,088,083	198,782,943	289,871,026	(20,704,533)	(12,422,720)			
Sep-2006	3,450,755	7,660,356	11,111,111	90,343,150	198,270,634	288,613,784	(24,155,288)	(14,493,173)			
Oct-2006	3,450,755	7,660,356	11,111,111	89,598,218	197,758,325	287,356,543	(27,606,044)	(16,563,626)			
Nov-2006	3,450,755	7,660,356	11,111,111	88,853,286	197,246,016	286,099,302	(31,056,799)	(18,634,079)	(6,987,780)	0.1128	(788,222)
Dec-2006	5,375,094	11,291,573	16,666,667	86,879,544	192,427,595	279,307,139	(36,431,893)	(21,859,136)			
Jan-2007	5,375,094	11,291,573	16,666,667	84,905,803	187,609,173	272,514,976	(41,806,987)	(25,084,192)			
Feb-2007	5,375,094	11,291,573	16,666,667	82,932,061	182,790,752	265,722,813	(47,182,082)	(28,309,249)			
Mar-2007	5,375,094	11,291,573	16,666,667	80,958,320	177,972,330	258,930,650	(52,557,176)	(31,534,305)			
Apr-2007	5,375,094	11,291,573	16,666,667	78,984,578	173,153,908	252,138,487	(57,932,270)	(34,759,362)			
May-2007	5,375,094	11,291,573	16,666,667	77,010,837	168,335,487	245,346,323	(63,307,364)	(37,984,418)			
Jun-2007	5,375,094	11,291,573	16,666,667	75,037,095	163,517,065	238,554,160	(59,880,667)	(35,928,400)			
Jul-2007	5,375,094	11,291,573	16,666,667	73,063,353	158,698,644	231,761,997	(54,870,857)	(32,922,514)			
Aug-2007	5,375,094	11,291,573	16,666,667	71,089,612	153,880,222	224,969,834	(49,861,046)	(29,916,627)			
Sep-2007	5,375,094	11,291,573	16,666,667	69,115,870	149,061,801	218,177,671	(44,851,235)	(26,910,741)			
Oct-2007	5,375,094	11,291,573	16,666,667	67,142,129	144,243,379	211,385,508	(39,841,424)	(23,904,854)			
Nov-2007	5,375,094	11,291,573	16,666,667	65,168,387	139,424,957	204,593,345	(34,831,613)	(20,898,968)	(29,073,360)	0.1121	(3,259,124)
Dec-2007	95,557,929	204,442,071	300,000,000								(4,047,346)
Pro rata	95,557,929	204,442,071									

Attachment 7

Calculation of Certain Effects of Exclusion
Of Sales of Divested Generators

ATTACHMENT 7

Calculation of Certain Effects of Exclusion of Sales of Divested Generators

The $2.35 million deferral account credit set forth in Section 3.9.2 of the Stipulation is calculated as set forth below.

Deferral Under-Recovery due to Reduced kWh Deliveries

2006 -- $965,773

2007 -- $1,934,364

CTC Over-Recovery due to Reduced kWh Deliveries

2006 -- $2,556,734

2007 -- $2,693,591

Net Adjustment to Deferral Account Resulting from Exclusion of Divested Generation Sales:

	$965,773
	$1,934,364
	($2,556,734)
	($2,693,591)
Deferral Account Adjustment:	**($2,350,188)**

Note: All figures taken from, and additional detail provided in, the Company's response to Information Request 334 (PSC-278, RAV-91) in Case No. 01-M-0075.

Attachment 8

Components of Goodwill

Case 01-M-0075

ATTACHMENT 8

Niagara Mohawk Power Corporation

Summary of Goodwill

Item #	Item Description	Net of Tax Amount
1	Adjustment to common equity for consideration premium paid	$ 487,891,344.07
2	Stranded investment write-off per rate plan	$ 548,804,996.41
3	Delay in effective date of merger rate plan	$ 7,533,000.00
4	Injuries and damages reserves (uninsured claims)	$ 5,594,530.78
5	Healthcare claims lag	$ 2,100,000.00
6	Executive/director compensation related adjustments	$ 5,354,937.61
7	Inventory Obsolescence	$ 1,355,000.00
8	Estimate to Actual adjustments	$ 4,469,778.49
9	NYISO/NTAC adjustments	$ (10,596,552.18)
10	NRG reserve	$ 12,701,076.81
11	NYPA hydroelectric residential credit adjustment	$ 6,337,389.00
12	Tax related adjustments	$ 9,390,914.11
13	Unregulated companies	$ 32,927,620.85
14	PSC Memorandum of agreement adjustments	$ 60,529,041.16
15	Uncollectible Accounts adjustments	$ 15,582,000.00
16	FAS 112 liability adjustment	$ 6,805,793.66
17	Customer refunds and other valuation reserves	$ 21,383,756.90
18	Miscellaneous accounts receivable and jobbing adjustments	$ 2,220,505.80
19	Other adjustments	$ 5,357,317.84
20	Tax adjustments (FY 05 and FY 06)	$ (11,166,082.00)
	Total	$ 1,214,576,369.31

