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January 17, 2001

The Honorable Janet Hand Deixler, Secretary  
New York State Public Service Commission  
Three Empire State Plaza  
Albany, New York 12223

RE: Merger Application of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group plc, and National Grid USA

Dear Secretary Deixler:

Enclosed for filing please find the original and 25 copies of a package of documents that together comprise the application for authority to merge Niagara Mohawk Power Corporation ("Niagara Mohawk"), the New York utility subsidiary of Niagara Mohawk Holdings, Inc. ("NM Holdings"), into the utility holding company system of National Grid Group plc ("National Grid"). The applicants (collectively, "Petitioners"), are NM Holdings, Niagara Mohawk, National Grid, and National Grid's U.S. holding company subsidiary, National Grid USA, which will become NM Holdings' parent as a result of the merger.

## Description of the Application

The application consists of the following documents:

1. 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 ("Petition") with the following Appendices:
  - A. Introduction to National Grid

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- B. Agreement and Plan of Merger and Scheme of Arrangement by and among National Grid Group plc, Niagara Mohawk Holdings, Inc. and National Grid Limited and Grid Delaware, Inc. ("Merger Agreement").
  - C. Estimated Synergy Savings and Efficiency Gains and Methodology for Allocating Synergy Savings
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2. A Draft Joint Proposal, which includes an Incentive Rate Plan designed to reduce the present value of the revenues collected under Niagara Mohawk's Electricity Delivery Rates (including Competitive Transition Charges or "CTC's," but excluding prices for commodity and the commodity based Delivery Cost Adjustment or "DCA") by approximately \$970 million over the next ten years from the levels that would have been experienced absent the merger. The Electricity Delivery Rates, which are subject to adjustments for exogenous factors, are designed to produce stable delivery prices for Niagara Mohawk's customers through 2011. In addition, the Rate Plan extends the current rate settlement for natural gas rates for another year through August 31, 2004.

The lower revenues collected under the Rate Plan mitigate a rate increase that would otherwise become effective on September 1, 2001 at the beginning of the fourth year of Power Choice. Specifically, Power Choice authorizes Niagara Mohawk to increase its rates to reflect the current cost of commodity at that time. Niagara Mohawk's purchased power costs will be increasing significantly as the result of four factors. First, some of Niagara Mohawk's lowest priced power supply contracts are expiring, causing the average cost of purchased power to increase. Second, the fuel price indexes or gas swap provisions in several of Niagara Mohawk's other contracts have been triggered by today's high natural gas contracts. Third, all of the New York Independent System Operator ("ISO") ancillary service charges will be reflected in Niagara Mohawk's rates. Fourth, the market price of generation has increased. These increased purchased power costs, together with the Competitive Transition Charge ("CTC") reset that is required under Power Choice will have a disproportionate impact on Niagara Mohawk's smaller customers served under Tariffs SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4 (less than 2 megawatts), and PSC-214, and are expected to raise rates to these customers by 8 to 12 percent under the Power choice compliance filing.

The Rate Plan eliminates over four percent of this projected increase by lowering Electricity Delivery Charges, and levelizing commodity charges through a new Standard Offer Service for Non-Market Price customers during the Rate Plan Period. The lower Electricity Delivery Charges are produced by reducing and restructuring CTC recovery. The commodity charges reflect the levelization of the prices for Niagara Mohawk's hedged power supplies to Non-Market Price customers over the next four years, when market prices are forecast to decline. The levelized prices are subject to a Commodity Adjustment Charge.

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The price reductions are produced by the synergies and efficiency gains projected to be realized following the merger, which are summarized in Appendix C to the merger petition, by the reduction and restructuring of Niagara Mohawk's CTC recovery and by the implementation of the levelized prices for Standard Offer Service. The initial price reductions, \$970 million of long-term rate savings, and long-term price stability represent the central benefits of the merger for Niagara Mohawk's customers, and demonstrate that the merger itself is in the public interest.

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Respectfully submitted,

NIAGARA MOHAWK HOLDINGS, INC.  
NIAGARA MOHAWK POWER CORPORATION  
NATIONAL GRID GROUP plc  
NATIONA GRID USA

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National Grid USA and Niagara Mohawk  
 Merger Petition/Joint Proposal  
 Service List  
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National Grid USA and Niagara Mohawk  
 Merger Petition/Joint Proposal  
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<b>SMALL MARKETERS COALITION &amp; AGWAY ENERGY SERVICES, CIN USHER FOGEL ROLAND, FOGEL, KOBLENZ &amp; PETROCCIONE, LLP</b> 1 Columbia Place Albany, NY 12207 Phone: (518) 434-8112 Fax: (518) 434-3232 E-Mail: <a href="mailto:ufogel@aol.com">ufogel@aol.com</a>	<b>IBEW THOMAS PRIMERO, PRESIDENT/ BUSINESS MANAGER</b> LU 97 IBEW 713 Erie Boulevard West Syracuse, NY 13204 Phone: (800) 214-1261 Fax: (315) 478-4070 Fax: (518) 432-0587
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<b>NEW YORK STATE ASSEMBLY</b> Program Development Group Room 547 Capitol Albany, NY 12248 Phone: (518) 455-4386 Fax: (518) 455-5573 Phone: (518) 439-5956 Fax (518) 439-2083	<b>LOCAL REGULATORY COUNSEL TO THE SETTLING IPPS</b> Sam M. Laniado, Esq. Read and Laniado 25 Eagle St Albany, NY 1207-1901 Phone: (518) 465-9313 Fax: (518) 465-9315
<b>NATIONAL ASSOC OF ENERGY SERVICES COMPANIES AND THE JOINT SUPPORTERS</b> Ruben S. Brown The E Cubed Company 215 East 79 <sup>th</sup> St New York, NY 10021 Phone: (212) 585-1459 Fax: (212) 585-3852 Email: <a href="mailto:ecubedny@aol.com">ecubedny@aol.com</a>	<b>NYS COMMUNITY ACTION ASSOCIATION</b> Sue Montgomery Corey 21 Aviation Rd Albany, NY 12205-1141

PROJECT I.D. NUMBER

617.20

SEQR


## Appendix C

State Environmental Quality Review

## SHORT ENVIRONMENTAL ASSESSMENT FORM

For UNLISTED ACTIONS Only

## PART I—PROJECT INFORMATION (To be completed by Applicant or Project sponsor)

1. APPLICANT /SPONSOR <b>Niagara Mohawk Holdings, Inc.</b>	2. PROJECT NAME <b>National Grid Merger</b>
3. PROJECT LOCATION: Municipality _____ County _____	
4. PRECISE LOCATION (Street address and road intersections, prominent landmarks, etc., or provide map) <b>NM Holdings, Inc., 300 Erie Boulevard West, Syracuse, NY 13202</b> <b>Niagara Mohawk Power Corporation, 300 Erie Boulevard West, Syracuse, NY 13202</b> <b>National Grid USA, 25 Research Drive, Westborough, MA 01552</b> <b>See Environmental Assessment Form for description of Service Territories</b>	
5. IS PROPOSED ACTION: <input checked="" type="checkbox"/> New <input type="checkbox"/> Expansion <input type="checkbox"/> Modification/alteration	
6. DESCRIBE PROJECT BRIEFLY: <b>Merger of Niagara Mohawk Holdings, Inc. and National Grid USA</b>	
7. AMOUNT OF LAND AFFECTED: Initially <u>n/a</u> acres    Ultimately <u>n/a</u> acres	
8. WILL PROPOSED ACTION COMPLY WITH EXISTING ZONING OR OTHER EXISTING LAND USE RESTRICTIONS? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No    If No, describe briefly	
9. WHAT IS PRESENT LAND USE IN VICINITY OF PROJECT? <input checked="" type="checkbox"/> Residential <input checked="" type="checkbox"/> Industrial <input checked="" type="checkbox"/> Commercial <input checked="" type="checkbox"/> Agriculture <input checked="" type="checkbox"/> Park/Forest/Open space <input type="checkbox"/> Other Describe:	
10. DOES ACTION INVOLVE A PERMIT APPROVAL, OR FUNDING, NOW OR ULTIMATELY FROM ANY OTHER GOVERNMENTAL AGENCY (FEDERAL, STATE OR LOCAL)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No    If yes, list agency(s) and permit/approvals <b>NYS Public Service Commission</b>	
11. DOES ANY ASPECT OF THE ACTION HAVE A CURRENTLY VALID PERMIT OR APPROVAL? <input type="checkbox"/> Yes <input type="checkbox"/> No    If yes, list agency name and permit/approval <b>N/A</b>	
12. AS A RESULT OF PROPOSED ACTION WILL EXISTING PERMIT/APPROVAL REQUIRE MODIFICATION? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
I CERTIFY THAT THE INFORMATION PROVIDED ABOVE IS TRUE TO THE BEST OF MY KNOWLEDGE <b>Niagara Mohawk Holdings, Inc.</b>	
Applicant/sponsor name: 	Date: <u>11/17/01</u>
Signature: _____	

If the action is in the Coastal Area, and you are a state agency, complete the Coastal Assessment Form before proceeding with this assessment

OVER

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

**NATIONAL GRID USA  
AND  
NIAGARA MOHAWK**

**VOLUME ONE  
MERGER PETITION**

**January 17, 2001**

**National Grid USA and Niagara Mohawk  
Merger Petition/Joint Proposal  
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I. Filing Letter (with Service List attached).

II. Merger Petition:

Appendix A - Introduction to National Grid

Attachment A – National Grid’s Annual Review for 1999/2000.

Attachment B – NGC’s Report to the Director General of Gas and Electricity Markets for 1999/2000.

Appendix B - Agreement and Plan of Merger and Scheme of Arrangement by and among National Grid Group plc, Niagara Mohawk Holdings, Inc., National Grid Limited and Grid Delaware, Inc.

Appendix C - Estimated Synergy Savings and Efficiency Gains Methodology for Allocating Synergy Savings.

Appendix D - Environmental Assessment Form

Attachment A – Short Form Environmental Assessment Form.

Attachment B – Niagara Mohawk Environmental Programs.

Attachment C – National Grid USA Environmental Programs.

III. Joint Proposal:

Attachment 1. Electric Delivery Revenues Under Rate Plan.

Attachment 2. Derivation of Over-Market Variable Costs Associated with Niagara Mohawk’s Power Supply Portfolio.

Attachment 3. Standard Offer Service and Market Priced Commodity.

Attachment 4. Indicative Eligible Standard Offer Service (SOS) Customer Load and Market Priced Service (MPS) Customer Load.

Attachment 5. Niagara Mohawk Base Electricity Delivery Rates.

Attachment 6. Class Average Prices and Impacts by Rate Class.

**National Grid USA and Niagara Mohawk  
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- Attachment 7. Expected Proceeds from the Sale of Niagara Mohawk's Nuclear Assets.
- Attachment 8. Transmission Revenue Adjustment Charge.
- Attachment 9. Storm Fund.
- Attachment 10. Environmental Response Fund.
- Attachment 11. Regulatory Deferrals.
- Attachment 12. Illustration of Extraordinary Inflation Adjustment.
- Attachment 13. Service Quality Plan.
- Attachment 14. Congestion Reduction Incentive.
- Attachment 15. Illustration of Implied Capital Structure.
- Attachment 16. Calculation of Equity Sharing Basis.
- Attachment 17. Corporate Structure and Affiliate Rules.
- 1. Exhibit 1. Diagram Showing Post-Merger Structure.
- 2. Exhibit 2. Policies and Procedures for Affiliate Transaction.





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National Grid USA and Niagara Mohawk  
 Merger Petition/Joint Proposal  
 Service List  
 January 17, 2001

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**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**

**Introduction and Summary**

On September 5, 2000, Niagara Mohawk Holdings, Inc. ("NM Holdings") and National Grid Group plc ("National Grid")<sup>1</sup> announced an agreement under which National Grid will acquire NM Holdings through a transaction described later in this filing. As a result of this transaction National Grid indirectly will acquire 100 percent of the common stock of Niagara Mohawk Power Corporation ("Niagara Mohawk"), an electric and gas utility owned by NM Holdings. NM Holdings, Niagara Mohawk, National Grid, and National Grid USA ("Grid USA") (collectively, "Petitioners") accordingly request authorization to effect the indirect acquisition of Niagara Mohawk by National Grid.

As Petitioners will show, the proposed merger is in the public interest and should be approved. The most important benefit of the merger will be its impact on rates for electric delivery service. Under the Incentive Rate Plan ("Rate Plan") outlined in Petitioners' Joint Proposal (cited as "J.P."), which is being filed with this Petition, Niagara Mohawk's revenues from electric delivery service, inclusive of competitive transition charges ("CTCs") but excluding prices for the commodity and the commodity based Delivery Charge Adjustment ("DCA"), will be reduced by \$970 million on a present value basis over the next ten years from

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<sup>1</sup> For the purposes of this proceeding, "National Grid" means the existing National Grid and the New National Grid that is formed pursuant to the Scheme of Arrangement discussed in the section entitled Overview of the Proposed Transaction.

the rates that would have been experienced absent the merger. (J.P. Att. 1, p.1.) These Electricity Delivery Rate reductions mitigate the increase in commodity charges that is projected to become effective on September 1, 2001 for Niagara Mohawk's Non-Market Price customers under SC-1, SC-2, and SC-3.

Under Niagara Mohawk's currently effective rate and restructuring settlement (the "Power Choice Settlement")<sup>2</sup> electric rates must be updated as of September 1 to reset the competitive transition charge (CTC), based on the current forecast of generation market prices. Niagara Mohawk expects to file by May 1, 2001, to make the changes in the CTC and to implement other commodity related changes. The expiration of some of Niagara Mohawk's low cost power contracts, high gas costs that affect the fuel index provisions of several of Niagara Mohawk's other power contracts, ancillary services charges from the New York Independent System Operator and higher market prices have combined to increase Niagara Mohawk's purchased power costs. Effective September 1, 2001, these increases and other adjustments required under the Power Choice Settlement would result in overall rate increases of 8 to 12 percent for the Non-Market Price customer classes, including residential (SC-1, SC-1B, and SC-1C) customers, commercial (SC-2ND and SC-2D) customers, small-to-mid-sized industrial (SC-3 and SC-4S) customers, and outdoor lighting (PSC-214). (Attachment 6e, p.5, line 14.) These increases will be mitigated by over four percent under the Rate Plan. (Id.) Large industrial customers (including SC-3A, SC-4 (over 2 megawatts), SC-11 and SC-12), who generally are served at market rates, likewise will benefit from the merger and the Rate Plan. The merger and Rate Plan will enable these larger customers to receive an average projected overall reduction in Electricity Delivery Rates of 25.2 percent, which includes the reduction that they would

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<sup>2</sup> See Power Choice Settlement Agreement, which was approved by the Commission with modifications in Opinion No. 98-8 (issued March 20, 1998).

otherwise receive on September 1, 2001 under the Power Choice Settlement. (J.P. Att. 6e, p. 2, line 15.) These reductions in Electricity Delivery Rates will offset a portion of the market price increases that these large customers are already experiencing in today's market.

Niagara Mohawk is also entitled under the Power Choice Settlement to file for two 1% increases in delivery rates to be effective September 1, 2001 and September 1, 2002, and to move to cost-of-service rates thereafter. Those base rate increases would be avoided altogether by the merger. As indicated above, petitioners calculate that the merger and Rate Plan will result in customer savings with a present value of approximately \$970 million over the 10 years ended December 31, 2001. (J.P. Att. 1, p.1.)

The Electricity Delivery Rate cuts and long-term price stability are produced by merger synergies and efficiency gains, and by the reduction and reshaping of CTC recoveries. The merger is expected to produce net synergy savings of \$90 million per year that are shared across the combined Niagara Mohawk/Grid USA system. In addition, the Petitioners project efficiency gains of \$60 million per year following the completion of Niagara Mohawk's generation asset divestiture. Opportunities for merger-related cost savings include the consolidation of duplicative functions, the achievement of greater economies of scale, and adoption of best practices. The present value of the synergy savings and efficiency gains assumed to be allocated to Niagara Mohawk equals \$620 million, and the customers' share of these savings (or \$310 million) is reflected in the revenue reductions proposed over the Rate Plan Period. In addition, the Rate Plan reduces, extends and reshapes Niagara Mohawk's CTC recovery, which contributes to the reduction and stabilization of Electricity Delivery Rates and revenues over the Rate Plan Period.

The merger also will benefit gas customers. Petitioners propose to extend by one year the Multi-Year Natural Gas Rate and Restructuring Agreement that was approved by the Commission in Case No. G-99-0336 (the "Gas Settlement").<sup>3</sup> This proposal would result in Niagara Mohawk's gas delivery rates having remained frozen for eight years. As part of the Gas Settlement, Niagara Mohawk is undertaking a number of initiatives in support of the market restructuring objectives stated in the Commission's Policy Statement Concerning the Future of the Natural Gas Industry in New York State (issued November 3, 1998). The merger, by creating a stronger company, will reinforce Niagara Mohawk's ability to implement these commitments successfully.

In addition to the rate reduction and price stability in the Rate Plan, the merger will produce other significant benefits for Niagara Mohawk and its customers. The merger will enhance Niagara Mohawk's ability to finance its operations by putting Niagara Mohawk under the corporate umbrella of National Grid, which is financially much stronger than NM Holdings. The incorporation of Niagara Mohawk into the National Grid system also will enable Niagara Mohawk to benefit from National Grid's valuable experience as an owner and operator of transmission systems in a competitive environment. Finally, the merger will lead to new professional opportunities for Niagara Mohawk's employees, who will become part of a global enterprise.

National Grid has committed that, following the merger, Niagara Mohawk will maintain its traditional role as a leading corporate citizen in the communities it serves. Niagara Mohawk's headquarters will remain in Syracuse. Niagara Mohawk will continue to support local charitable organizations and non-profit activities. Niagara Mohawk also will continue to focus on

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<sup>3</sup> Opinion No. 00-9, issued July 27, 2000.

economic development to help retain and attract jobs to Upstate New York. National Grid's acquisition of NM Holdings, and by extension Niagara Mohawk, constitutes a clear vote of confidence in Upstate New York by a company that owns and operates utilities elsewhere in North America and on four other continents. The proposed transaction, including the multi-year Rate Plan, builds on Niagara Mohawk's current rate and restructuring settlement. As Petitioners will explain in more detail below, the proposed merger is in the public interest and should be approved on an expedited basis.<sup>4</sup>

### **Description of the Petitioners**

NM Holdings is currently an exempt utility holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"), 15 U.S.C. Sections 79 et seq. (1994). NM Holdings' primary subsidiary is Niagara Mohawk, which is an electric and gas utility subject to regulation by the Commission. Niagara Mohawk adopted its present holding company structure in 1999 in accordance with the Power Choice Settlement. Niagara Mohawk's revenues from utility operations for 1999 were \$3.827 billion (\$3.248 billion - electric, and \$580 million - gas).

National Grid directly or indirectly owns electric utilities on five continents. National Grid's forerunner and largest current subsidiary (measured by revenues) is National Grid Company plc ("NGC"), which owns and operates the 4,400-mile high-voltage electric transmission system in England and Wales. NGC, which serves markets with a maximum demand in excess of 50,000 MWs, was formed as part of the privatization of the United Kingdom's electric utility industry in 1990. During the past 10 years NGC has invested more than \$4.9 billion in its transmission system while achieving a 50 percent real reduction in controllable costs and improved system performance.

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<sup>4</sup>Section 9.5.4 of the Power Choice Settlement provides for expedited Staff and Commission review of any Niagara

National Grid has applied its core transmission expertise to other parts of the world. A National Grid subsidiary is part owner and registered operator of Transener, which operates facilities comprising 95 percent of Argentina's high-voltage transmission network. Another National Grid subsidiary owns a major stake in Copperbelt Energy Corporation, which supplies electricity to copper mines in Zambia. A National Grid company recently was awarded a contract to build, own, and operate a 220-mile underwater transmission link between southeastern Australia and the island of Tasmania. National Grid also has major investments in telecommunications businesses in South America and Eastern Europe. National Grid's total revenues for its most recent fiscal year (ended March 31, 2000) were over \$2.6 billion (£1.6 billion).