Items 1 through 19 are described in the Company's Fair Value Report filed with the Commission on June 27, 2003.
Item 20 are tax adjustments permitted to be recorded

Attachment 9

Method for Determining Allocation of the
FY 04 and FY 07 Pension Settlement Loss

ATTACHMENT 9

Method for Determining Allocation of the FY 04 and FY 07 Pension Settlement Loss

Illustrative Example

(1)	Total pension settlement loss for a Fiscal Year	= $20 million
(2)	Less: Portion of Total settlement loss allocated to Service Company	= $2 million
(3)	Plus: Portion of Total settlement loss allocated back to Company from Service Company	= $1 million
(4)	Amount to be shared 50/50 ((1)-(2)+(3))	= $19 million
(5)	Recoverable Amount ((4)*50%)	= $9.5 million
(6)	Company-required funding amount (Line (1) – Line (5))	= $10.5 million

Attachment 10

Quantification of 2008 – 2009 Carrying Charges
On Forgone Recoveries of Deferred Amounts in Delivery Rates

ATTACHMENT 10

Example of Carrying Charge Calculation for 2008 and 2009
Due to Limited Deferral Recovery in 2008 and 2009

	Projected Deferrals			MRP/MOA Recovery With No Cap			
	Cash	P/OPEB	Total	Cash	P/OPEB	Total	Cumulative
Dec-2007	64,676,698	139,030,253	203,706,951				
Jan-2008	69,676,698	147,227,987	216,904,685		17,518,937	17,518,937	17,518,937
Feb-2008	74,676,698	155,425,804	230,102,502		17,518,937	17,518,937	35,037,874
Mar-2008	79,676,698	163,623,621	243,300,319		17,518,937	17,518,937	52,556,810
Apr-2008	84,676,698	171,821,439	256,498,137		17,518,937	17,518,937	70,075,747
May-2008	89,676,698	180,019,256	269,695,954		17,518,937	17,518,937	87,594,684
Jun-2008	94,676,698	188,217,073	282,893,771		17,518,937	17,518,937	105,113,621
Jul-2008	99,676,698	196,414,890	296,091,588		17,518,937	17,518,937	122,632,557
Aug-2008	104,676,698	204,612,708	309,289,406		17,518,937	17,518,937	140,151,494
Sep-2008	109,676,698	212,810,525	322,487,223		17,518,937	17,518,937	157,670,431
Oct-2008	114,676,698	221,008,342	335,685,040		17,518,937	17,518,937	175,189,368
Nov-2008	119,676,698	229,206,159	348,882,857		17,518,937	17,518,937	192,708,304
Dec-2008	124,676,698	237,403,977	362,080,675		17,518,937	17,518,937	210,227,241
Jan-2009	129,676,698	245,601,794	375,278,492		17,518,937	17,518,937	227,746,178
Feb-2009	134,676,698	253,799,611	388,476,309		17,518,937	17,518,937	245,265,115
Mar-2009	139,676,698	261,997,428	401,674,126	786,623	16,732,314	17,518,937	262,784,051
Apr-2009	144,676,698	270,195,246	414,871,944	9,321,120	8,197,817	17,518,937	280,302,988
May-2009	149,676,698	278,393,063	428,069,761	9,321,120	8,197,817	17,518,937	297,821,925
Jun-2009	154,676,698	286,590,880	441,267,578	9,321,120	8,197,817	17,518,937	315,340,862
Jul-2009	159,676,698	294,788,697	454,465,395	9,321,120	8,197,817	17,518,937	332,859,798
Aug-2009	164,676,698	302,986,515	467,663,213	9,321,120	8,197,817	17,518,937	350,378,735
Sep-2009	169,676,698	311,184,332	480,861,030	9,321,120	8,197,817	17,518,937	367,897,672
Oct-2009	174,676,698	319,382,149	494,058,847	9,321,120	8,197,817	17,518,937	385,416,609
Nov-2009	179,676,698	327,579,966	507,256,664	9,321,120	8,197,817	17,518,937	402,935,545
Dec-2009	184,676,698	335,777,784	520,454,482	9,321,120	8,197,817	17,518,937	420,454,482
				84,676,699	335,777,784	420,454,482	
annual recoveries = 420,454,482/2 =			210,227,241				
						420,454,482	

ATTACHMENT 10

Example of Carrying Charge Calculation for 2008 and 2009
Due to Limited Deferral Recovery in 2008 and 2009

	MRP/MOA Recovery With $400M Cap				Cash Recovery Shortfall Due To Cap			
	Cash	P/OPEB	Total	Cumulative	Cash	Cumulative	Cumulative @ 60%	Carrying Charges
Dec-2007		16,666,667	16,666,667	16,666,667	-	-	-	
Jan-2008		16,666,667	16,666,667	33,333,333	-	-	-	
Feb-2008		16,666,667	16,666,667	50,000,000	-	-	-	
Mar-2008		16,666,667	16,666,667	66,666,667	-	-	-	
Apr-2008		16,666,667	16,666,667	83,333,333	-	-	-	
May-2008		16,666,667	16,666,667	100,000,000	-	-	-	
Jun-2008		16,666,667	16,666,667	116,666,667	-	-	-	
Jul-2008		16,666,667	16,666,667	133,333,333	-	-	-	
Aug-2008		16,666,667	16,666,667	150,000,000	-	-	-	
Sep-2008		16,666,667	16,666,667	166,666,667	-	-	-	
Oct-2008		16,666,667	16,666,667	183,333,333	-	-	-	
Nov-2008		16,666,667	16,666,667	200,000,000	-	-	-	
Dec-2008		16,666,667	16,666,667	216,666,667	-	-	-	
Jan-2009		16,666,667	16,666,667	233,333,333	-	-	-	
Feb-2009		16,666,667	16,666,667	250,000,000	786,623	786,623	471,974	4,444
Mar-2009		16,666,667	16,666,667	266,666,667	9,321,120	10,107,743	6,064,646	57,109
Apr-2009	4,940,270	11,726,397	16,666,667	283,333,333	4,380,850	14,488,592	8,693,155	81,861
May-2009	8,468,849	8,197,817	16,666,667	300,000,000	852,270	15,340,862	9,204,517	86,676
Jun-2009	8,468,849	8,197,817	16,666,667	316,666,667	852,270	16,193,132	9,715,879	91,491
Jul-2009	8,468,849	8,197,817	16,666,667	333,333,333	852,270	17,045,402	10,227,241	96,307
Aug-2009	8,468,849	8,197,817	16,666,667	350,000,000	852,270	17,897,672	10,738,603	101,122
Sep-2009	8,468,849	8,197,817	16,666,667	366,666,667	852,270	18,749,942	11,249,965	105,937
Oct-2009	8,468,849	8,197,817	16,666,667	383,333,333	852,270	19,602,213	11,761,328	110,753
Nov-2009	8,468,849	8,197,817	16,666,667	400,000,000	852,270	20,454,483	12,272,690	115,568
Dec-2009	64,222,216	335,777,784	400,000,000				Total	851,267
								11.30%

STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc and National Grid USA for Approval of Merger and Stock Acquisition	))))	Case No. 01-M-0075
Contracts Related to the Sale of Nine Mile Point Nuclear Generating Facilities From Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Central Hudson Gas & Electric Corporation, Rochester Gas and Electric Corporation to Constellation Nuclear, LLC	))))))	Case No. 01-E-0011
Proceeding on Motion of the Commission to Examine the Safety of Electric Transmission and Distribution Systems	)))	Case No. 04-M-0159
Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2004	)))	Case No. 04-M-0938
Application of Niagara Mohawk Power Corporation for Authorization to Defer Actuarial Experience Pension Settlement for Fiscal Year 2007	)))	Case No. 07-M-0173

NOTICE OF ERRATA

On behalf of the Parties to the Stipulation of the Parties ("Stipulation") filed in the above-captioned proceedings on March 22, 2007, Niagara Mohawk Power Corporation ("Niagara Mohawk") submit this Notice of Errata to notify the Commission and the parties of the following errors in the Stipulation.