In March 2000 National Grid completed its acquisition of the New England Electric System ("NEES"), a registered utility holding company under PUHCA. National Grid USA (as NEES was renamed) wholly owns electric distribution utilities providing retail service in Massachusetts (Massachusetts Electric Company ("Mass. Electric") and Nantucket Electric Company), Rhode Island (The Narragansett Electric Company ("Narragansett")), and New Hampshire (Granite State Electric Company). Grid USA's retail rate (on a cents per kilowatt hour basis) is the lowest of the major distribution companies in New England. At the same time, the Grid USA distribution companies have met their commitment to maintain high service quality standards. This combination of low rates and strong service quality has been reflected in high rankings in several customer satisfaction surveys during the past several years. For example, in both 1999 and 2000 the Grid USA system ranked highest in New England and New York in residential customer satisfaction surveys by J.D. Power and Associates.

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Mohawk merger transaction.



Grid USA also owns 99.57 percent of the shares of its principal transmission utility subsidiary, New England Power Company ("NEP"), as well as majority interests in several smaller transmission utility subsidiaries operating in New England. Grid USA's service company, National Grid USA Service Company, Inc. ("Grid Service Company"), provides administrative, engineering, construction, legal, and financial services to Grid USA and its subsidiaries at cost in accordance with the regulations of the Securities and Exchange Commission ("SEC"). Grid USA also owns several other non-utility subsidiaries. NEES's total revenues for calendar year 1999 were \$2.6 billion.

Shortly after becoming part of the National Grid system, Grid USA completed its acquisition of another New England-based utility holding company system, Eastern Utilities Associates ("EUA"). EUA's retail electric utility subsidiaries, which operated in Massachusetts and Rhode Island, were merged into the corresponding Grid USA subsidiaries in those states. EUA's transmission utility subsidiary and service company subsidiary were also merged into NEP and Grid Service Company, respectively. EUA's total revenues for calendar year 1999 were \$554 million. National Grid and Grid USA are described in greater detail in Appendix A to this Petition.

### **Overview of the Proposed Transaction**

Under the Agreement and Plan of Merger and Scheme of Arrangement<sup>4</sup> dated as of September 4, 2000 (the "Merger Agreement," attached as Appendix B), common shareholders of NM Holdings will receive consideration of \$19 per share so long as the value of five shares of National Grid falls within a range of \$32.50 and \$51.00. If the value of five National Grid shares falls above or below this range at closing, the consideration received by shareholders of NM

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<sup>4</sup> "Scheme of Arrangement" is a recognized term by which corporate reorganizations of this form, which require prior approval of the English Courts, are known.

Holdings will be adjusted up or down in accordance with a sharing formula. Shareholders may elect to receive their consideration in the form of American Depositary Shares (“ADSs”) in National Grid, in cash, or in a combination of both, subject to a requirement that cash consideration be at least \$1.015 billion. Under the Merger Agreement, the value of Niagara Mohawk’s common equity is approximately \$3 billion.

As a result of the merger, Niagara Mohawk will become an indirect wholly-owned subsidiary of Grid USA. To implement the acquisition, National Grid will effect a Scheme of Arrangement under which a newly-formed UK-registered holding company, National Grid Group plc (“New National Grid”), will become the holding company of National Grid and National Grid shareholders will receive, in exchange for their ordinary shares in National Grid, new shares issued by New National Grid having the same economic and voting rights. The shares issued by New National Grid will be listed on the London and New York Stock Exchanges (with ADSs representing such shares being listed on the New York Stock Exchange), following which the ordinary shares in National Grid will be de-listed. The Scheme of Arrangement affords Niagara Mohawk shareholders tax-free treatment to the extent that they opt to take shares as consideration when the transaction is completed.

Pursuant to the Merger Agreement, Grid Delaware, Inc. (“Merger Sub”), a wholly-owned subsidiary of New National Grid, will merge with and into NM Holdings, with NM Holdings continuing as the surviving corporation. As the surviving entity, and on completion of the transaction, NM Holdings will be a wholly-owned subsidiary of New National Grid and its direct parent will be Grid USA, which is already registered with the SEC as a holding company.

It is common practice for U.K.-based multinational corporations to hold their non-U.K. subsidiaries through one or more wholly-owned intermediate holding companies incorporated

under the laws of Western European countries. Such a structure was established by National Grid to effect the acquisition of NEES (now Grid USA) and it is intended that such a structure, the use of which was approved by the SEC in the context of that transaction, should remain in place following the acquisition of Niagara Mohawk. The intermediate holding companies do not serve as a means by which National Grid can diffuse control of Grid USA or of Niagara Mohawk. Rather, the structure has the sole purpose of helping National Grid capture economic efficiencies that otherwise might be lost in a cross-border transaction. Absent such a structure, National Grid would not be able to minimize taxes on the repatriation of foreign subsidiary profits. Other U.S. registered holding companies already use similar structures in connection with their own foreign investments.

### **Benefits of the Merger**

#### **A. Electric Rates and Cost Savings**

##### **1. Description of Effect of Merger**

The merger and Rate Plan reduce prices from today's levels and stabilize Electricity Delivery Rates for the next ten years. The Electricity Delivery Rate cut and long-term stability in turn will reduce the present value of Niagara Mohawk's Electricity Delivery Rate revenue by approximately \$970 million over the next ten years compared to the rates Niagara Mohawk would have charged as a stand-alone utility.

Over the next decade, if Niagara Mohawk were operated as a stand-alone company, its customers would face substantial rate increases. In September 2001, the beginning of the fourth year of rates under the Power Choice Settlement, prices for residential commercial and small industrial customers on Non-Market Price services are projected to increase 8 to 12 percent due to increased purchase power costs alone. In addition, Niagara Mohawk is entitled under Section

4.4.4.3 of the Power Choice Settlement to seek an increase capped at one percent annually of non-commodity rates in the fourth and fifth years of the Power Choice rate plan. The longer-term rate trajectory for Niagara Mohawk as a stand-alone utility is not expected to improve after September 1, 2003, the end of the term of the Power Choice Settlement. Niagara Mohawk projects its electricity delivery revenue requirement will increase in 2003 and thereafter until its CTC recovery drops off in 2007.

The merger makes possible an alternative outcome. Under Petitioners' Rate Plan, Niagara Mohawk's Electricity Delivery Rates would be reduced and stabilized. The base transmission and distribution allowance embedded in Electricity Delivery Rates is frozen until December 31, 2002 and limited to 1.7 percent annual increases thereafter, and the CTC recovery is reduced, reshaped and extended. The result is a significant present value savings to customers. A detailed comparison of rates and prices to Niagara Mohawk's customers with and without the merger for each year of the Rate Plan is found in Attachment 6 to the Joint Proposal.

As noted above, synergy savings are expected to average \$90 million annually over the combined Grid USA and Niagara Mohawk system during the ten years following the merger. An additional \$60 million of efficiency gains are expected as Niagara Mohawk completes its generation asset divestiture and transformation to a focused transmission and distribution utility. (See Appendix C.) A substantial share of those savings will be realized through the elimination of duplicative functions, primarily in corporate support areas such as finance, legal, human resources, communications, engineering, and information systems. Estimated synergy savings are based in part on an assumed reduction of between 500 and 750 positions over a four-year period, spread over a combined Grid USA/Niagara Mohawk workforce of approximately 10,000. These savings are in addition to the efficiency gains and employee reductions expected after

Niagara Mohawk's generation asset divestiture. National Grid and Grid USA plan to achieve the employee reductions associated with synergy savings, whether in New York or New England, largely through attrition and voluntary programs.

Other substantial merger savings will be realized through economies of scale and scope. As a result of the merger Grid USA's revenues and customer base will approximately double. This will enable each of Grid USA's utility subsidiaries, including Niagara Mohawk, to cut its purchasing costs, information system costs, and the like. Whatever the source of merger cost savings, they will not be allowed to affect adversely the safety and reliability of Niagara Mohawk's electric delivery service. (See Section E, below.)

The Rate Plan provides continuing incentives to realize further efficiency gains during and after the Rate Plan Period. During the Rate Plan Period, the costs of transmission and distribution service are held well below the forecast of inflation and below the cost projections of Niagara Mohawk as a stand-alone company. Following the Rate Plan Period, Niagara Mohawk must file a rate reduction to reflect the completion of recovery of the fixed costs under the CTC and is provided an opportunity to share in any efficiency gains in excess of those reflected in the Guideline Transmission and Distribution Charges by adjusting the return on equity for the ten years after the Rate Plan. This approach provides a continued incentive for the company to develop new ideas and practices, as well as the resources to make investments necessary to lower costs and maximize the efficiency of operations during and after the Rate Plan Period.

To provide for initial Electricity Delivery Rate cuts followed by rate stability, Petitioners also have reduced and restructured CTC recovery to extend through the entire Rate Plan Period. At the same time, Petitioners have levelized Niagara Mohawk's projected commodity costs over the first four years of the Rate Plan. Instead of reflecting forecast commodity costs (excluding

Ancillary Services) averaging 4.4 cents/kWh at the beginning of year 1 and declining to 4.1 cents/kWh by year 4, the Rate Plan establishes a base commodity cost of approximately 4.3 cents/kWh for all four years subject to a Commodity Adjustment Charge to Standard Service customers. These ratemaking techniques, combined with merger-related cost savings, enable Petitioners to offer customers the benefit of rates much lower than Niagara Mohawk could offer them as an independent utility.

## **2. Continued Commitment to Transition to Competitive Markets**

Niagara Mohawk and Grid USA are strongly committed to facilitating the development of competitive energy markets in the Northeast. Following the merger, Petitioners will continue to be focused on energy delivery as a core business strategy. Petitioners believe that, when market institutions can be made workable, competition will result in better services produced at a lower cost than would a continuation of the traditional regulated monopoly over generation.

However, in view of the recent problems in electricity markets in California and the Northeast, Petitioners also recognize that achieving those workably competitive market institutions is going to take longer than originally anticipated, and that a longer transition period may be needed for small customers. This additional time will allow some of the problems that have emerged in wholesale markets to be addressed or their impacts mitigated. Additional time will also allow the development of a clearer vision of default and standard offer services, including what those services should be, how they should be priced, who should be eligible for them and who should provide them.

As part of this filing, Petitioners are proposing to provide hedged commodity service for small customers (primarily residential and small commercial) for several more years than was originally planned in the Power Choice Settlement. At the same time, Petitioners are planning to

continue to move larger customers to market priced service as additional hedged contracts expire, and to support the development of programs to increase the amount of load that can respond to wholesale market prices. To help facilitate retail competition, Petitioners will also, to the extent practicable, make the processes and procedures related to retail access more uniform across the U. S. regulated affiliates of National Grid in order to minimize the administrative costs of competitive energy suppliers.

Niagara Mohawk and Grid USA recognize that some of these issues are the subject of several ongoing Commission proceedings. Following the merger, Niagara Mohawk will continue to participate actively in those proceedings and to support the development of efficient competition in both wholesale and retail markets.

**B. Gas Delivery Rates**

Niagara Mohawk's gas delivery rate freeze will be extended for an additional year (through August 31, 2004).

**C. Enhanced Ability to Finance Operations**

While Niagara Mohawk's financial condition is considerably less precarious than it was prior to implementation of the Power Choice Settlement, it remains less than robust. Niagara Mohawk's bond ratings are BBB+/Baa2. Niagara Mohawk has not paid a common dividend since the fourth quarter of 1995. Largely as a result of Niagara Mohawk's voluntary agreement to forego a return on the regulatory asset associated with its \$4 billion buy-out of above-market contracts with independent power producers during the five years of the Power Choice Settlement, Niagara Mohawk's earnings have been minimal.

The financial soundness of the National Grid system, by contrast, is unquestioned. According to the December 18, 2000 edition of Standard & Poor's Utilities and Perspectives,

National Grid, Grid USA, NEP, Mass. Electric, Narragansett, and NGC each were rated A+. As part of the National Grid system, Niagara Mohawk's creditworthiness will be enhanced, thus improving its access to capital. As a member of the National Grid system, Niagara Mohawk will participate in a financing facility among the member companies of the Grid USA system.

Niagara Mohawk will participate in intercompany borrowing arrangements currently in place among the subsidiary companies of the Grid USA system. These arrangements, which NEES maintained for many years and which have been approved by and are subject to regulation by the SEC, provide short term financing flexibility for Grid USA and its utility subsidiaries.

Participation in the National Grid USA Money Pool will provide Niagara Mohawk with another source of short-term capital to help manage its cash working capital requirements.

#### **D. Community Commitments and Economic Development**

National Grid recognizes Niagara Mohawk's status as a leading corporate citizen in the communities it serves. Accordingly, National Grid and Grid USA are committed to maintaining Niagara Mohawk's role in the life of Upstate New York. Niagara Mohawk will retain its name and Niagara Mohawk's headquarters will remain in Syracuse.

Following the merger, Niagara Mohawk will continue to focus on economic development in Upstate New York through a separate Economic Development Fund. This effort will also continue the close coordination with public agencies at the local and state level and with the New York Power Authority. The Electricity Delivery Rate cut and freeze made possible by merger savings should also enhance economic development in Niagara Mohawk's service territory.

#### **E. Customer Service Commitment**

The staffing reductions expected as a result of the merger should not adversely affect service quality. Petitioners' Rate Plan includes a Service Quality Plan under which Niagara



Mohawk would receive annual rewards or penalties of up to \$21.9 million (pre-tax) based on performance in maintaining high-quality customer service, as measured by Commission-approved criteria. (See Attachment 13 to the Joint Proposal.) The proposed maximum rewards and penalties will give Niagara Mohawk both the incentives and the resources to provide a high level of customer service.

Grid USA has a strong tradition of maintaining a high level of service quality. In every year since 1995, more than 90 percent of the customers of Grid USA in independently conducted surveys have given the company one of the top three scores on a seven-point scale. For example, a recent J.D. Power survey ranked Grid USA first in residential customer satisfaction among utilities in New England and New York. Other customer satisfaction surveys corroborate these results. The Grid USA record, coupled with the performance incentive included in Petitioners' Service Quality Plan, provides strong incentive to maintain and improve service quality following the merger.

**F. Congestion Reduction Program**

Petitioners propose that Niagara Mohawk institute a Congestion Reduction Incentive to reduce congestion on the transmission system. (See Attachment 14 to the Joint Proposal.) Niagara Mohawk would be allowed to recover 50 percent of the savings from reduced transmission congestion, unless a transmission improvement that reduces congestion is otherwise financially supported.

**G. Honoring Labor Agreements**

Petitioners commit to honor all existing labor contracts, and to negotiate new contracts in good faith as current agreements expire. The proportion of Grid USA's workforce that is represented by a union is approximately the same as for Niagara Mohawk.

## **H. Employee Benefits**

As part of a global business enterprise specializing in electric power delivery, Niagara Mohawk will be able to offer its employees additional opportunities to broaden and deepen their professional and personal experience. Former Grid USA employees, for example, have been detailed for periods of several weeks to one year to NGC, National Grid's U.K. transmission subsidiary. Upstate New York will benefit in intangible but real ways from the broader perspective that will come to Niagara Mohawk's employees as they join a world-wide corporate family.

## **I. Consistency with Power Choice and Gas Settlements**

The merger is consistent with, and builds upon, the Power Choice and Gas Settlements. The Power Choice Settlement set the ground rules for the competitive restructuring of Niagara Mohawk's electric operations by authorizing the introduction of retail choice for all customers, the departure of Niagara Mohawk from the generation business through divestiture, the buy-out and buy-down of Niagara Mohawk's most burdensome power purchase contracts, and the recovery of stranded costs. In a parallel fashion, the Gas Settlement is designed to increase customer choice of gas supply and service options, facilitate the development of a competitive market, reduce Niagara Mohawk's merchant function responsibilities, and provide for stranded cost recovery.

Now Niagara Mohawk is poised to join a utility system that has similarly restructured itself as an energy delivery business, and with which Niagara Mohawk already shares an electric transmission interconnection.<sup>5</sup> Some provisions of the Power Choice Settlement, such as its

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<sup>5</sup>Niagara Mohawk and Grid USA are interconnected directly via the 230 KV Rotterdam to Bear Swamp line and indirectly through the companies' participation in the New York Independent System Operator and the New England Independent System Operator, respectively.

stranded cost recovery provisions, by their nature are implemented on an ongoing basis. The Gas Settlement similarly contains provisions that are to be implemented over an extended period. The merger accordingly is contingent on the continuing effectiveness of the provisions of the Power Choice Settlement and the Gas Settlement except to the extent such provisions are superseded by Petitioners' Joint Proposal.

#### **J. Additional Regulatory Considerations**

As a subsidiary of a holding company registered under the Public Utility Holding Company Act, Niagara Mohawk will require SEC authorization of its securities issuances. SEC authorization also will be required before Niagara Mohawk may procure, at cost, administrative, engineering, construction, legal, and financial services from a service company such as Grid Service Company. In most respects, the SEC's jurisdiction parallels that of the Commission. With certain exceptions, Niagara Mohawk's securities issuances currently are subject to Commission approval. Niagara Mohawk's procurement from affiliates of certain services similarly is subject to Commission authorization.

National Grid will provide the Commission access to the books, records and financial statements, or copies thereof, of any of its subsidiary companies, in English, as the Commission may request.

#### **Requested Authorizations**

Petitioners request the following authorizations in connection with the merger.

1. Acquisition of Niagara Mohawk Stock. Commission approval pursuant to N.Y. Public Service Law § 70 is requested to enable National Grid indirectly to acquire 100 percent of the common stock of Niagara Mohawk in accordance with the description in this filing

as it may be modified prior to closing as long as Niagara Mohawk does not assume any additional obligations.

2. Joint Proposal and Incentive Rate Plan. Petitioners seek Commission approval under N.Y. Public Service Law §§ 65(1), 104,110 of the Joint Proposal in a form substantially similar to that proposed by Petitioners.
3. Financing. Petitioners request a finding under N.Y. Public Service Law § 69 that Niagara Mohawk's participation in the National Grid USA Money Pool, whether as borrower or lender, and participation of Niagara Mohawk's affiliates as lenders, are appropriate, so long as such participation is fully in conformance with the National Grid USA Money Pool Agreement.
4. Change in Fiscal Year. To conform Niagara Mohawk's fiscal year to the fiscal year employed by the National Grid system, Petitioners request authorization pursuant to N.Y. Public Service Law § 66(4) for Niagara Mohawk to convert from a calendar year fiscal year to a fiscal year ending March 31<sup>st</sup>.

#### **Other Regulatory Filings**

Certain other regulatory filings must be made, and approvals obtained, as conditions precedent to closing of the merger. These include:

##### **A. Federal Energy Regulatory Commission**

The Federal Energy Regulatory Commission ("FERC") has interpreted Section 203 of the Federal Power Act as requiring FERC approval of a transfer of indirect control and ownership of jurisdictional facilities. Since the Merger Agreement provides for the transfer of ultimate control and ownership of Niagara Mohawk's transmission system from NM Holdings to National Grid, Petitioners will file with the FERC an application seeking authorization to effectuate the merger.

**B. Securities and Exchange Commission**

NM Holdings, a holding company exempt from most provisions of PUHCA under Section 3(a)(1) of the Act, and National Grid, Grid USA, and the various intermediate holding companies, each of which is a utility holding company registered with the SEC under PUHCA, all are required to obtain approval from the SEC prior to merger. In addition, authorization will be requested for Niagara Mohawk to participate in the National Grid USA Money Pool and for Grid Service Company to provide to Niagara Mohawk the same types of services that Grid Service Company already is authorized to provide to Grid USA and its existing subsidiaries.

**C. Hart-Scott-Rodino**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"), the merger may not be consummated until the requisite notifications and report forms have been filed with the U.S. Department of Justice and the Federal Trade Commission, and the statutorily prescribed waiting periods have expired.

**D. Exon-Florio**

NM Holdings and National Grid will make a filing under the Exon-Florio Amendment. 50 U.S.C. App. § 2170.

**E. Federal Communications Commission ("FCC")**

NM Holdings and National Grid will file for approval from the Federal Communications Commission for the transfer of control of Niagara Mohawk as an FCC licensee.

**F. Other Regulatory Approvals**

Since Grid USA's utility subsidiaries own transmission facilities in New Hampshire and Vermont and provide retail distribution service in New Hampshire, the "Scheme of Arrangement" involved in the merger, but not the merger itself, requires the approval of the

Vermont Public Service Board and the New Hampshire Public Service Commission by virtue of the change-of-control statutes in those states.

Petitioners are not seeking approval of the merger from the U.S. Nuclear Regulatory Commission ("NRC") because they expect to own no NRC-jurisdictional facilities as of the closing of the merger. Indeed, the merger contemplates that Niagara Mohawk's pending sale of its interests in Nine Mile Point Unit 1 and Nine Mile Point Unit 2 first be completed.

### **Conclusion**

National Grid's acquisition of Niagara Mohawk will benefit customers through lower Electricity Delivery Rates. The merger of Niagara Mohawk into the National Grid system also will allow Niagara Mohawk to benefit from the expertise National Grid has gained during more than a decade of owning and operating transmission systems across the world in a deregulated environment. For these and the other reasons set forth above, Petitioners submit that the acquisition by National Grid of Niagara Mohawk is in the public interest and request that the Commission approve the acquisition and provide the other, related authorizations set forth above.

Respectfully submitted,

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NIAGARA MOHAWK POWER CORPORATION  
NATIONAL GRID GROUP plc  
NATIONAL GRID USA

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January 17, 2001





## **Introduction to National Grid**

## INTRODUCTION TO NATIONAL GRID

The purpose of this document is to introduce National Grid Group plc (National Grid) to the Commission, to describe the Company's activities in the United Kingdom, the United States and internationally, to describe the experience the company has in operating electric transmission and distribution systems; and to indicate how that experience, including the Company's operational track record, may be used to bring benefit to the customers of Niagara Mohawk and to the economy of Upstate New York.

National Grid has developed from its origins in electricity transmission in the UK, to become an international business, focused on the ownership, development and operation of networks in the energy and telecommunications sectors. National Grid is listed on the London and New York Stock Exchanges, with a current market capitalization of over \$12 billion. It is included in the top 100 companies, by market capitalization, on the London Stock Exchange. A copy of National Grid's Annual Review for 1999/2000 forms Attachment A to this document.

The Company has its origins in the UK and has built up a base of experience operating in the UK electricity market. Prior to 1990 the electricity industry in England and Wales was government-owned, with the Central Electricity Generating Board

(CEGB) having been created in 1958 to own and operate substantially all of the nation's power stations and its high-voltage transmission system. The electricity industry in England and Wales was privatized in 1990 and the National Grid Company plc (NGC) was created, from the former transmission and system operations departments of the CEGB, to develop, operate and maintain the national high-voltage electricity transmission system. NGC was and remains a wholly-owned subsidiary of National Grid. NGC owns and operates some 4,400 miles of high-voltage transmission in a liberalized electricity market having a maximum electricity demand of over 50,000MW. Since 1990, NGC has invested over \$4.9 billion in its transmission system and has facilitated the electricity market by providing connection for over 26,000MW of new efficient generation, while coping with the operational challenges of some 20,000MW of older generation being closed or placed in reserve. Since its inception, NGC has operated under an incentive regulatory control, which limits the annual price increases which may be experienced by its customers to the inflation rate (retail price index) minus an efficiency factor set by the regulator (referred to as "X"). Over the years NGC has worked constructively with the regulator and its customers to develop the regulatory arrangements which surround its operations in a fashion that provides mutual and equitable benefits to customers and shareholders.

Customers have benefited from NGC's performance as follows. Since 1992 NGC has reduced its controllable operating costs by 50% in real terms and reduced the unit

costs of transmission by some 37% in real terms. It has done this by utilizing a range of initiatives to improve operating efficiency. For example, NGC has extended remote control of substations, improved in the way it develops technical specifications and procures goods and services, expanded the use of condition monitoring and non-invasive maintenance techniques and implemented many other innovative measures. In addition, NGC is also the system operator in England and Wales and is financially incentivized to manage and reduce the cost of congestion on the transmission system and the cost it pays for the procurement of ancillary services to maintain supply quality. Between 1994, when such incentives were introduced and the year 2000, the cost of so-called "uplift", which is borne by customers, has reduced by more than 50% (from nearly \$1 billion to less than \$400 million).

Cost-cutting has not impaired service quality. NGC has to report annually to the industry regulator on a number of aspects of the operation of its transmission system and on supply quality. The statistics have shown that standards have consistently been maintained and improved over the period in which the cost reductions have taken place. Since 1993/4 there have been material increases in system availability, with the current level for winter peak standing in excess of 99%. A copy of NGC's Report to the Director General of Gas and Electricity Markets forms Attachment B to this document. NGC has also sought to minimize the impact of its operations on the environment by

reducing the need for new construction. It has invested significant sums (some \$12 million per year) on targeted and focused research, much of this expenditure directed towards increasing the capacity of its existing transmission facilities, both to facilitate the electricity market and to reduce transmission congestion.

National Grid has also proven its ability to successfully utilize its core skills in electricity transmission and distribution elsewhere in the world and under different market structures. National Grid is a significant shareholder in and licensed operator of Transener, which operates 95% of the Argentinian high-voltage transmission system, a network of some 8,900 miles. Unlike NGC, it is a "wires business" with system operation being handled by a separate government-owned non-profit entity. Transener operates under a regulatory regime which includes strong financial performance incentives. Since 1994, after the Argentinian transmission system had been privatized by the government, Transener's performance has improved from a fault rate of 1.48 faults per 100km of transmission circuit per year to 0.25 faults per 100km in 1999. This marked improvement in performance occurred at the same time that annual system demand for electricity increased from 50,000 GWh to nearly 70,000 GWh, placing further challenges for operation of and investment in the transmission system.

National Grid's skills and performance in the UK and elsewhere in the world are being successfully applied in the United States electricity industry. The former New England Electric System (NEES) became an integral part of the National Grid Group in March 2000. This was swiftly followed by the acquisition of a neighboring company, Eastern Utilities Associates (EUA), in the spring of the same year. National Grid USA (as NEES was renamed) and its regulated electric distribution affiliates, Massachusetts Electric, Narragansett Electric, Granite State Electric and Nantucket Electric have a long history of providing superior service to customers in the three New England States in which they operate. These companies own and operate approximately 25,000 miles of distribution network and have approximately 1.7 million customers. Through its affiliate, New England Power Company, National Grid USA also owns approximately 3000 miles of transmission network. Through a planned divestiture program, first announced in 1996 (the first US company to make such a decision) and completed in September 1998, National Grid USA has divested the vast majority of its generation interests and is pursuing the sale of the remainder, making it a focused electric delivery business. National Grid USA, like its sister company NGC, has a long history of constructive working relationships with both Federal and State regulators and with its customer base, seeking to develop new aspects of its regulatory framework which will take the company forward in a way which aligns the interests of customers and shareholders.

National Grid recognizes the importance of continuing to provide local management focus to its US acquisitions. National Grid acquired NEES because it wished to have a well-managed company with a strong operational performance to form a platform for its US utility operations. Richard P. Sergel, former President and CEO of NEES, is now Group Director, North America for National Grid and has a seat on the National Grid Group Board, as well as being President and CEO of National Grid USA. He thus has direct input to Group policy development and, indeed currently National Grid's Latin American electricity operations report to him. Another former NEES Director, Professor Paul Joskow, has a non-executive seat on the National Grid Board. The US-based management team retains the strength of their local US-management, which was responsible for the successful development of NEES, augmented by experienced managers, with US knowledge and experience, from the former EUA and a small number of British managers, formerly from NGC.

This pattern will continue. National Grid has already made public its intention that National Grid USA will, post-merger, be organized as two geographic divisions covering New York and New England. The New York division will be managed from Syracuse, which will continue to be the headquarters of Niagara Mohawk. William E. Davis, Chairman and Chief Executive Officer of Niagara Mohawk, will become Chairman of National Grid USA and will join the National Grid Group Board for two years following the transaction. National Grid USA has senior executives based locally

in each of the States in which it operates. As part of National Grid USA, Niagara Mohawk will retain its ability to respond effectively and swiftly to local issues, on regulatory, governmental and business fronts, but will add the financial and technical strength, resources and experience of National Grid to assist in its future development.

National Grid has a track record of responsiveness to regulators and also believes that incentive-based regulation can provide high quality service at lower costs to customers. The acquisition of EUA and the integration of its regulated affiliates into National Grid USA's existing companies required the agreement of regulators in Massachusetts and Rhode Island to the merger and associated rate plans. National Grid USA worked intensively with stakeholders, representing a wide range of interests, to develop and file settlements incorporating long-term incentive rate plans. These were similar in outline for the two States, but differed in detail in order to be responsive to differing local conditions, priorities and precedents. Both plans provide strong financial incentives for cost efficiency and explicit frameworks for the quantification and equitable sharing of efficiency savings between customers and shareholders. They are designed to ensure that customers continue to enjoy delivery rates which are among the lowest in the region. The settlements were ultimately accepted, without material modification, by the State Commissions.



The strong incentives for cost control were not adopted without an equal concern for the quality of service. The plans for both Massachusetts Electric and Narragansett Electric incorporate comprehensive service quality plans, where the companies bear the direct financial consequences of their ability (or inability) to provide acceptable service from both a technical and customer service point of view. In this latter regard it should be noted that National Grid USA was ranked fourth in residential customer satisfaction among electric utilities in the eastern US, according to a study recently conducted by J D Power and Associates and Navigant Consulting, Inc.

In summary, National Grid USA is a company whose business focus and declared business strategy, as part of the National Grid Group, is on the ownership, development and efficient operation of utility networks. It has a long track record of providing low-cost delivery service, while paying close attention to the interests of its customers. Being part of the National Grid Group has given it unparalleled access to financial resources and technical expertise, borne of the parent company's decade of experience in providing utility network service under a variety of incentive regulatory frameworks both in the United Kingdom and elsewhere. It is this strength and breadth of resource which will be available in the future to Niagara Mohawk and its customers, upon completion of the merger.

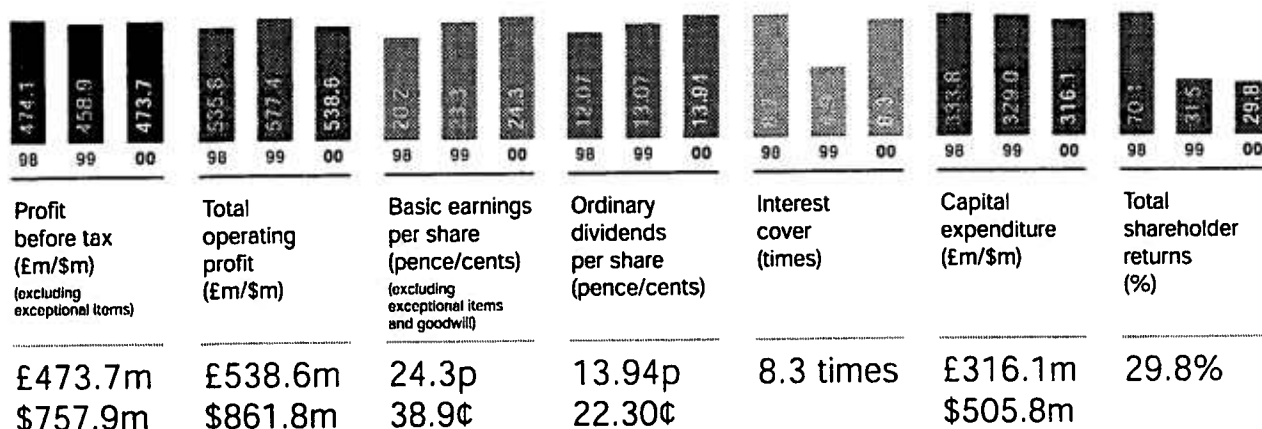


# National Grid Annual Review 1999/2000

National Grid USA and Niagara Mohawk  
Merger Petition  
Appendix A  
Attachment A



## Financial highlights

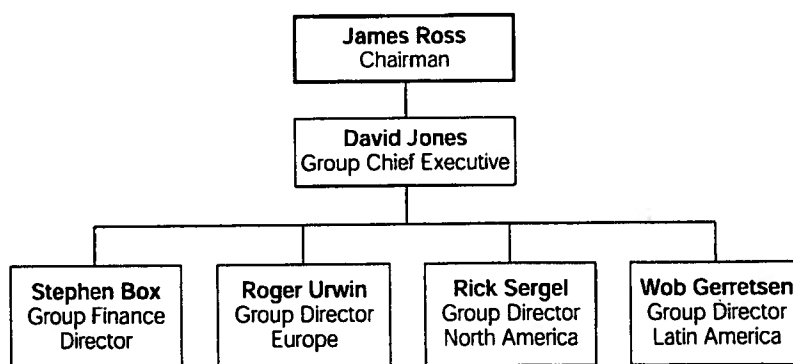


Note: except where specifically indicated to the contrary, amounts in US dollars have been expressed at the exchange rate on 31 March 2000 of £1=\$1.60

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## Group structure



## Our strategy

We have transformed National Grid from a regulated electricity utility into a dynamic business built on our skills in electricity and telecoms networks. We are able to support dividend growth through efficient operation of cash-generative electricity transmission and distribution networks and deliver significant value in the longer term through our skills in developing start-up telecoms networks, gained in the creation of Energis

### Electricity networks



Argentina - our joint venture has a majority stake in Transener and operates 95 per cent of the Argentine transmission system, some 8,900 miles.

Australia - we won the bid to build, own and operate the 220-mile Basslink interconnector between Tasmania and the Australian transmission system.

UK - we own, operate and maintain the 4,500-mile high-voltage transmission network in England and Wales, balancing the nation's demand with generation second-by-second. We have interconnectors with Scotland and France and are constructing another to the Isle of Man.

USA - National Grid USA (formerly NEES and EUA) has around 25,000 miles of distribution network with approximately 1.7 million customers in Massachusetts, Rhode Island and New Hampshire. We also have around 2,500 miles of transmission network.

Zambia - our joint venture, Copperbelt Energy Corporation, owns and operates the transmission network of some 500 miles supplying electricity to the mines of the Zambian Copperbelt.

### Telecoms networks



Argentina - since May 2000, we have owned 50 per cent of Southern Cone Communications, which is developing a telecoms network in Argentina with a spur to Chile.

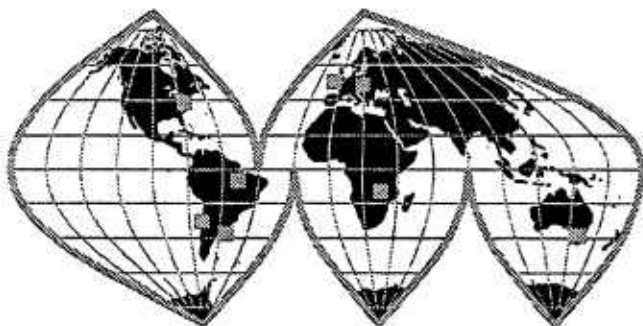
Brazil - we own 50 per cent of Intelig, Brazil's second national and international telecoms service provider. Voice services were launched on 23 January 2000 and data services are due to be launched on 23 July 2000.

Chile - we own 30 per cent of Telefonica Manquehue, a competitive local exchange carrier in Santiago, Chile. It also owns 30.1 per cent of Southern Cone Communications in Argentina.

Poland - we have 23.75 per cent of NGKT, jointly owned by Energis, the Polish national railway operator and Centrala, a local telecoms operator. NGKT was selected for a licence to construct and operate a national telecoms network in Poland.

UK - we own 36.3 per cent of Energis, a telecommunications and internet company focused on the business market and providing a full portfolio of voice, data and internet services, which we created in 1992 and floated in 1997.

USA - a subsidiary of National Grid USA, NEESCom is a dark-fibre telecoms business which leases unlit fibre strung on distribution and transmission infrastructure to telecoms, cable and internet operators.



## Statement by the Chairman and the Group Chief Executive

Last year was another very good year for National Grid. Our businesses again performed strongly and we took further important steps in our international strategy for growth.

We have enhanced our earnings potential and our electricity skills with the acquisitions of NEES and EUA. We are building a powerful presence in Latin America in telecoms, with the launch of Intelig's services in Brazil and the development of a new network in Argentina and Chile. We have invested in a telecoms venture in Poland, which has great potential. These investments will enable us to create value in the future, as we have done with Energis, the further partial disposal of which realised approximately £1.0 billion last year.

Reflecting our international expansion, we have adopted a new structure which provides the geographic spread we need to manage the Group and take advantage of the opportunities open to us.

### Group results

Profit before tax was £1,501.0 million, including the profit of £1.0 billion from the partial disposal of Energis. Excluding this, underlying profit before tax rose to £473.7 million.

We improved operating profits from UK Transmission, Interconnectors and Transener, while Energis reduced its operating losses. Even so, total operating profit fell by £38.8 million to £538.6 million, mainly because of the expected start-up losses in our telecoms joint venture in Brazil. However, operating profits in 1998/99 were increased by £15.2 million on the release of provisions in accordance with the new financial reporting standard, \*Provisions, Contingent Liabilities and

Contingent Assets\* (FRS 12), adopted last year, and year-on-year comparisons are distorted as a result.

National Grid USA has been part of the Group for only a short period - since 22 March 2000 - and its contribution to last year's results is therefore not material.

The partial disposals of Energis in February 1999 and February 2000 had the effect of reducing the net interest charge, which fell by £53.6 million. However, net interest will increase in the 2000/01 financial year as a result of the payment for NEES.

Basic earnings per share rose 13 per cent to 78.0 pence, reflecting the realisation of value from our investment in Energis. Earnings per share, excluding exceptional items, goodwill amortisation and telecoms start-up losses, rose 15 per cent to 28.3 pence.

The Directors are recommending a final ordinary dividend of 8.35 pence per share, which brings the total ordinary dividend for the year to 13.94 pence net per share, an increase of 6.7 per cent (5 per cent in real terms). Once again, this is at the top end of our target range of delivering growth in dividend per share of 4 to 5 per cent in real terms for the duration of the current regulatory price control. If approved, the final dividend will be paid on 15 August 2000 to shareholders on the share register on 5 June 2000.

### Review of operations

#### Electricity networks

#### UK Transmission

UK Transmission performed strongly, both operationally and financially.



10 YEARS OF BENEFITS TO CUSTOMERS AND SHAREHOLDERS

New line increases electricity

National Grid won Basslink

New long-term deals in New England

Chairman James Ross (left) and  
Group Chief Executive David Jones

The current four-year price control will end in March 2001 and, with less than a year to go, we are on track to match our target of reducing controllable costs by an average of 6 per cent a year in real terms.

This was the third year in which the winter peak availability of the system was over 99 per cent, adding to the powerful track record we have developed over the 10 years since privatisation.

The introduction of the New Electricity Trading Arrangements (NETA) will fundamentally change the way wholesale electricity is traded in England and Wales. We will keep our essential role of balancing generation and demand, but there will be new commercial dimensions and new challenges for the management of the system.

#### **National Grid USA**

The creation of National Grid USA following completion of the NEES and EUA acquisitions on 22 March and 19 April 2000 respectively has given us a platform for growth in the world's largest electricity market. The operations of NEES and EUA were integrated on 1 May 2000 under 20-year regulatory agreements in Massachusetts and Rhode Island which provide incentives for efficiency and allow for long-term planning. Following a thorough integration process, we expect to save around 50 per cent of EUA's controllable costs.

#### **Argentina**

Transener in Argentina performed well. During the year, it improved operational performance and commissioned the fourth transmission line, an 800-mile line which supplies Buenos Aires.

#### **Zambia**

Our joint venture Copperbelt Energy Corporation continued to perform well and a major restructuring undertaken during the year will further improve profitability. It is well-placed to take advantage of the opportunities presented by the privatisation of the Zambian copper mines, which will result in renewed investment and increased demand for electricity.

#### **Telecoms networks**

##### **Energis**

Energis continues to build its business and performed strongly during the year, with turnover up 73 per cent to £494.0 million including joint ventures. Earnings before interest, tax, depreciation and amortisation (EBITDA) rose 86 per cent to £92.3 million and our share of its operating profit before goodwill amortisation was £1.3 million. This compares with 1998/99, when our share of Energis' operating loss was £9.6 million.