1. A sentence was omitted from Section 3.8.3 of the Stipulation (found on page 16 of the Stipulation, which is page 23 of the March 22, 2007 filing). With the omitted sentence restored, Section 3.8.3 should read as follows:

> 3.8.3 Within ninety (90) days of a Commission Order approving this Stipulation, the Company shall submit pension and OPEB internal reserve calculations through the end of the month in which the Commission issues its Order approving this Stipulation to include adjustments agreed upon in this Stipulation, as well as other adjustments agreed to during the litigation phase of this audit. In performing the sales variance component of the Pension and OPEB deferral calculation, sales to Divested Generators would be removed, beginning April 1, 2006 and until such time that the Company actually collects revenues from the Divested Generators. The Company further agrees that the amount of pension and OPEB costs allocated to Service Company, net of pension and OPEB costs allocated back from Service Company and otherwise included in pension and OPEB cost deferrals, shall be funded on an as-incurred basis.

2. An item was omitted from the listing in Part A of Attachment 2 to the Stipulation. Accordingly, the following new item, numbered 22, should be included at the end of the list on the first page of Attachment 2 (page 49 of the March 22, 2007 filing), as follows:

> 22. Pension balance ($99,095,713) and OPEB balance ($92,109,393), each as of March 31, 2006. With respect to these deferral balances as of March 2006, no further adjustments may be made.[1]

In addition, to reflect the inclusion of item number 22 in Part A: (a) item number 5 and item number 8 should be deleted from Part B of Attachment 2 (on pages 49 and 50 of the March 22, 2007 filing); and (b) item number 3 in Attachment 4 to the Stipulation (page 62 of the March 22, 2007 filing) should be revised to delete the phrase "for capitalization issues." With that deletion, item number 3 in Attachment 4 reads as follows:

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3. Attachment 1, page 2 to this Stipulation reflects adjustments to pension and OPEB deferred costs for correcting the capitalization rate through March 31, 2006. The balances shall not be adjusted further through this date as long as the correcting journal entries are recorded by the Company.

3. A sentence was omitted from the last paragraph on the second page of Attachment 3 to the Stipulation (page 53 of the March 22, 2007 filing). With the omitted sentence restored, that paragraph should read as follows:

> Line [C] – Employees, with listed job titles that worked the storm on that particular day, based upon their time sheets. The Directors of Divisional Operations, for the divisions not impacted by the storm, will justify the number of employees (who have listed job titles) retained in their home divisions, for each day that contractors perform storm restoration. This justification will be provided to on-site Staff, as part of the storm report. To the extent Staff disagrees with the justifications provided by the Directors of Divisional Operations for any major storm occurring after December 31, 2006, Staff may propose an adjustment to the level of actual Company employees used on Line [C] of Table 1 and 2.

4. A sentence was also omitted from the third paragraph on the third page of Attachment 3 to the Stipulation (page 54 of the March 22, 2007 filing). With the omitted sentence restored, that paragraph should read as follows:

> Line [F] – Data to be used in Lines [G] and [I]. It is the reduction of listed employees in the division (East, Central, or West) in which the major storm occurs, from the 2001 budgeted levels (remains constant during the Rate Plan Period) to levels in the month preceding a major storm. The 2001 budgeted manpower levels for the Western, Central and Eastern Divisions, respectively, are 376, 471 and 441 for Line Restoration and 54, 62, and 62 for Line Clearance.

5. The description on the second page of Attachment 4 to the Stipulation (page 63 of the March 22, 2007 filing) of the fourth element of actual pension and other

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[1] With the exceptions provided in Stipulation Section 3.8.4, these adjustment restrictions do not apply to the Company's calculated pension and OPEB internal reserves as of March 31, 2006.

post-employment benefit ("OPEB") was stated incorrectly. As corrected, that item should read as follows:

4) A reduction to pension/OPEB expense for the amounts capitalized will include credits for the normal capitalization of payroll, and intercompany billing revenues, but exclude credits for third party billing revenues. The amount of normal capitalization of payroll will be determined based on the process described above, and will be subject to adjustment annually based on a reconciliation as shown in Table 1. Third party and intercompany billing pension and OPEB revenue will be as actually realized and not subject to this annual reconciliation.

The undersigned counsel for Niagara Mohawk is authorized to state that all Signatories to Stipulation concur with the foregoing corrections.

Respectfully submitted,

NIAGARA MOHAWK POWER CORPORATION

d/b/a NATIONAL GRID

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