In November 1999 Energis acquired EnerTel, which has one of the largest alternative telecoms networks in the Netherlands, partially funding this acquisition through a placing of 14.7 million of its own shares. The placing diluted our holding in Energis from 48.3 per cent to 46 per cent. In February 2000,

FROM UK TRANSMISSION

capacity to Buenos Aires by  $\frac{1}{3}$

interconnector

benefit customers and shareholders

## Statement by the Chairman and the Group Chief Executive continued

high share prices in the telecoms sector took the value of our holdings in Energis to 78 per cent of our own market capitalisation. We therefore took the opportunity to realise some of the value of our Energis holding by placing 28.9 million Energis shares in the market at £33.80 per share.

The total profit from Energis-related transactions during the year was £1,027.3 million before tax.

### **Brazil**

Intelig launched voice services on 23 January 2000, just 12 months after the award of its licence. Its national network already links 38 major cities in all the Brazilian states. Intelig has established a good reputation and a significant market presence, creating the right platform from which to launch data services, its main business focus, in July this year.

### **Argentina and Chile**

Southern Cone Communications, our joint venture created in May 2000, is developing a broadband communications loop in Argentina. The loop, which will extend into Chile, uses the optical fibre already installed on Transener's fourth electricity transmission line.

We have also invested in Telefonica Manquehue, a competitive local exchange carrier in Santiago, Chile. These investments take us a step further in our strategy of building a significant presence in Latin America's three major economies.

### **Poland**

We are delighted to be working with Energis in the creation of an alternative national telecoms network in Poland. We expect NGKT, our joint venture, to launch services around the end of this calendar year, benefiting from the forecast growth in demand for telecoms.

### **New telecoms investments**

We expect start-up telecoms ventures in Latin America and Poland to involve investment of some £220.0 million in 2000/01, with start-up losses of around £80.0 million.

### **Group structure**

To reflect the needs of the expanding Group, we have widened the membership of the Board and adopted a new Board structure. On completion of the NEES acquisition, Rick Sergel, former President and Chief Executive Officer of NEES, joined the Board and is now Group Director with responsibility for North America. Roger Urwin is Group Director with responsibility for Europe and Wob Gerretsen is Group Director with responsibility for Latin America, where he is now based. Professor Paul Joskow, formerly a Non-executive Director of NEES, has joined the Board as a Non-executive Director.

We are also introducing a new governance framework to assist the Board in directing and controlling the expanding business. This is intended to enable the Group to discharge its duties of accountability to shareholders and other key stakeholders and to ensure that it can meet its business objectives, its legal,

# Telecoms venture



regulatory and environmental obligations and its wider social and ethical responsibilities in every country in which it has a presence.

#### **US listing**

National Grid American Depositary Shares (ADSs) were listed on the New York Stock Exchange on 7 October 1999, demonstrating our commitment to the USA. Our listing should raise our profile over time and also enables National Grid USA staff to become shareholders.

#### **Our staff**

The commitment and contribution of our staff is critical to our success. The way in which the Group is fulfilling its potential is a tribute to our people, who have risen to the challenges of moving beyond our traditional borders - working internationally, integrating new business streams and taking on greater responsibility. To encourage people to see the wider context of their role, we held a staff conference in December 1999 with 900 representatives from our businesses in North America, Europe, Latin America and Africa.

We are proud of our people and proud of our record as a good employer. This was reinforced during the year through a formal commitment to achieve the Investor in People standard in our UK-based operations.

#### **The environment**

During the year, we introduced a new environmental management system for our UK operations. We are delighted that this received the internationally recognised ISO 14001 certification in May 2000, underlining our commitment to high standards of environmental performance.

#### **Outlook**

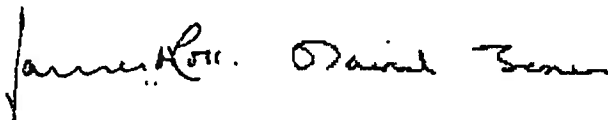
In the UK, our focus is on the ongoing regulatory review and the preparations for introduction of the New Electricity Trading Arrangements this autumn.

In the USA, the fragmented nature of the electricity market in the north-east provides opportunities for further consolidation. Our excellent record of cost control, our integration skills and our regulatory expertise put us in a strong position to take advantage of these opportunities.

In Latin America, the success of Intelig is enhancing our position and we are also investing in telecoms networks in Argentina and Chile.

Energis continues to be an outstanding success and we intend to realise the value of our investment within the next three years.

Our strategy provides a powerful combination of cash generation, which supports a progressive dividend policy, and substantial capital appreciation.



**James Ross**  
Chairman

**David Jones**  
Group Chief Executive

**for National Grid and Energis in Poland**

**OF CUSTOMERS CHOOSE INTELIG**

**in benefits from our move into the**







Since privatisation in 1990, we have reduced our transmission controllable costs by over 50 per cent in real terms and saved a further £1 billion by reducing the costs of congestion on the system. At the same time, we have consistently broken our own records for availability and reliability, while demand on the system rose to an all-time high of 50.6 GW in December 1999.



Engineer Philip Wall with one of the mechanical bores that is being used to dig a mile-long tunnel under the streets of north London as part of the project to reinforce London's transmission capacity.

There must come a point when you can cut costs no further. Are you there yet?

We have cut transmission controllable costs by over 50 per cent in real terms since privatisation and remain on target to achieve an annual cost reduction of 6 per cent in real terms for the current four-year price control period which ends in April 2001. The most significant cost savings have already been made. We now operate from just one control centre and have automated the majority of our substations - things which can only be done once.

However, there are still some efficiency savings to be made. We have told Ofgem, the body which regulates the electricity and gas markets in the UK, that we believe we can reduce controllable costs by a further 13 per cent by the end of the next price control period, which we expect to be March 2006.

How are you approaching the price review?

We are doing all we can to ensure that the plans we have put forward are realistic. We will continue to be open with the regulator about our past performance and future plans, ensuring a high level of transparency in the way we operate.

What are the new trading arrangements and how do they affect your operation?

The New Electricity Trading Arrangements (NETA) are scheduled to be implemented in autumn this year. They introduce a completely new commercial mechanism for the trading of electricity in England and Wales, replacing the existing Pool. While the essential activity of balancing generation and demand will remain with us, it will become more complex, with many new commercial dimensions, requiring new software systems to be developed.



## Operating profit (£m)

UK TRANSMISSION

98	514.2
99	507.9
00	522.0

Transmission charges are set a year in advance to recover our regulated income, on assumptions of what the demand will be. The mild winter of 1998/99 left over £24m to recover this year. The impact of the RPI-X formula is therefore offset by the recovery of last year's under-recovery, although another mild winter leaves us with £4m to recover next year.

# 10 YEARS OF TRANSMISSION BENEFITS TO CUSTOMERS AND SHAREHOLDERS

New capacity added in 1990/2000 and plans under construction

Changes to the UK transmission system since 1990

● BUILT

● UNDER CONSTRUCTION

● SHOTT - PAPER  
● WINNAN

● SALTEND

● STAYTHORPE

● GREAT YARMOUTH

● BOXTON

● IS - DOWN

● OAKHEAD CHILL

● TIPO STS FORD  
● SEABRAE BRIDGE 2

● TARNET COLLY

● 1990/1991 - 1992/1993 - 1994/1995 - 1996/1997 - 1998/1999 - 2000/2001

● 1990/1991 - 1992/1993 - 1994/1995 - 1996/1997 - 1998/1999 - 2000/2001

● 1990/1991 - 1992/1993 - 1994/1995 - 1996/1997 - 1998/1999 - 2000/2001

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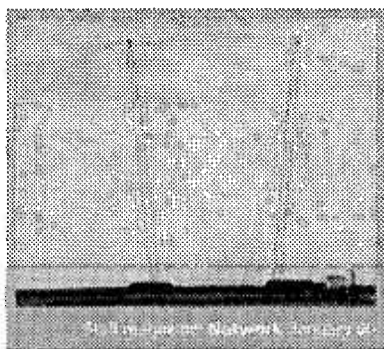
● 1990/1991 - 1992/1993 - 1994/1995 - 1996/1997 - 1998/1999 - 2000/2001

● 1990/1991 - 1992/1993 - 1994/1995 - 1996/1997 - 1998/1999 - 2000/2001

## Electricity networks Argentina



Transener's fourth transmission line was commissioned on 20 December 1999. It is one of the longest transmission lines in the world, connecting generation in the south-west of the country to demand in the Buenos Aires region.



The new Transener towers can resist severe weather conditions, including winds of over 100 miles per hour, and have less visual impact than traditional towers.

What benefit does another transmission line in Argentina bring?

The new line increases electricity transmission capacity to Buenos Aires by one third, or 1,100 megawatts, and increases the flexibility of the system. Demand in Argentina is greatest in Buenos Aires and the 800-mile long line links the city and surrounding region to hydro generation in the south-west of the country.

It was built in 23 months and included the expansion of five substations. A new design (called cross rope suspension) was developed to achieve maximum technical capability to meet increasing demand and minimum visual environmental impact.

Citelec, our joint venture with Perez Companc, operates 95 per cent of the Argentine transmission system, Transener. The network consists of more than 5,500 route miles of 500 kV lines.

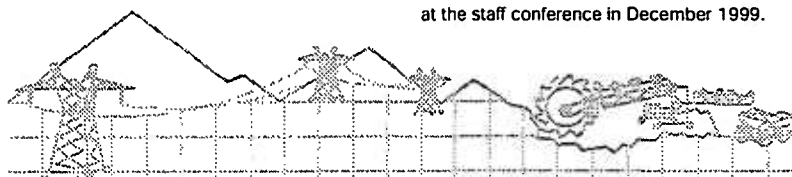
## Electricity networks Zambia



Hanson Sindowe, Business Development Director for Zambia, talking to Tarek Ismail of Commercial and System Strategy at the staff conference in December 1999.

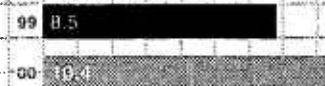
Copperbelt Energy Corporation (CEC), our joint venture with Cinergy Global Power, is responsible for the distribution of power to the mining operations of the Zambian Copperbelt. It comprises 500 miles of transmission lines at 220 kV and 66 kV and 30 substations. In addition, a new substation, Chambishi, and the associated 220 kV transmission lines were completed on 1 May 2000.

The privatisation of the copper mines is now complete. We expect it to lead to renewed investment and increased productivity and CEC will benefit from the growth in demand for electricity that should follow.



### Operating profit (£m)

#### CITELEC ARGENTINA: OUR SHARE



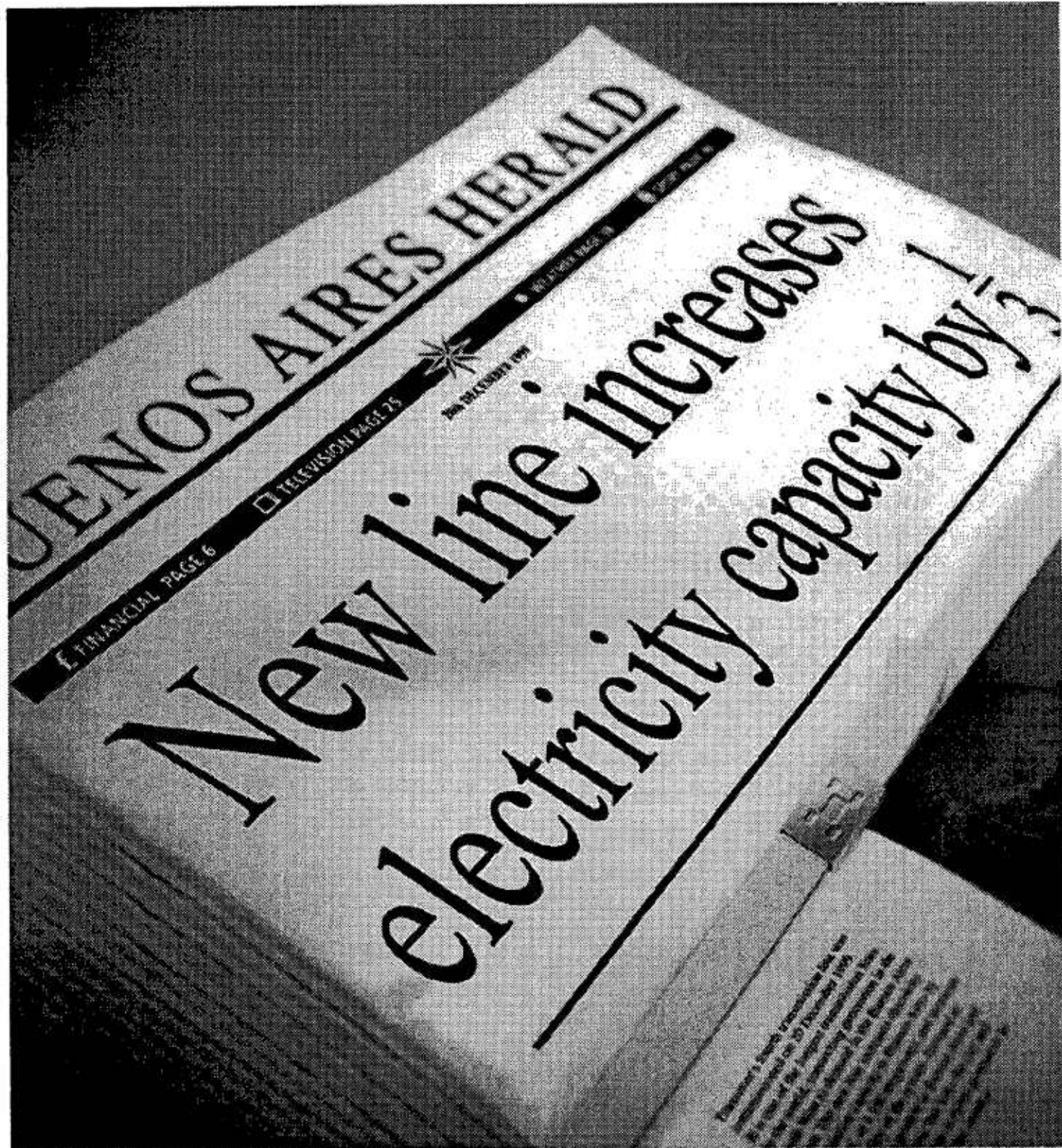
### Operating profit (£m)

#### CEC ZAMBIA: OUR SHARE

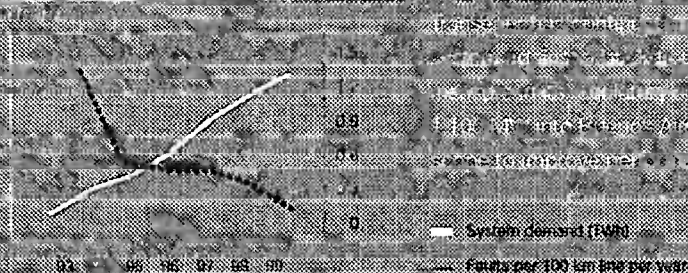


While these investments are both relatively small, they make higher returns than we can achieve in lower-risk markets. They enhance our worldwide reputation and make a valuable contribution to the Group as a whole.





Feeding demand vs fuel supply



## Electricity networks Interconnectors



In February 2000 we won the bid to build, own and operate the 220-mile interconnector between Tasmania and the Australian electricity system. Construction is expected to take approximately two years to complete. The link will improve the security of electricity supply to Tasmania.



Chris Spencer, National Grid Director of Interconnections Business (centre), Mike Proffitt (left), Chief Executive Officer, Manx Cable Company Limited and John McCaillon, Chairman of the Manx Electricity Association, aboard the cable-laying ship used to bury the Manx Interconnector beneath the Irish Sea.

Can you grow the interconnectors business?

Interconnectors link two separate transmission systems usually, but not always, in different countries. They provide access to generation across borders and enable trading between different electricity markets. This allows these markets to take advantage of the differing demand patterns and prices in the two systems and reduces the cost of electricity.

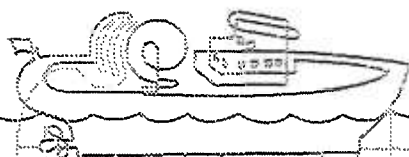
As electricity markets around the world change with the introduction of competition and electricity demand grows the benefits that interconnectors can bring will be more highly valued.

We have a strong track record in operating interconnectors and are investing our skills in several new projects.

What other interconnectors do you have?

In addition to the existing links between our system in England and Wales and Scotland and France, we have begun the construction of a link to the Isle of Man. We are also studying the feasibility of links to Norway, Ireland and the Netherlands.

We won the bid to build, own and operate Basslink in Australia earlier this year. Following the acquisition of NEES, we now also part-own an interconnector linking hydro generation in Quebec, Canada, with our network in Massachusetts.



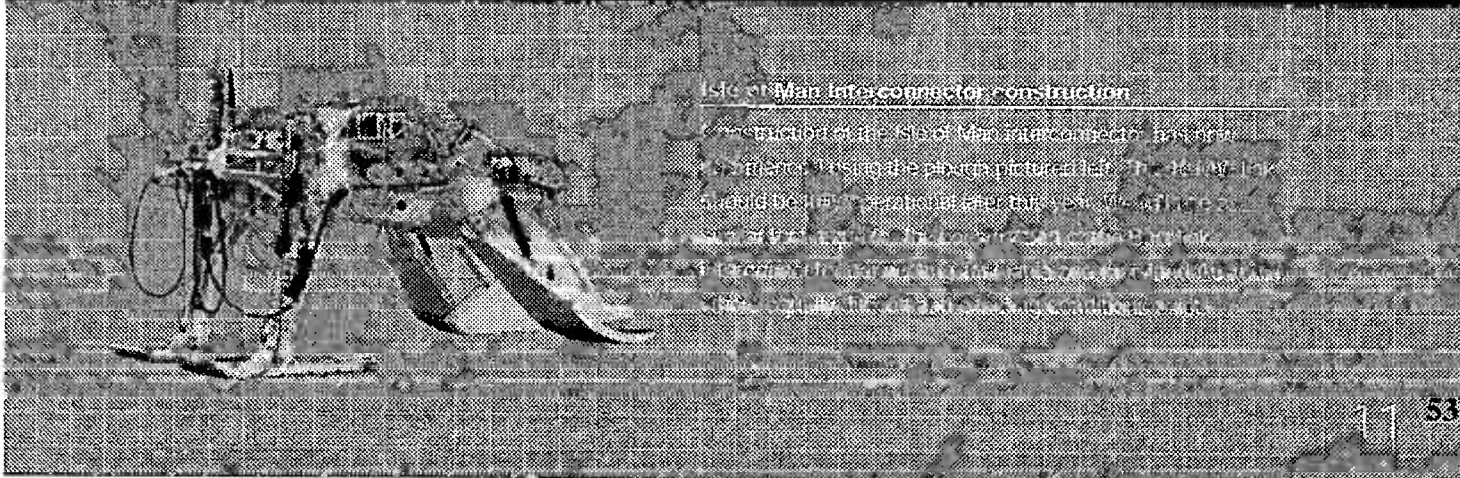
### Operating profit (£m)

#### INTERCONNECTORS

Operating profit was £45.7m  
(1998/99: £39.5m)

Operating profits from our interconnectors with Scotland and France rose as a result of higher transfers from France and a higher level of LOLP (capacity payments). The strong performance of these interconnectors has contributed to the track record we have developed in this niche business.





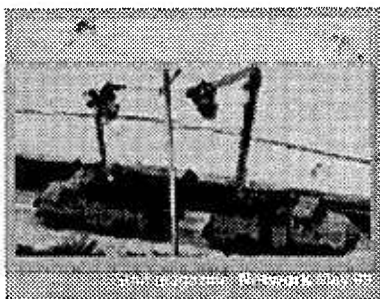
#### Isle of Man interconnector construction

Construction of the Isle of Man interconnector has now commenced, as can be seen in the photo pictured left. The Masslink should be in operation later this year. It will be a 220-mile cable linking the Isle of Man to the mainland. The project is being funded by the National Grid and the Department of the Environment. The project is being funded by the National Grid and the Department of the Environment.

## Electricity networks USA



We have completed the acquisitions of NEES and EUA - now called National Grid USA. We have fully integrated the US operations within the Group and are beginning to deliver on some of the opportunities we identified at the time of announcing the acquisitions. We entered the north-eastern USA as it was at the forefront of developments to devise regulatory regimes which would reward efficiency of operation. We have reached 20-year rate agreements in Massachusetts and Rhode Island which, for the first time ever, provide incentives to reduce costs and improve service, sharing the benefits between customers and shareholders.



A team from NEES at work on Nantucket Island following storms which cut off 2,200 customers.

What benefits did you see in these acquisitions?

We have identified four main opportunities and are now working hard towards delivering them

1. Distribution - NEES' track record of lowest-cost delivery rates and strong relationships with state regulators and customer bodies enabled us to reach mould-breaking 20-year rate agreements in Massachusetts and Rhode Island which incentivise us to reduce costs and improve service to the benefit of customers and shareholders.

2. Consolidation - we have made and implemented detailed plans for the integration of NEES and EUA and have now identified annual savings of approximately 50 per cent of EUA's controllable costs. The electricity industry in the north-eastern US is highly fragmented, with regulatory pressures on high-cost companies. As we seek to consolidate further in this area, our integration skills will bring benefits.

3. Transmission - the Federal Energy Regulatory Commission (FERC) issued an order in December 1999 addressing a number of issues of which we have direct experience in the UK. In particular, FERC is encouraging the unbundling of generation to bring about competition and the formation of regional transmission organisations which are independent of generation. It also recognises the benefits of incentive-based regulation, which has served customers and shareholders so well in the UK.

4. Telecoms - NEESCom leases dark fibre to telecoms, cable and internet operators. Demand for telecoms services in the region is increasing rapidly, creating significant potential for NEESCom to develop its business.



### NEES results for year ended 31 December 1999

- Operating revenue \$2,623.5m (£1,639.7m)
- Net income \$162.8m (£101.7m)

### Platform for growth in USA

- Acquisitions of NEES and EUA completed and National Grid USA formed
- Integration of NEES' and EUA's operations on 1 May 2000
- Long term incentive-based rate agreements in place
- £60 million per year improvement in operating profit projected by 2003/04



Massachusetts Electric  
A National Grid Company

[www.masselectric.com](http://www.masselectric.com)

# NEW LONG-TERM DEALS IN NEW ENGLAND BENEFIT SHAREHOLDERS AND CUSTOMERS

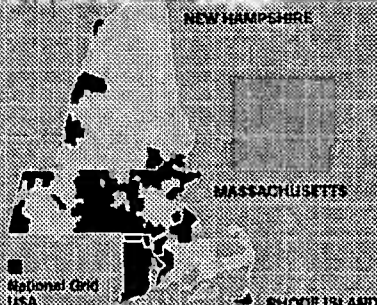
Bill Date

Amount Now Due

If you have any questions about this bill, call 1-800-222-2020  
or email us via the internet: [MassElectric@ngrid.com](mailto:MassElectric@ngrid.com)

## Northeastern US electricity market

The fragmented nature of the electricity market in the northeastern US provides opportunities for further consolidation. NEES' excellent record of cost control and customer satisfaction, and its integration skills, together with the regulatory pressures on high cost companies in the region and the model of our rate agreements, put us in a strong position to take advantage of these opportunities. Our strategy is to grow US business based on these skills.







Intelig, our Brazilian telecoms venture, launched services on 23 January 2000, just 12 months after being awarded its licence. Since then the business has grown rapidly and Intelig has established a strong brand and reputation. It intends to launch data services in July 2000.

We have a 50 per cent share of Intelig and Sprint and France Telecom each own 25 per cent.

MCI Worldcom's proposed takeover of Sprint forces Sprint to sell its stake in Intelig because MCI operates the other national telecoms network, Embratel.

National Grid and France Telecom have pre-approved a list of potential buyers and expect the sale to be completed in July or August 2000.



Elizabeth Lula and Julie Rosenthal, Intelig Corporate Communications, at the staff conference in December 1999.

How is the business going?

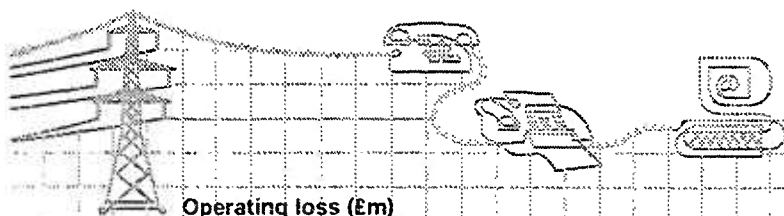
The business is going very well at this early stage. Intelig developed strong brand recognition through a "naming campaign" which resulted in the choice of its name by popular demand. Its launch date, 23 January, was chosen to reflect the prefix 23 that is needed to connect to the Intelig network (the incumbent, Embratel, uses 21). The roll-out of services went smoothly and there has been plenty of time to solve any teething problems in the run-up to the launch of data services in July 2000.

The launch of data services is an important milestone for Intelig. It will target business customers who require these services together with a high degree of reliability. It will be able to offer this and benefit from the relationships it develops with these customers.

Will it be as successful as Energis?

Obviously, we don't know. However, the potential in Brazil is huge. It is the 8th largest economy in the world and demand for telecoms is great and growing rapidly. We are confident that the business is well positioned to take advantage of this demand and to build on the reputation that it has already developed.

Direct comparisons with Energis are not appropriate. There are some fundamental differences. The economic environments and the business cultures are different - our approach has to take that into account.



### Operating loss (£m)

#### BRAZIL: OUR SHARE

■ Our share of Intelig's operating loss was £(44.1)m

Inevitably there are start-up losses arising from investment in marketing and network development, but we expect Intelig to achieve substantial value for our shareholders.

### Intelig advertising



The consortium developed a strong marketing position through a campaign which resulted in a popular choice of name for the business, Intelig, now one of the best-known brands in Brazil

MILLIONS OF  
CUSTOMERS  
CHOOSE  
INTELIG



CONNECTED 23 JAN 2000



FIBRE SWITCH SATELLITE



#### Investment criteria



- ✓ High quality infrastructure
- ✓ Strong and stable government
- ✓ High quality infrastructure
- ✓ High quality infrastructure
- ✓ High quality infrastructure
- ✓ High quality infrastructure
- ✓ High quality infrastructure
- ✓ High quality infrastructure

## Telecoms networks Poland



We formed NG Koleje Telekomunikacja (NGKT) in partnership with Energis, Polskie Koleje Panstwowe (PKP), the national railway operator and Centrala, a local telecoms operator, to create a telecoms network in Poland where it was selected for an alternative competitive long-distance voice licence. NGKT has also applied for a data communications licence. Its network will use a fibre-optic backbone that runs along the railway lines, providing easy access direct to the centre of Poland's major cities, where demand is concentrated. NGKT expects to launch services around the end of this calendar year, focusing on business customers - very much in the same way as Energis does in the UK.



At Warsaw station are, from left, Mike Beck (Business Development), Dave Broster (Corporate Finance) and Mario Chomicz (System Management), part of the team which has won selection for a licence to run a long-distance telephone service in Poland.

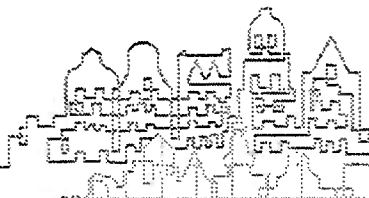
What skills do you bring to the consortium?

We bring all our telecoms network design and development skills to the venture, but specifically our expertise in railway-based networks gained in Brazil.

We have a global reputation from the success of Energis and wide-ranging experience of the installation and maintenance of telecoms networks gained with Energis. NEESCom reinforces this with its expertise of installing dark fibre on transmission and distribution networks. We do not have expertise in the development and marketing of products or running telecoms operations - we therefore bring in these skills through partnerships.

You've clearly stated your intention to sell your remaining stake in Energis - will that affect your partnership with Energis in Poland?

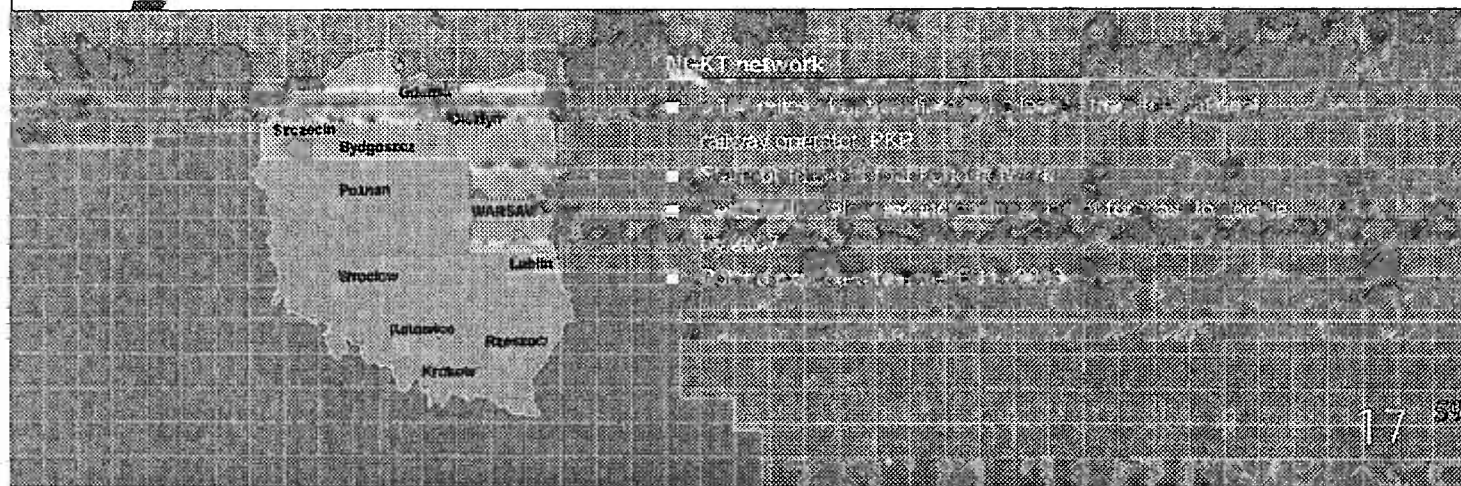
The sale of Energis shares has no impact on this or any other commercial relationship with Energis. All our commercial relationships with Energis are conducted at arm's length.



### Our telecoms network skills

- Reputation from the success of Energis
- Design and construction management
  - Fibre wraparound or replacement transmission earthwire in UK
  - Underground installation in UK
  - Road, railway and satellite in Brazil
  - Railways in Poland
  - Dark fibre in New England, USA
- Network maintenance





## Community/environment

Across the Group, we take seriously our responsibilities to the environment and the communities in which we operate. In both the UK and the USA, we have well-established programmes of investment that reach many segments of local communities while reinforcing our company values.



We have introduced a new company-wide waste management strategy to help reduce the amount of waste and to deal with it efficiently. National contracts officer Marika Reinholds (right) is shown with representatives from Biffa Waste Management Services, with whom the strategy has been developed.

**What value do we get out of making corporate donations?**  
We believe every business has a responsibility to be a good corporate citizen and to give something back to the communities in which it operates. Because of the breadth of our business and the physical presence of our assets, National Grid has an impact on hundreds of communities. Our programme of community investment helps create the local support we need for our operations.

**What criteria do you use in deciding which organisations to give to?**

We select programmes that will benefit local communities, or which enable us to develop our relationships with them. In the UK, our support for external organisations concentrates on environmental, educational and community action projects.

**What do you consider to be the most important investment you have made?**

The National Grid Community 21 Awards Scheme is a unique programme. It supports the UK Government's response to Agenda 21, the worldwide campaign towards sustainable development in the 21st century, which was agreed by all major governments at the Rio Earth Summit in 1992. Our programme awards grants of up to £5,000 to local authorities to fund sustainable development initiatives. We have made 25 such grants in the last three years.

**You said last year that you were seeking ISO 14001 certification. What progress have you made?**

We introduced a new environmental management system in our UK operations during the year and were delighted that, following rigorous independent audit, this received the internationally recognised ISO 14001 certification in May 2000.



### **Landscaping at Oldbury substation**

Electrical craft fitter Viv Rose (right) shows environmental officer Paul de Jong the new landscaping at Oldbury substation in the UK, creating a much welcomed amenity for local residents.



\$30,000

THE NATIONAL GRID GROUP PLC

United Way shares in benefits  
from our move into the US



#### National Grid's listing on the New York Stock Exchange

As part of the celebration of our listing on the New York Stock Exchange, National Grid presented United Way, a leading US charitable organisation, with \$30,000 for use in its New England chapters. This signified our commitment to NEES' programme of community investment.

## The Board of Directors



TOP ROW, FROM LEFT TO RIGHT :

### **James Ross**

Chairman and a member of the Nominations Committee

Appointed as a Director of National Grid on 1 March 1999, James Ross became Chairman in July 1999. He is also Chairman of Littlewoods plc, having been Chief Executive of Cable and Wireless plc from 1992 to 1995. Before that, he was a Managing Director of the British Petroleum Company plc and Chairman and Chief Executive Officer of BP America. He is a Non-executive Director of McGraw Hill and of Datacard, both based in the United States, and of Schneider Electric, based in France. James Ross is also a trustee of the Cleveland Orchestra and a Board member of the Regional Development Agency for the North West. Aged 61

### **David Jones**

Group Chief Executive and a member of the Nominations Committee

Appointed as a Director of National Grid in 1995, David Jones has been a Director of The National Grid Company plc (NGC) since 1994, becoming its Chief Executive in April 1994 and its Chairman in March 1996. He has been a Non-executive Director of Enersis since 1994 and is also a Non-executive Director of Bull Worldwide Information Systems. He was formerly Group Chief Executive of South Wales Electricity, having previously held senior engineering, commercial and management posts with the South Western and Midlands Electricity Boards. Aged 58

### **Stephen Box**

Group Director, Finance

Appointed as a Director of National Grid and of NGC in August 1997. Formerly with Coopers & Lybrand, where he was a partner specialising in corporate finance. He is a Non-executive Director of Enersis and a member of the Financial Reporting Review Panel. Aged 49

### **Wob Gerretsen**

Group Director, Latin America

Appointed as a Director of National Grid in 1995, Wob Gerretsen was a Director of NGC from 1995 to 2000. Formerly with the Costain Group, where he was a Director and Chairman of Costain Engineering and Construction Limited. Prior to this, he held a number of posts within the Costain Group. Aged 58

### **Rick Sergel**

Group Director, North America

Appointed as a Director of National Grid following the acquisition of NEES in March 2000, Rick Sergel is President, Chief Executive Officer and Director of National Grid USA. From February 1998 until the acquisition, he served as its President and Chief Executive Officer. His previous positions with NEES included Senior Vice President in charge of retail operations and unregulated ventures, Vice President and Treasurer. He serves as Chairman of the Board of the US distribution companies and is also a Director of State Street Corporation. Aged 50

BOTTOM ROW, FROM LEFT TO RIGHT :

### **Roger Urwin**

Group Director, Europe

Appointed as a Director of National Grid and of NGC in 1995, Roger Urwin is Chief Executive of NGC. He was previously Chief Executive of London Electricity plc. Prior to this, he held a number of appointments within the Central Electricity Generating Board before joining Midlands Electricity Board as Director of Engineering. He is a Non-executive Director of Foreign & Colonial Special Utilities Investment Trust plc and Total Oil Marine plc and is a Fellow of the Royal Academy of Engineering. Aged 54

### **Bob Faircloth**

Non-executive Director, Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees

Appointed as a Director of National Grid in 1995, Bob Faircloth was Chief Operating Officer and an Executive Director of BTR until 1995 and a Non-executive Director until May 1998. Before joining BTR in 1990, Bob Faircloth held a number of technical and management posts, mainly in the petrochemicals and paper industries in Canada and Europe. He is also engaged in international management consulting with involvement with international banks, industrial companies and government agencies and is a member of the Advisory Board of the Economic Development Authority, Savannah, Georgia. Aged 63

### **John Grant**

Non-executive Director, Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees

Appointed as a Director of National Grid in 1995, John Grant is currently Chief Executive of Ascot Plc. He was Finance Director of Lucas Industries plc (subsequently LucasVarity plc) from 1992 to 1996, and previously held a number of senior executive positions during 25 years with the Ford Motor Company, including Vice President, Ford of Europe, Director of Corporate Strategy, Ford US and Executive Deputy Chairman, Jaguar Cars. He is also Non-executive Chairman of CORDEX plc and a Non-executive Director of Torotrak plc. Aged 54

### **Paul Joskow**

Non-executive Director and a member of the Audit Committee

Appointed as a Director of National Grid following the acquisition of NEES in March 2000, Paul Joskow is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT) and is Director of the MIT Center for Energy and Environmental Policy Research. He is a research associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul Joskow served as a Director of NEES from 1987 until the acquisition. He is a Trustee of the Putnam Mutual Funds, a Director of State Farm Indemnity Company and a Director of the Whitehead Institute for Biomedical Research. Aged 52

### **Richard Reynolds**

Non-executive Director and a member of the Audit and Remuneration Committees

Appointed as a Director of National Grid in 1998, Richard Reynolds was a Director of GEC from 1986 to 1995. He was Managing Director of GEC Telecommunications and became Managing Director of GPT on the merger of the GEC and Plessey telecommunications companies. He was also Chairman of GPT and is currently Chairman of Wavionix Limited. He is also a Non-executive Director of Photobition and of Telme.com plc. Aged 61

## Financial review

### Turnover

Group turnover increased from £1,514.2 million to £1,614.7 million.

### Operating profit

Total operating profit decreased by £38.8 million to £538.6 million as a result of the operating losses incurred by Intelig, the Group's telecommunications joint venture in Brazil. The operating losses incurred by Intelig, of which the Group's share was £44.1 million, were in line with expectations for a start-up operation of this size.

The movement in total operating profit for the year also reflects higher profit contributions from UK Transmission (£14.9 million), Interconnectors (£6.2 million), Energis (£7.6 million) and other joint ventures (£2.3 million), and a lower profit contribution (£28.5 million) from other activities. This reduction primarily relates to the release to the 1998/99 profit and loss account of £15.2 million of provisions following the implementation of Financial Reporting Standard 12 (FRS 12) and increased losses in our UK and US metering businesses.

A commentary on the performance of individual businesses is set out on pages 6 to 19.

### Exceptional items

The results for the year include a profit of £1,027.3 million relating to the partial disposal of the Group's interest in Energis plc, an associated undertaking. This comprised a pre-tax profit of £895.2 million (£665.7 million after tax) on the sale of 28.9 million shares in Energis and a pre- and post-tax profit of £132.1 million resulting from reductions in the Group's interest in Energis primarily as a consequence of the placing by Energis of 14.8 million of its shares.

The exceptional items reported in 1998/99 comprised a pre-tax profit of £891.8 million (£712.7 million after tax) on the sale of 60 million ordinary shares in Energis and a pre-tax charge of £52.6 million (£36.3 million after tax), being the cost of closing-out £415 million of interest rate swaps.

### Interest

The net interest charge decreased from £118.5 million to £64.9 million. This reduction reflects a lower average level of net debt, which resulted from the sale of Energis shares in both the current and the previous financial years.

### Taxation

The tax charge for the year totalled £352.6 million and included £229.5 million relating to exceptional profits. The effective tax rate for the year, excluding the impact of exceptional items, was 26.0 per cent, compared with 26.2 per cent in the previous year.

### Acquisition of NEES

The acquisition of New England Electric System (NEES) was successfully completed on 22 March 2000. The composition of the Group's balance sheet has changed significantly as a result of this transaction. The acquisition of NEES cost £2,070.8 million and the net assets acquired have a provisional fair value of £1,223.2 million, resulting in goodwill of £847.6 million which has been capitalised and is being amortised through the profit and loss account over 20 years. The acquisition was funded from a combination of the Group's existing cash resources and bank borrowings.

As a result of the short period of ownership, NEES' contribution to the Group's results for the year ended 31 March 2000 was not material.

### Capital expenditure

Capital expenditure, including interest capitalised, fell from £329.0 million to £316.1 million as a result of lower expenditure in UK Transmission.

### Earnings per share

Basic earnings per share, excluding exceptional items and goodwill amortisation, increased from 23.3 pence to 24.3 pence.

### Ordinary dividends

The recommended final dividend of 8.35 pence net, with the interim dividend of 5.59 pence net paid on 17 January 2000, brings the total ordinary dividend for the year to 13.94 pence net per ordinary share. This represents an increase of 6.7 per cent over last year and is covered 1.7 times (1998/99: 1.8 times) by earnings per share excluding exceptional items and goodwill amortisation.

### Share price and market capitalisation

At 31 March 2000, National Grid's share price was 573.0 pence compared with 451.75 pence on 31 March 1999, an increase of 27 per cent. Between 1 April 1999 and 31 March 2000, daily closing prices for the shares were within the range 388.5 pence to 597.0 pence. Market capitalisation at 31 March 2000 was £8.5 billion.



## Financial review continued

### Cash flow

Net cash inflow from operations increased from £605.9 million to £682.0 million, primarily as a result of lower working capital requirements. In addition, the sale of 28.9 million shares in Energis contributed £952.9 million to the inflow of cash.

Cash outflow relating to acquisitions of Group undertakings and other investments amounted to £2,189.6 million (1998/99: £25.2 million), of which £2,045.1 million related to the acquisition of NEES.

Payments to the providers of finance, in the form of dividends and interest, totalled £262.3 million net compared with £302.8 million net in 1998/99. Corporate tax payments amounted to £274.3 million (1998/99: £154.9 million). The higher tax payments reflect the introduction during the year of quarterly payments on account for UK corporation tax.

Net purchases of tangible fixed assets absorbed cash of £279.2 million (1998/99: £312.5 million).

### Shareholders' funds

Shareholders' funds increased from £1,952.5 million to £2,909.0 million, primarily as a result of the retained profit for the year. This substantially reflected the profit on the partial disposal of Energis.

### Net debt

Net debt increased from £703.4 million to £2,663.6 million as a result of the acquisition of NEES, the impact of which was partially offset by the proceeds from the sale of shares in Energis. Gearing as at 31 March 2000 was 90 per cent, up from 36 per cent at the start of the year. Interest cover (the number of times the net interest charge is covered by total operating profit), which is considered a more relevant indicator of the Group's borrowing capacity, was 8.3 times (1998/99: 4.9 times). However, given that the acquisition of NEES became effective towards the end of the financial year, this is not indicative of the likely ongoing ratio.

### Year 2000

In preparation for the Year 2000 date change, National Grid tested all business-critical information systems deemed to be at risk of failure, amending or replacing them as necessary. As a result, the date change had no material impact on the continuity of National Grid's operations. Although some software problems were experienced, these were minor in nature and did not impair operations in any way. The total cost of the programme, which began in 1996, was some £15 million.

### Euro

The single European currency (the "euro") came into existence on 1 January 1999. The impact on National Grid to date has been minimal, but facilities have been established to enable euro dealings where necessary. Internally, analysis of the impact on National Grid of the adoption of the euro by the UK as a replacement for sterling is currently being undertaken. Externally, National Grid is participating in an electricity industry information exchange forum, which in turn has links with other utility groups enabling a broad cross-section of approaches to be considered.

# Corporate governance

## Introduction

As reported elsewhere in this document, National Grid has made great progress internationally during the year, adding to our existing businesses in the UK, Argentina, Brazil and Zambia new projects in Poland, Chile and Australia. The year culminated in the completion of our acquisition of NEES, which gives us a platform for growth in the USA.

Our success in developing our business has brought with it new challenges, arising particularly from the increasing size, complexity and geographical dispersal of the Group. It has also brought new formal responsibilities: in addition to our existing obligations as a UK listed company, we are now subject to US reporting requirements following our listing on the New York Stock Exchange and our registration with the Securities and Exchange Commission as a public utility holding company.

To meet these challenges, National Grid is introducing a new governance framework that will help the Directors to direct and control the expanding business and to discharge their duties of accountability, primarily to shareholders but also to regulators and other key stakeholders. We recognise that sound corporate governance will be key, not only to compliance with external requirements, but also to the establishment of good business practice throughout the expanding Group.

During the year, we initiated a fundamental review of our existing policies, procedures and reporting arrangements. Our objective throughout has been to ensure that the Group as a whole is able to meet its business objectives, its legal, regulatory and governance requirements and its wider social and ethical responsibilities in every country in which it has a presence. At the same time, effort is being made to minimise bureaucracy and to accommodate diversity, avoiding the imposition of uniform procedures except where these are essential to the achievement of strategic direction and control and the establishment of proper reporting arrangements.

## Corporate governance in National Grid

National Grid's practice is to maintain its own code of corporate governance, revising this as necessary to take account of current best practice. The NGG Code of Corporate Governance adopted in March 1999 embodied the provisions of the Combined Code of Corporate Governance. Throughout the year, National Grid has operated in accordance with the NGG Code and has thus complied with the provisions of the Combined Code, with the exception that, for the reasons set out below, it does not designate a "senior" Non-executive Director.

A new National Grid Code of Business Practice came into effect in March 2000 on completion of the acquisition of NEES. This is again closely modelled on the Combined Code and takes into account the international expansion of the Group. The main provisions of the new National Grid Code are described below.

## Directors

### The Board

National Grid is led and controlled by its Board of Directors. This meets at least eight times a year, with additional meetings as necessary.

To ensure that the direction and control of the Group are firmly in its own hands, the Board has reserved certain matters for its collective decision and/or monitoring. Board approval is required for proposals relating to significant Group businesses, including the start-up or acquisition of new businesses and the establishment of any activity in a new territory. The Board must approve any transaction likely to require listing particulars or similar documents to be filed with any stock exchange on which National Grid's shares are listed. Also reserved to the Board are matters relating to health and safety, the environment and policy issues affecting the external reputation and standing of the Group.

All Directors have access to the advice and services of the General Counsel and Company Secretary and may take independent professional advice, at the Group's expense, in the furtherance of their duties.

All Directors bring an independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct.

All Directors receive full and appropriate briefing on first appointment to the Board, with subsequent updating as necessary.

### The Chairman and the Group Chief Executive

There is a clear division of responsibilities between the Chairman, James Ross, and the Group Chief Executive, David Jones.

National Grid's independent Non-executive Directors are selected and appointed for their individual business experience and their ability to bring a broad perspective to their contributions to the strategic direction of the Group. As such, they represent a strong and independent element on the Board. In this context, National Grid believes that the requirement of the Combined Code to identify a "senior" Non-executive Director as a channel of communication for investors could lead to confusion with the role performed by the independent Non-executive Chairman. For this reason, National Grid does not propose to nominate a "senior" Non-executive Director.

## Corporate governance continued

### **Board balance**

The Board comprises five Executive Directors and five Non-executive Directors (including the Chairman, James Ross). All the Non-executive Directors are wholly independent.

### **Supply of information**

Regular and ad hoc reports have been made throughout the year to ensure that the Board is supplied in a timely manner with information of the quality and detail it requires. As part of the review of existing policies, procedures and reporting arrangements carried out in the light of the Group's international expansion, new periodic reporting arrangements have been implemented which ensure timely provision of both historic information and information relevant to the future performance and prospects of the Group.

### **Appointments to the Board**

The Board has delegated to the Nominations Committee responsibility for considering the reappointment of existing Directors, for identifying and selecting potential new Directors and proposing their appointment to the Board and for reviewing succession management arrangements within the Group. The Nominations Committee has written terms of reference, which have been revised during the year, and meets at least annually and otherwise as required on the expiry of the term of appointment of any Director and on the declaration of any vacancy for a Director. The members of the Nominations Committee are shown on page 20.

Non-executive Directors are appointed by the Board and have letters of engagement for up to three years.

### **Reappointment of Directors**

Every Director, without exception, is required by National Grid's Articles of Association to retire by rotation at intervals of not more than three years and to seek reappointment by the shareholders at the Annual General Meeting. In addition, any new Director who has been appointed by the Board is required by the Articles to retire at the next Annual General Meeting and to seek reappointment by the shareholders.

### **Directors' remuneration**

The Remuneration Committee of independent Non-executive Directors has responsibility for determining, in accordance with current best practice, all aspects of the remuneration and terms and conditions of service of the Chairman and the Executive Directors. The Remuneration Committee also maintains an overview of policy in relation to the remuneration and conditions of service of other senior managers and determines policy and practice in relation to equity participation schemes.

The members of the Remuneration Committee, which has written terms of reference, are identified on page 20. The Chairman and the Group Chief Executive may attend meetings of the Remuneration Committee by invitation, but are not permitted to be present during discussions on their respective remuneration. Details of the remuneration of each Director are given on page 26.

### **Relations with shareholders**

#### **Dialogue with institutional shareholders**

Regular dialogue is maintained with institutional investors, fund managers and analysts, with the aim of fostering mutual understanding of objectives.

#### **The Annual General Meeting**

We actively encourage the participation of shareholders at the Annual General Meeting, notice of which is posted at least 20 working days in advance. At each Meeting, the Chairman makes a presentation on the year's financial results and business activities and encourages open and lively discussion between shareholders and Directors. Shareholders are invited to vote separately on each substantive resolution, including receipt of the Annual Report and Accounts, and the number of proxy votes lodged for and against each resolution is declared to the Meeting. A summary of the business carried out at the Annual General Meeting is made available to shareholders on request.

We are also very proud of our innovative and highly successful Networking programme, which is designed to give private investors the opportunity to meet Directors and staff and to experience our operations at first hand.

### **Accountability and audit**

We are mindful of our responsibility for presenting a balanced and understandable assessment of the Group's financial position and prospects in all reports, both to our own investors and to regulatory bodies. An explanation of the respective responsibilities of the Directors and the auditors for the preparation of the accounts is set out on page 27.

### **Internal control**

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal control. This extends the existing requirement in respect of internal financial control to cover all controls including financial, operational and compliance controls and risk management. Guidance for directors on the implementation of the Combined Code requirements was published in September 1999 in the form of the Turnbull working party guidance. In response to this, National Grid has adopted a formal procedure for review by the Board, assisted by its

committees, of the effectiveness of the Group's system of internal control. The procedure will draw on information provided by line management and on independent review activity, including that carried out by the Group's well-established Internal Audit function.

The Board intends that its formal ongoing review of effectiveness should be closely aligned to the new business processes now being implemented within the expanding Group, in particular periodic reporting, business planning, expenditure approval and project management, including new business ventures. Good risk management principles are being embedded in all these processes and work is in hand to ensure that these principles are communicated throughout the expanding Group. The Board recognises, therefore, that the establishment of effective review will be iterative and will be subject to continuing improvement as the underlying business processes become established.

The Board will carry out its first annual review of the effectiveness of internal control in March 2001. To facilitate this, businesses will be required to comment on the state of risk management and internal control in their last periodic report of the financial year. This will include commentary on significant failings or weaknesses identified during the financial year, if any, and the actions taken to remedy them.

For the purposes of this statement, the Board has adopted the transitional timetable provided by the London Stock Exchange. It has continued to meet the requirements of the Cadbury Code of Corporate Governance and has reviewed the effectiveness of the Group's system of internal financial control, recognising that any system of internal financial control can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board approves the Group's annual business plan, including the capital programme and annual operating budget, the components of which form the financial objectives against which businesses are monitored. Material risks faced by the Group have been identified and are kept under review by the Directors. As part of the business planning process, businesses are required to review their relevant risks and to identify and implement measures to manage them.

The Board exercises control over National Grid's business through the Executive Committee, chaired by the Group Chief Executive: this meets monthly and has full delegated authority to carry out necessary actions in key areas between meetings of the full Board. There is a clear direct-line reporting structure to each individual Executive Director.

#### **Audit Committee and auditors**

The Audit Committee consists of the independent Non-executive Directors identified on page 20 and has written terms of reference which have been revised during the year. The Committee meets at least four times a year, with a minimum of one private meeting with the external auditors, who may request additional private meetings if they consider this necessary. The Board has delegated to the Audit Committee authorities and duties in respect of the Group's annual accounts and other financial reports, its system of internal control and risk management, the activities of the external auditors and the scope and extent of Internal Audit. The written terms of reference of Internal Audit were also revised during the year and the Audit Committee, on behalf of the Board, used this opportunity to review the scope of work, authority and resources of Internal Audit.

The Audit Committee has specific responsibility for making recommendations to the Board on the appointment and remuneration of external auditors and for keeping under review the nature and extent of non-audit services provided by the external auditors. The Audit Committee receives regular reports on all expenditure with the external auditors and other major accountancy firms in order to satisfy itself that value for money is obtained and that the objectivity of the statutory audit is not impaired.

## Directors' remuneration

The remuneration of individual Directors for the year ended 31 March 2000 is set out below:

	Basic salary and fees £000	Annual bonus £000	Benefits £000	Total emoluments (excluding pension)	
				1999/2000 £000	1998/99 £000
<b>Chairman</b>					
James Ross <sup>1</sup> (Non-executive Director)	98	-	-	98	4
<b>Executive Directors</b>					
David Jones	350	126	13	489	416
Stephen Box	250	87	11	348	336
Wob Gerretsen <sup>2</sup>	240	64	44	348	257
Rick Sergel <sup>3</sup>	5	-	-	5	-
Roger Urwin	230	81	10	321	290
<b>Non-executive Directors</b>					
David Jefferies <sup>4</sup> (former Chairman)	50	-	3	53	159
Bob Faircloth	30	-	-	30	27
John Grant	30	-	-	30	30
Paul Joskow <sup>3</sup>	-	-	-	-	-
Richard Reynolds	50	-	-	50	31
Malcolm Williamson <sup>4</sup>	8	-	-	8	30
	1,341	358	81	1,780	1,580

1 Appointed to the Board on 1 March 1999. Appointed Chairman at the AGM on 22 July 1999

2 Wob Gerretsen's base salary includes a temporary overseas allowance and his benefits include £31,667 in respect of his relocation

3 Appointed to the Board on 27 March 2000

4 Resigned from the Board on 22 July 1999

5 The total remuneration of David Jones, including the gain on the exercise of share options, was £505,344

## Summary financial statement

As required by the Companies (Summary Financial Statement) Regulations 1995, the summary financial statement on pages 27 to 29 is a summary of the information contained in the Annual Report and Accounts of The National Grid Group plc for the financial year ended 31 March 2000 and should be read in conjunction with the joint statement by the Chairman and the Group Chief Executive on pages 2 to 5, the review of activities on pages 6 to 19, the Board of Directors on page 20 and the financial review on pages 21 and 22. The Annual Review and the summary financial statement do not contain sufficient information to allow as full an understanding of the results of the Group and state of affairs of the Company or of the Group as would be provided by the full Annual Report and Accounts.

Copies of the full Annual Report and Accounts are available, free of charge, from the Shareholder Enquiry Unit, National Grid House, Kirby Corner Road, Coventry CV4 8JY (telephone 024 7642 3940).

### Auditors' statement to the members of The National Grid Group plc

We have examined the summary financial statement on pages 27 to 29.

#### **Respective responsibilities of the Directors and auditors**

The Directors are responsible for preparing the Annual Review, which includes the summary financial statement. Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full annual accounts and the Directors' report and its compliance with the relevant requirements of section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

#### **Basis of opinion**

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement', issued by the Auditing Practices Board.

#### **Opinion**

In our opinion the summary financial statement on pages 27 to 29 is consistent with the full annual accounts and Directors' report of The National Grid Group plc for the year ended 31 March 2000 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

#### **PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors  
London  
22 May 2000

#### **Report of the auditors**

The auditors' opinion on the full annual accounts of the Group for the year ended 31 March 2000 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.

## Summary financial statement continued

### Summary Group profit and loss account

for the year ended 31 March 2000

	2000 £m	1999 (restated) £m
Turnover, including share of joint ventures	1,677.5	1,568.3
Less: share of joint ventures' turnover (continuing operations)	(62.8)	(54.1)
<b>Group turnover</b>		
– Continuing operations	1,578.5	1,514.2
– Acquisition	36.2	–
	1,614.7	1,514.2
Operating costs	(1,042.6)	(937.5)
<b>Operating profit</b>		
– Continuing operations	569.4	576.7
– Acquisition	2.7	–
<b>Operating profit of Group undertakings</b>	572.1	576.7
Share of joint ventures' and associate's operating (loss)/profit (continuing operations)	(33.5)	0.7
<b>Total operating profit</b>		
– Before goodwill amortisation	646.5	579.9
– Goodwill amortisation	(7.9)	(2.5)
	538.6	577.4
Exceptional profit relating to partial disposal of Energis	1,027.3	891.8
Net interest	(64.8)	(118.5)
Exceptional cost of closing out interest rate swaps	–	(52.6)
<b>Profit on ordinary activities before taxation</b>	1,501.0	1,298.1
Taxation		
– Excluding exceptional items	(123.1)	(120.3)
– Exceptional items	(229.6)	(162.8)
	(352.6)	(283.1)
<b>Profit on ordinary activities after taxation</b>	1,148.4	1,015.0
Dividends	(205.5)	(192.0)
<b>Retained profit</b>	942.9	823.0
<b>Earnings per ordinary share</b>		
– Basic, including exceptional items and goodwill amortisation	78.0p	69.2p
– Basic, excluding exceptional items and goodwill amortisation	24.3p	23.3p
– Diluted, including exceptional items and goodwill amortisation	73.4p	65.2p
– Diluted, excluding exceptional items and goodwill amortisation	23.8p	22.7p
<b>Dividends per ordinary share</b>	13.94p	13.07p

The emoluments of the Directors, excluding pension contributions, were £1.797m\* (1999: £1.580m) – see page 26.

\*Including gains of £0.017m on the exercise of share options.

## Summary Group balance sheet

at 31 March 2000

	2000 £m	1999 (restated) £m
<b>Fixed assets</b>		
Intangible assets – goodwill	844.7	15.1
Tangible assets	4,938.3	3,099.4
Investments	519.0	233.1
	<b>6,302.0</b>	<b>3,347.6</b>
<b>Current assets</b>	<b>2,464.8</b>	<b>1,746.3</b>
<b>Creditors (amounts falling due within one year)</b>	<b>(1,861.1)</b>	<b>(1,414.9)</b>
<b>Net current assets</b>	<b>603.7</b>	<b>331.4</b>
<b>Total assets less current liabilities</b>	<b>6,905.7</b>	<b>3,679.0</b>
<b>Creditors (amounts falling due after more than one year)</b>	<b>(3,500.2)</b>	<b>(1,680.9)</b>
<b>Provisions for liabilities and charges</b>	<b>(461.4)</b>	<b>(45.6)</b>
<b>Net assets employed</b>	<b>2,944.1</b>	<b>1,952.5</b>
<b>Capital and reserves</b>		
Called up share capital	174.7	173.9
Share premium account	274.7	246.5
Profit and loss account	2,459.6	1,532.1
<b>Equity shareholders' funds</b>	<b>2,909.0</b>	<b>1,952.5</b>
Minority interests	35.1	–
	<b>2,944.1</b>	<b>1,952.5</b>

The summary financial statement on pages 27 to 29 was approved by the Board of Directors on 22 May 2000 and was signed on its behalf by:

J H Ross Chairman

S J Box Finance Director

## Note relating to the summary financial statement

### Reconciliation of movement in shareholders' funds

	2000 £m	1999 (restated) £m
Profit on ordinary activities after taxation	1,148.4	1,015.0
Dividends	(205.5)	(192.0)
	<b>942.9</b>	<b>823.0</b>
Issue of ordinary shares	11.6	5.9
Repurchase of ordinary shares	(1.1)	–
Exchange adjustments	3.1	(0.8)
<b>Net increase in shareholders' funds</b>	<b>956.5</b>	<b>828.1</b>
Shareholders' funds at start of year	1,952.5*	1,124.4
<b>Shareholders' funds at end of year</b>	<b>2,909.0</b>	<b>1,952.5</b>

\*Originally £1,744.0m before adding prior year adjustment of £208.5m.



## Five-year financial summary

### Group profit and loss account

	2000 £m	1999 (restated) £m	1998 (restated) £m	1997 (restated) £m	1996 (restated) £m
<b>Group turnover</b>					
- Continuing operations	1,578.5	1,514.2	1,519.3	1,369.5	1,381.8
- Acquisition	36.2	-	-	-	-
- Discontinued operations	-	-	90.1	88.0	105.2
	1,614.7	1,514.2	1,609.4	1,457.5	1,487.0
<b>Operating costs</b>	(1,042.6)	(937.5)	(1,074.9)	(801.1)	(810.1)
<b>Operating profit/(loss)</b>					
- Continuing operations	569.4	576.7	562.9	710.6	724.3
- Acquisition	2.7	-	-	-	-
- Discontinued operations	-	-	(28.4)	(54.2)	(47.4)
Operating profit of Group undertakings	572.1	576.7	534.5	656.4	676.9
Share of joint ventures' and associate's operating (loss)/profit	(33.5)	0.7	1.3	-	-
<b>Total operating profit</b>	538.6	577.4	535.8	656.4	676.9
<b>Exceptional items</b>	1,027.3	839.2	107.1	-	(24.6)
<b>Net interest</b>	(64.8)	(118.5)	(61.7)	(59.1)	(26.4)
<b>Profit before taxation</b>	1,501.0	1,298.1	581.2	597.3	625.9
<b>Taxation</b>					
- Excluding exceptional items	(123.1)	(120.3)	(133.5)	(176.2)	(194.2)
- Exceptional items	(229.8)	(162.8)	-	-	-
	(352.8)	(283.1)	(133.5)	(176.2)	(194.2)
<b>Profit after taxation</b>	1,148.4	1,015.0	447.7	421.1	431.7
<b>Dividends</b>					
- Ordinary	(205.6)	(192.0)	(189.2)	(190.7)	(175.0)
- Other	-	-	(768.6)	-	(1,560.8)
	(205.6)	(192.0)	(957.8)	(190.7)	(1,735.8)
<b>Retained profit/(loss)</b>	942.8	823.0	(510.1)	230.4	(1,304.1)
<b>Earnings per ordinary share</b>					
- Basic, including exceptional items and goodwill amortisation	78.0p	69.2p	26.5p	24.7p	25.5p
- Basic, excluding exceptional items and goodwill amortisation	24.3p	23.3p	20.2p	24.7p	27.0p
- Diluted, including exceptional items and goodwill amortisation	73.4p	65.2p	26.3p	24.5p	25.3p
- Diluted, excluding exceptional items and goodwill amortisation	23.8p	22.7p	20.0p	24.5p	26.7p
Ordinary dividends per share	13.94p	13.07p	12.07p	11.13p	10.27p
<b>Dividend cover*</b>					
- Ordinary dividends (times)	1.7	1.8	1.7	2.2	2.6
<b>Interest cover (times)</b>	8.3	4.9	8.7	11.1	25.6

\*Excluding exceptional items and goodwill amortisation.

The figures for 1996 to 1999 have been restated for the change in accounting policy relating to the capitalisation of interest. The figures for 1996 have not been restated to reflect the impact of FRS 12.

## Summary Group balance sheet

	2000 £m	1999 (restated) £m	1998 (restated) £m	1997 (restated) £m	1996 (restated) £m
Fixed assets	6,302.0	3,347.6	3,233.3	3,165.5	2,989.3
Net current assets/(liabilities)	603.7	331.4	(713.2)	(595.2)	(425.2)
Long term creditors and provisions	(3,961.6)	(1,726.5)	(1,395.7)	(952.0)	(1,281.7)
Net assets employed	2,944.1	1,952.5	1,124.4	1,618.3	1,282.4
Net debt	2,663.6	703.4	1,465.3	847.0	1,254.5
Gearing	90%	36%	130%	52%	98%

The figures for 1996 to 1999 have been restated for the change in accounting policy relating to the capitalisation of interest. The figures for 1996 have not been restated to reflect the impact of FRS 12.

## Other key data

	2000 £m	1999 (restated) £m	1998 (restated) £m	1997 (restated) £m	1996 (restated) £m
Net cash inflow from operating activities	682.0	605.9	627.2	846.6	897.2
Capital expenditure	316.1	329.0	333.8	291.2	267.7

	Number	Number	Number	Number	Number
Average number of persons employed by the Group	3,720	3,628	3,689	3,837	3,950
- Continuing operations	90*	-	-	-	-
- Acquisition	-	-	-	-	-
- Discontinued operations	-	-	529	577	615

\*Average for the year relates to the period 22 March 2000 to 31 March 2000.

The figures for 1996 to 1999 have been restated for the change in accounting policy relating to the capitalisation of interest.

## Shareholder information

### Analyses of shareholdings as at 22 May 2000

#### Distribution of shares by type of shareholder

	Number of shareholders	Shares	% of issued share capital
Banks	181	1,471,945	0.10
Nominee companies <sup>1</sup>	13,199	1,129,966,913	76.11
Insurance companies	18	54,688,542	3.68
Pension funds	39	4,725,051	0.32
Other corporate bodies	499	80,099,434	5.39
Electricity companies <sup>2</sup>	8	976,892	0.07
Other limited and public companies	1,606	41,655,052	2.81
Individuals	760,419	171,025,835	11.52
	<b>775,969</b>	<b>1,484,609,664</b>	<b>100.00</b>

#### Distribution of shares by size of holding

	Number of shareholders	Shares	% of issued share capital
1 – 99	477,966	33,345,952	2.25
100 – 499	227,923	47,576,624	3.20
500 – 999	36,715	24,939,188	1.68
1,000 – 4,999	28,546	56,391,242	3.80
5,000 – 9,999	2,249	15,057,431	1.01
10,000 – 49,999	1,432	29,034,127	1.95
50,000 – 99,999	291	21,086,838	1.42
100,000 – 499,999	502	113,678,804	7.66
500,000 – 999,999	135	94,674,785	6.38
1,000,000 and above	210	1,048,824,673	70.65
	<b>775,969</b>	<b>1,484,609,664</b>	<b>100.00</b>

<sup>1</sup> Nominee companies typically hold shares on behalf of banks, insurance companies, investment trusts, pension funds and PEP and ISA investors.

<sup>2</sup> In accordance with National Grid's Articles of Association, no holder of a licence under the Electricity Act 1989 or Pool member, no affiliate of either, and no group of companies of which a regional electricity company is a member, has an interest of 1 per cent or more in the voting share capital of National Grid.

### Financial calendar

<b>23 May 2000</b>	1999/2000 preliminary results and recommended final dividend announced
<b>30 May 2000</b>	National Grid shares go ex-dividend
<b>5 June 2000</b>	Record date for 1999/2000 final dividend
<b>27 July 2000</b>	Annual General Meeting
<b>15 August 2000</b>	1999/2000 final dividend paid to qualifying shareholders
<b>21 November 2000</b>	2000/01 interim results and interim dividend announced
<b>27 November 2000</b>	National Grid shares go ex-dividend
<b>1 December 2000</b>	Record date for 2000/01 interim dividend
<b>15 January 2001</b>	2000/01 interim dividend paid to qualifying shareholders

### **Individual Savings Accounts (ISAs)**

Individual Savings Accounts (ISAs) for National Grid shares are available. Further information may be obtained from the Account Manager, Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ (telephone "Grid Line", 0131 529 0225).

### **Regulatory accounts**

National Grid's principal UK subsidiary, The National Grid Company plc (NGC), is the holder of the electricity transmission licence for England and Wales. NGC is required by the transmission licence to provide to the Director General of Electricity Supply accounting statements in respect of each of its licensed businesses. Copies of these statements for the year ended 31 March 2000 may be obtained, free of charge, from the Shareholder Enquiry Unit (see "Enquiries" right).

### **Report on Form 20-F**

National Grid has prepared a Report on Form 20-F for filing with the US Securities and Exchange Commission. Copies of the Report for the year ended 31 March 2000 may be obtained, free of charge, from the Shareholder Enquiry Unit (see "Enquiries" right).

### **Unsolicited mail**

We are obliged by law to make our share register available to other organisations and some shareholders may therefore receive unsolicited mail. Any shareholder who wishes to limit receipt of such mail should contact The Mailing Preference Service, Freepost 22, London W1E 7EZ. The Mailing Preference Service is free to the public and will notify those organisations which support its aims that unsolicited mail should not be sent to individuals who have registered a preference not to receive it.

### **Audio tape version of Annual Review**

For the assistance of visually-impaired shareholders, an audio tape version of the Annual Review has been prepared and may be obtained, free of charge, from the Shareholder Enquiry Unit (see "Enquiries" right).

### **Summary of business of Annual General Meeting**

The Annual General Meeting will be held on Thursday 27 July 2000 at the International Convention Centre, Birmingham. If you would like to receive a summary of the business transacted at the Annual General Meeting, please contact the Shareholder Enquiry Unit.

### **Networking programme**

To obtain an application form to take part in the Networking programme, please write to: Networking Programme, National Grid House, Kirby Corner Road, Coventry CV4 8JY.

### **Enquiries**

Enquiries about individual shareholder matters (including changes of address, lost share certificates etc) should be addressed to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (telephone 0870 600 3969, fax 0870 600 3980).

Enquiries relating to National Grid's activities should be addressed to the Shareholder Enquiry Unit, National Grid House, Kirby Corner Road, Coventry CV4 8JY (telephone 024 7642 3940, fax 024 7642 3651, e-mail [shareholder.enquiries@uk.ngrid.com](mailto:shareholder.enquiries@uk.ngrid.com)).

Information about National Grid is also available via the internet on [www.nationalgrid.com](http://www.nationalgrid.com)

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Registered in England and Wales No. 2367004

Registered office: 15 Marylebone Road, London NW1 5JD

The National Grid Group plc  
15 Marylebone Road  
London NW1 5JD



**National Grid**

**Report**  
to the  
**Director General of  
Gas & Electricity Markets**  
Transmission System Performance

Financial Year  
**99-2000**

National Grid USA and Niagara Mohawk  
Merger Petition  
Appendix A  
Attachment B

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T 0121 370 2500  
www.ngrid.com

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# Introduction 99-2000

The National Grid Company is required by condition 12 of the Transmission Licence to report performance in terms of security of supply, availability and quality of supply.

This report reviews the performance for the financial year 99-2000 in these areas, specifically against the criteria agreed with the then Director General of Electricity Supply in June 1990.

Data has also been provided for a ten year period giving a full picture of our performance since NGC was granted its Transmission Licence on 31 March 1990.

Average Annual System Availability for 99-2000 was 96.0%.

# System Availability

System performance is monitored by reporting monthly variations in system availability, winter peak and average annual system availability, together with planned and unplanned system unavailability.

Availability is reduced whenever a circuit is taken out of operation, either for planned purposes e.g. for construction work, or as a result of a fault.

The following charts show the progressive improvement achieved over 10 years, culminating in an average annual system availability record of 96.34% last year.

As indicated in last year's report, annual system availability, being influenced primarily by planned outages, may marginally reduce in coming years. More planned work is required to accommodate the higher requirement for new user connections and essential asset replacement, as well as the maintenance necessary to retain a high level of system reliability to ensure that Licence Standards of security are met.

A circuit is defined as an overhead line, cable, substation transformer, or any combination of these plant items, controlled by one or more circuit breakers

System Availability is defined by the formula:

Total hours each circuit  
is available

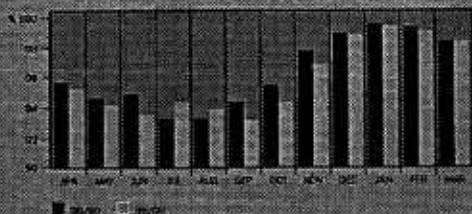
(No. of circuits) x  
(No. of hours in period)

## Section 1



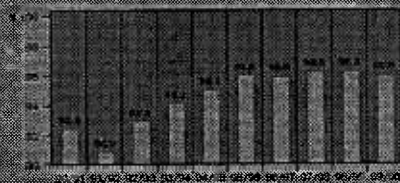
# Facts & Figures

System Availability



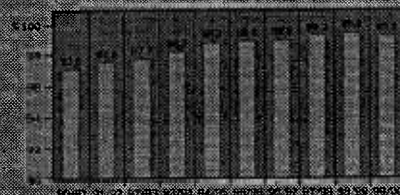
The chart and table show the Month by Month Variation in System Availability measured with the corresponding results for the 1998/99.

Average Annual System Availability



The chart shows the Average System Availability for each year.

Winter Peak System Availability



The chart shows the System Availability for the winter of December - February for each year.

## Comparison of Planned and Unplanned System Unavailability

The charts and the tables show the month by month variation in planned and unplanned unavailability.

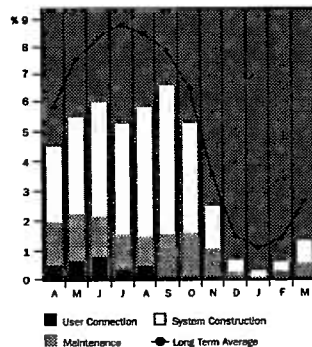
### Planned Unavailability

Maintenance Outages are planned outages required for maintenance (previously termed non-construction).

System Construction Outages are planned outages required to construct or modify assets which are not provided for the exclusive benefit of the specific users.

User Connection Outages are planned outages required to construct or modify assets which are provided to facilitate connection for the exclusive benefit of specific system users.

Planned Unavailability (%)

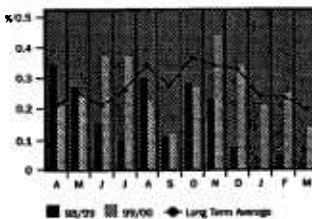


### Unplanned Unavailability

Unplanned unavailability is due to either an enforced outage taken with less than a week's notice or an outage which occurs as a result of plant breakdown.

Planned Unavailability during 99-2000 again followed an annual pattern to allow maximum availability during the winter months.

Unplanned Unavailability (%)



Unplanned Unavailability for 99-2000 was at a typical level throughout the year. This contrasts with the exceptionally low values in 1998/99.



## Section 2

French Interconnector Annual Availability 95.6%.

Scottish Interconnector Annual Availability 99.9%.

# Interconnector Availability

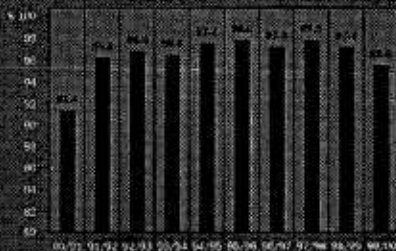
The NGC Transmission System has interconnections with France and Scotland.

Outages are co-ordinated, as far as practical, between the interconnected parties to allow work to be undertaken by both parties during an outage.

Losses of availability are attributed on the basis of work being carried out by parties on their assets.

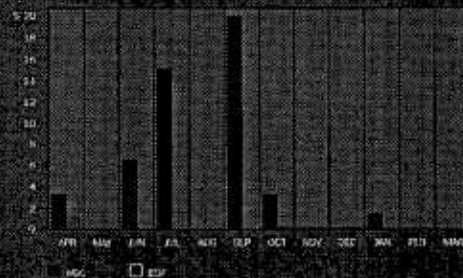
# Facts & Figures

French Interconnector Annual Availability



Annual availability of the interconnector with Electricité de France (as agreed after 15 years construction work on the Channel Tunnel rail link). The chart shows the operational availability (%) of the interconnector during the last 10 years.

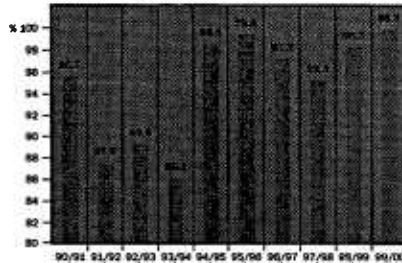
French Interconnector Monthly Unavailability



The chart and table show the month by month variation of unavailability (%) of the interconnector attributed to NGC and Electricité de France.

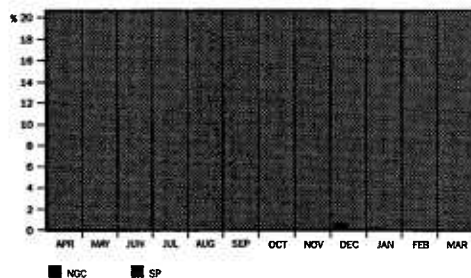
The high 13.27% unavailability in June, July and September resulted from the maintenance work associated with the Channel Tunnel high speed rail link. Scottish Power also has no outages in addition to normal maintenance work.

Scottish Interconnector Annual Availability



The availability of the interconnector during 99-2000 (99.9%) is the highest ever recorded. The chart shows the operational availability (%) of the interconnector during the last 10 years.

Scottish Interconnector Monthly Unavailability



The chart and table show the month by month variation of unavailability (%) of the interconnector attributed to NGC and Scottish Power.

An unusually low requirement for outages by NGC, during December and January, together with no Scottish Power outages, resulted in the record high availability reported.

## Section 3

The total Estimated Unsupplied Energy during 99-2000 was 293MWh.

# System Security

The security and reliability of the Transmission System is also monitored by reporting loss of supply incidents and estimates of the total energy unsupplied for the year.

Loss of supply incidents are reported individually with details of location, time and incident duration, maximum demand lost and an estimate of the unsupplied energy.

Performance is monitored by total estimated energy unsupplied from the NGC system for each incident and the average incident duration.

During 99-2000 there were over 250 system trips where transmission circuits were disconnected either automatically, or by urgent manual switching. This is a typical number for an average year, 30% of which were caused by adverse weather conditions. The vast majority had no impact on electricity users.

Of these 250 events, there were four loss of supply incidents. One was the result of a lightning strike to overhead lines, with automatic equipment restoring supplies in less than one minute. This represents the lowest ever reported volume of loss due to lightning in a year, at 0.8MWh.

One loss was due to a flashover caused by smoke pollution on a teed connection, a supply arrangement chosen by the customer which gives slightly reduced security. Again supplies were restored by automatic equipment in less than one minute.

Two incidents at Uskmouth caused losses of supply to SWALEC customers. During major construction work at the 132kV indoor substation, rainwater entered the indoor substation during prolonged heavy storms and caused flashovers and damage to NGC equipment. Before supplies were restored, it was necessary to inspect the condition of the equipment and perform essential repair work.

An incident is defined as any system event which results in a single or multiple loss of supply

Average Incident Duration is defined as:

Estimated Total Energy Unsupplied (MWh mda)
Total of MWh lost

# Facts & Figures

During 1999-2000 there were four incidents involving NCC equipment which resulted in a loss of supply. The total estimated energy loss was 0.83 MWh, which compares with the total loss of 0.75 MWh during the period of 1998-99. The total estimated energy loss was 0.83 MWh, which compares with the total loss of 0.75 MWh during the period of 1998-99.

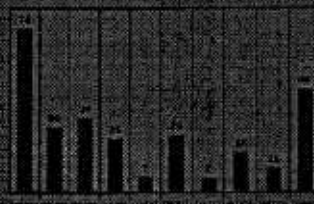
## Estimated Unsupplied Energy



## Average Interrupted Demand per Incident

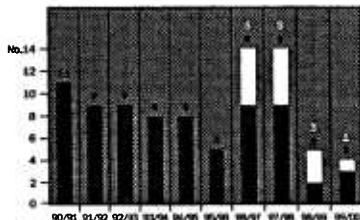


## Average Incidents per Month



During 1999-2000 there were four incidents involving NCC equipment which resulted in a loss of supply. The total estimated energy loss was 0.83 MWh, which compares with the total loss of 0.75 MWh during the period of 1998-99. The total estimated energy loss was 0.83 MWh, which compares with the total loss of 0.75 MWh during the period of 1998-99.

## Number of Incidents



This chart shows the Number of Incidents in each year involving a loss of supply.

□ Anomalous Losses

## Losses of Supply due to faults on NCC equipment (99-2000)

Incident Date, Time & Location	Incident Duration (Mins)	Max Demand Lost (MW)	Estimated Energy Unsupplied (MWh)	Comment
27 May, 21.50hrs at Upper Bost 275kV Substation	0.33	150	0.83	The Aberthaw-Upper Bost 1 and the Cilgymyd-Upper Bost 1 275kV circuits tripped as a result of separate but co-incident lightning strikes, causing a loss of supply to SWALEC at Upper Bost 132kV substation. Supplies were restored automatically in less than one minute.
27 June, 07.11hrs at Ullswath 132kV Substation	258	40	131	Rainwater entered through the NCC substation roof during a storm and resulted in NCC busbars tripping. This caused a loss of supply to part of the SWALEC demand at the location. Supplies were restored to SWALEC at 11.29 hours.
28 June, 23.59 hrs at Tremorfa 275kV Substation	338	70	160	NCC busbars tripped and there was damage to NCC equipment due to flashovers, following a further deluge of water penetrating the substation roof during heavy rain. Part of the total SWALEC demand at the location was again left unsupplied. Supplies were made available by 05.37 hours on 29 June, although some of the lost demand had been progressively restored from the SWALEC system.

## Anomalous Losses

Incident Date, Time & Location	Incident Duration (Mins)	Max Demand Lost (MW)	Estimated Energy Unsupplied (MWh)	Comment
12 August, 11.33 hrs at Tremorfa 275kV Substation	0.33	102	0.56	Supplies to Tremorfa Substation were lost when the Aberthaw-Tremorfa-Whitson 275kV circuit tripped, following a flashover caused by smoke from a busbar under the circuit conductors. Supplies were restored automatically in less than one minute. These supplies are need of a single circuit at the choice of the customer.





## Section 4

No reportable Voltage Variations or Frequency  
Excursions have occurred during 99-2000.

# Quality of Supply

Quality of supply is measured with reference to system voltage and frequency.

The Electricity Supply Regulations permit variations of voltage not exceeding 10% above and below the nominal at 400kV, 275kV and 132kV and not exceeding 6% at lower voltages.

Customers may expect voltage to remain within these limits, except under abnormal conditions e.g. a system fault outside of planning and operating standards.

Normal operational limits are agreed and monitored individually at connection points with customers to ensure that voltage limits are not exceeded, following the specified fault events described in the Licence Security Standard Operation Memorandum No 3.

The criteria for reporting variations in excess of those permitted by the Electricity Supply Regulations are:

**Voltage excursions for more than 15 minutes.**

The Electricity Supply Regulations permit variations in frequency not exceeding 1% above and below 50Hz, a range of 49.5 to 50.5Hz.

The system is normally managed such that frequency is maintained within operational limits of 49.8 and 50.2Hz. Frequency may, however, move outside of these limits under fault conditions, or when abnormal changes to operating conditions occur. Losses of generation between 1000 and 1320MW are abnormal and a maximum frequency change of 0.8Hz may occur, although operation is managed so that the frequency should return within the lower statutory limit of 49.5Hz within 60 seconds.

The criteria for reporting variations in excess of those permitted by the Electricity Supply Regulations are:

**Frequency excursions for more than 60 seconds.**

# Facts & Figures

Voltage Excursions

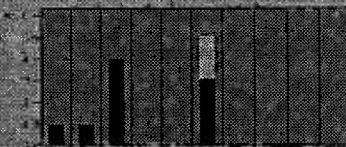


1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

Frequency Excursions



1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

This chart shows the number of Frequency Excursions

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

There are 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000

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National Grid House  
Kirby Corner Road  
Coventry CV4 8JY

Registered in England & Wales  
No. 2366977





**Agreement and Plan of Merger and Scheme of  
Arrangement by and among National Grid Group, plc,  
Niagara Mohawk Holdings, Inc., National Grid  
Limited and Grid Delaware, Inc.**

**See Separate Volume**



**Estimated Synergy Savings and Efficiency Gains  
Methodology for Allocating Synergy Savings**

## **Contents**

- I. Executive Summary
- II. July – November 2000 Synergy Analysis
- III. Post-Merger Integration Planning Initiative

### **Attachments**

- 1. Summary of Synergy Savings and Costs to Achieve (2002-2011)
- 2. Integration Planning Teams and Subteams

## **I. Executive Summary**

This document describes work completed or underway to estimate potential synergy savings and “cost to achieve” related to the merger of National Grid USA and Niagara Mohawk Power Corporation (also referred to as the “Companies”).

- The work already completed is a high-level estimate of potential synergy savings and costs that was initially developed by National Grid USA and Mercer Management Consulting (during July and August 2000) and then extended (during October and November 2000) to cover a ten-year period.
- The work currently underway is a post-merger integration planning effort that will develop more detailed estimates of savings and costs, based on the organizational design, approaches and processes adopted for the merged companies.

This second initiative is still in the early stages and preliminary estimates of synergy savings are not expected until March-April 2001. These estimates will be shared with the Commission and the Parties at that time.

This document also describes the methodology proposed to allocate merger benefits between customers and the companies.

### ***July-November 2000 Synergy Analysis***

During July and August 2000, Mercer Management Consulting assisted National Grid in 1) identifying areas with potential cost savings or costs to achieve, 2) collecting relevant data, 3) developing related operating and financial assumptions, and 4) estimating potential “steady-state” savings. Mercer worked with senior and middle managers at both National Grid and Niagara Mohawk to gather the information required to estimate savings and costs; met with Niagara Mohawk managers to develop a fuller understanding of that company’s business practices, operations, and costs; and worked with National Grid management to determine how the merged companies would operate in the future, e.g., the expected level of integration in the A&G, customer-related, and T&D functions.

Subsequently (during October and November 2000), Mercer extended the synergy analysis to cover a ten-year period by running its merger-related financial model. Over the ten-year period from 2002 through 2011, synergy savings were estimated at \$895 million before costs to achieve (nominal dollars) or approximately \$90 million per year. The \$895 million figure equates to \$504 million on a present value basis (in \$2001, using a 10.75 percent discount rate).

Based on an estimated cost to achieve of \$180 million (assuming costs equals 2 times the annual savings of \$90 million), net synergy savings over the ten-year period will be \$715 million (nominal dollars), as summarized below. Additional details of the synergy analysis (e.g., year-by-year estimates) are presented in Attachment 1 to this document.

<p style="text-align: center;"><i>Exhibit I-1</i></p> <p style="text-align: center;"><b>Estimated 2002-2011 Synergy Savings (\$ Nominal)</b></p>	
Personnel Savings	\$478 million
Information Systems Savings	187
Supply Chain Savings	49
Facilities Savings	16
Administrative and General Savings	<u>165</u>
Total Savings	895
Cost to Achieve	<u>(180)</u>
Net Savings	\$715 million

The figures above include only **merger-related savings** related to the regulated utility businesses and A&G-related operations of National Grid and Niagara Mohawk. Merger-related savings are derived from the elimination of duplication, cost avoidance, adoption of different management practices and policies, and the improved utilization of assets and employees that result from the merger.

As part of the integration planning effort (see the discussion below), the National Grid USA-Niagara Mohawk integration team will also identify **efficiency gains** that will help to reduce costs and improve service. Identifying efficiency gains is particularly important in this transaction, since Niagara Mohawk's 2001 Energy Delivery budget is approximately \$60 million above the post-divestiture budget developed during Power Choice. The merger should provide an opportunity to facilitate Niagara Mohawk's transition from a vertically-integrated utility into an energy delivery business, by leveraging National Grid's experience in shedding costs after the divestiture of its generation assets.

### ***Allocation of Merger Benefits***

The allocation of merger benefits once achieved will in reality be driven by the service company allocation rules. However, we have assumed the following allocation in our analysis:

- Merger-related savings will allocated 50 percent to Niagara Mohawk

- With respect to Niagara Mohawk, 83 percent of its share of savings are assumed be allocated to the electric business and 17 percent are assumed be allocated to the gas business, consistent with the allocations presented in the Rate Plan Filing Financial Forecast (work paper Dep-3)
- With respect to Niagara Mohawk's electric and gas businesses, 50 percent of the savings are assumed to be allocated to customers and 50 percent to the Company

The 50 percent – 50 percent sharing between customers and shareholders is consistent with the Commission's settlement order (Opinion Number 00214, effective November 30, 2000) in the Consolidated Edison – Northeast Utilities merger proceedings (Case Number 00-M-0095, et.al.).

In this example (assuming an estimated \$90 million in annual merger-related savings), \$45 million would be allocated to Niagara Mohawk with customers receiving 50 percent or \$22.5 million of the savings.

In addition, savings that result from efficiency gains (as discussed earlier) should be allocated entirely to Niagara Mohawk and then 50 percent to customers and 50 percent to the Company. The 100 percent allocation to Niagara Mohawk reflects the fact that the post-divestiture savings are assumed to be realized primarily within that company.

To the extent that Niagara Mohawk achieves \$60 million in efficiency gains (to offset the budget increase discussed earlier), total Niagara Mohawk savings would equal \$105 million (\$60 million plus the \$45 million allocated synergy savings), and Niagara Mohawk's customers would be allocated \$52.5 million of that amount.

Exhibit I-2 summarizes these annual figures and also presents allocated savings over the ten-year period on both nominal and present value bases. As shown, Niagara Mohawk would be allocated \$105 million in annual savings, \$1,095 million in ten-year savings (\$ nominal) and \$620 million in ten-year savings on a present value basis. These amounts would be allocated 50 percent – 50 percent between customers and the Company.

Exhibit I-2

**Savings Allocated to Niagara Mohawk  
(in \$ Millions, Figures Rounded)**

<b>Source of Savings</b>	<b>Annual Savings</b>	<b>Ten-Year Savings (\$ Nominal)</b>	<b>Present Value of Ten-Year Savings (\$2001, 10.75 Discount Rate)</b>
Synergy	\$45	\$448	\$252
Efficiency Gains	<u>60</u>	<u>647</u>	<u>368</u>
Total	\$105	\$1,095	\$620
Allocated to Customers	52.5	547.5	310
Allocated to Niagara Mohawk	52.5	547.5	310

***Post-Merger Integration Planning Initiative***

This initiative, discussed in more detail in Chapter III, has an overall objective of developing the organizational design, approaches, and processes for the combined companies. As part of this initiative, nine functional teams (e.g., a Customer Service team, a T&D team) and a number of subteams have been created to help define the future direction and develop detailed estimates of synergy savings and cost to achieve.

The integration planning effort should provide better estimates of savings and costs than the estimates developed during the July-November period for several reasons:

- **More detailed information:** The integration teams will be able to collect and have access to more information for the companies overall and for each functional area. The July-August study had to rely on more high-level information collected over a short period of time during the due diligence phase of the merger transaction.
- **More up-to-date information:** The integration team will have access to organizational, financial and operating information that covers all of 2000 and the



first quarter of 2001. The July-November analysis relied primarily on information from 1999 and the first half of 2000.

- **Broader participation by executives, managers and staff:** More than 150 National Grid and Niagara Mohawk executives, managers and staff are involved in the integration planning effort. During the July-August effort, a very limited number of individuals were involved in developing estimates. The broader participation will allow for more detailed analyses and the ability to leverage the vast experience of the participants in identifying potential synergy savings and costs to achieve.
- **Consideration of other operating and regulatory issues:** The integration team will also be able to address on-going operating issues that impact the business, as well as regulatory issues, such as the potential unbundling of metering and billing services.

With the more detailed information available and broader participation, the level of savings identified by the integration team will likely exceed the \$90 million average annual estimate discussed earlier. In addition, a better estimate of cost to achieve is likely as future operating plans and personnel strategies become more defined.

## **II. July – November 2000 Synergy Analysis**

During July and August 2000, Mercer Management Consulting assisted National Grid in 1) identifying areas with potential cost savings or costs to achieve, 2) collecting relevant data, 3) developing related operating and financial assumptions, and 4) estimating potential “steady-state” savings. Mercer worked with senior and middle managers at both National Grid and Niagara Mohawk to gather the information required to estimate savings and costs; met with Niagara Mohawk managers to develop a fuller understanding of that company’s business practices, operations, and costs; and worked with National Grid management to determine how the merged companies would operate in the future, e.g., the expected level of integration in the A&G, customer-related, and T&D functions.

During October and November 2000, this analysis was extended to cover a 10-year period by running Mercer’s merger-related financial model. Over the ten-year period from 2002 through 2011, synergy savings were estimated at \$895 million before cost to achieve (nominal dollars). This figure equates to \$504 million on a present value basis (\$2001, 10.75 percent discount rate).

The remainder of this chapter discusses the July-November analysis and is organized into the following sections:

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

Attachment 1 provides year-by-year estimates of synergy savings and costs and Attachment 2 (non-confidential working papers) provides supporting analysis.

## ***Summary of Personnel and Non-Personnel Savings***

As illustrated in Exhibit I-1, presented earlier, and Attachment 1 to this Appendix, the ten-year savings have been classified into five components:

- ***Personnel savings:*** related to position reductions in A&G; customer, and transmission and distribution functions
- ***Information systems savings (non-personnel):*** related to integration of applications; mainframe, network, midrange/server, and PC/workstation operations; projects; and telecommunications
- ***Supply chain savings (non-personnel):*** related to lower costs for materials, equipment, and contractor services; reductions in inventory
- ***Facilities savings (non-personnel):*** related to the closing or consolidation of facilities, including office space
- ***Administrative and general savings (non-personnel):*** related to cost reductions in A&G overheads, advertising, association dues, corporate governance (i.e., shareholder services and board fees), financing costs and fees, insurance, and professional services

The level of estimated savings (in nominal dollars) in each component and the bases for the estimates are discussed below.

### ***Personnel Savings***

Personnel savings of approximately \$47 million annually (in 2004) and \$478 million over the ten-year period were estimated using the following process:

- First, staffing levels for National Grid and Niagara Mohawk were estimated as of an assumed merger date of January 2002. Both companies provided staffing details and Mercer assigned each employee to one of the functions listed in Exhibit II-1 below.

*Exhibit II-1*

**Staffing Functions**

**A&G Functions**

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

**Customer Functions**

- Retail Marketing and Sales
- Customer Service

**Electric Transmission and Distribution Functions**

- Electric Distribution
- Electric System Technical Support
- Electric Transmission
- Transportation, Real Estate, and Facilities Maintenance
- Storeroom Personnel

**Other**

- Other Activities

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

- Second, the number of positions that could be eliminated as a result of the merger was estimated. The magnitude of the reduction in each sub-function was based upon identified duplication or redundant activities; the expected degree of integration; potential changes in policies or practices; and any incremental workloads that would result in that area.
- Third, savings were calculated based on an average compensation of \$85,000 (in 2000 dollars) per position. Compensation includes base compensation (wages or salaries) and benefits. Benefits included such items as pension plans, medical insurance, life insurance, savings (401k) plans, bonuses and incentives, and payroll taxes.

National Grid was estimated to have 3,832 pre-merger positions in utility operations and Niagara Mohawk was estimated to have 5,254 pre-merger positions (excluding gas operations and after generation divestiture). Total position reductions were estimated at 510, or approximately 5.6 percent of the 9,086 combined positions. These reductions consist of 421 A&G, 47 customer and 42 T&D positions, as shown in Exhibit II-2. At this point, no decisions have been made as to which reductions will come from current National Grid positions or Niagara Mohawk positions.

<i>Exhibit II-2</i>				
<b>Position Reductions</b>				
	<u>A&amp;G</u>	<u>Customer</u>	<u>T&amp;D</u>	<u>Total</u>
Grid Positions	528	784	2,520	3,832
Niagara Mohawk Positions <sup>1</sup>	<u>909</u>	<u>1,136</u>	<u>3,209</u>	<u>5,254</u>
Combined Positions	1,437	1,920	5,729	9,086
Estimated Reductions	421	47	42	510
Reduction as a % of Combined Positions	29.3%	2.4%	0.7%	5.6%
<sup>1</sup> Excludes 802 Niagara Mohawk gas operations positions; estimate is post-generation divestiture				

As shown above, the percentage reductions in the A&G functions are significantly higher than the percentage reductions in the customer and T&D functions. The relative difference reflects the fact that "headquarters" or "office" type functions offer greater opportunities for savings than do "field" functions, such as line maintenance and construction. In addition, the geographic distance between the service territories limits the opportunity to reduce non-A&G positions.

### ***Information Systems Savings (Non-Personnel)***

National Grid information systems operate on an IBM mainframe computer, approximately 45 IBM and Digital midrange computers, approximately 190 network and network application servers, and approximately 3,300 PCs. Corporate, financial and administrative systems utilize Walker software; HR and payroll systems utilize PeopleSoft; and the customer information system was developed in-house. The Company also has numerous operational systems running on the midrange and mainframe computers. The National Grid data center is located in the Westborough, Massachusetts headquarters.

Niagara Mohawk information systems operate on four IBM mainframe computers, approximately 50 midrange servers, approximately 210 network and network application servers, and approximately 6,200 PCs. Niagara Mohawk operates various financial packages; a HR and payroll system developed by Integral, Inc.; a customer information system developed by

Andersen Consulting; and numerous operational systems. Niagara Mohawk has two data centers; one is located in the Syracuse headquarters complex and the other, an EMS data center, is located in Liverpool, New York.

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

Savings from a reduction in IS personnel (company employees) was discussed earlier. Non-personnel savings due to the partial consolidation of IS operations result from the reduction of contractors, the consolidation of licenses and other operating expenses, and the reduction of recurring capital costs. Non-personnel IS savings were estimated at approximately \$16 million annually (in 2004) and \$187 million over the 2002-2011 period.

### ***Supply Chain Savings (Non-Personnel)***

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

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

Supply chain-related savings were estimated at approximately \$4 million annually (in 2004) and \$49 million over the ten-year period.

Procurement savings on materials and equipment were estimated at approximately \$3 million annually, based on an estimated 2 percent reduction in the cost of combined annual purchases. Merger-related savings for contractor services were estimated at approximately \$1 million annually, based on an estimated 1 percent reduction in the cost of Niagara Mohawk's purchases.

Potential synergy savings related to inventory were not identified in this study

### ***Facilities Savings (Non-Personnel)***

Niagara Mohawk will continue to have a significant presence in Syracuse, and as such, savings related to a potential consolidation of two headquarters into one are not available. We did identify opportunities to reduce facilities costs by consolidating Syracuse office space by \$1.7 million per year in 2004 and \$16 million over the 2002-2011 period.

## ***Administrative and General Savings (Non-Personnel)***

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

Savings of approximately \$16 million annually (in 2004) and \$165 million over the 2002-2011 period were estimated. Savings estimates for each of the seven areas are discussed below.

Estimated A&G overhead-related merger savings of \$2.8 million annually (in 2004) and \$29 million during 2002-2011 were identified. A&G overheads include expenses for office supplies, publications, personal computers, and other miscellaneous expenses. These types of expenses are often captured in FERC Account 921. Using Grid and Niagara Mohawk FERC data and other information, we estimated overheads at \$5,000 per employee (in 2000 dollars). This figure was multiplied by the number of position reductions to estimate annual savings.

Savings in the advertising area were estimated at \$0.5 million annually (in 2004) and \$6 million over the ten-year period. Savings will result from an elimination of duplicative costs, but the lack of a contiguous service territory (and media markets) will limit the savings in the merger.

Association dues-related savings of \$0.5 million annually (in 2004) and \$6 million over the ten-year period were identified. Savings were based on lower expenditures for combined membership in the Edison Electric Institute and the elimination of dues (and travel) for duplicative memberships.

Merger savings related to a reduction in corporate governance costs were estimated at approximately \$1.6 million annually (in 2004) and \$17 million over the 2002-2011 period. Savings related to shareholder services result from the elimination of duplicate activities and costs, such as preparation of the annual shareholders' report and transfer agent fees. Additional savings result from the elimination of director fees and expenses for one company.

Merger savings related to financing costs and fees were estimated at \$2.6 million annually (in 2004) and \$27 million over the ten-year period, based on a reduction in the required lines of credit and therefore, the line of credit fees for the combined company.

Merger-related insurance savings were estimated at approximately \$2.2 million annually (in 2004) and \$23 million over the ten-year period. Savings were based on expected reductions in property and liability coverage premiums (due to reduction in cost per additional dollar of coverage); reductions in directors and officers insurance premiums (due to the elimination of one board of directors); and reductions in brokerage fees (due to the consolidation of insurance purchasing).

Merger-related savings for professional services were estimated at \$5.5 million annually (in 2004) and \$57 million over the ten-year period. Professional services savings result from the

elimination of duplicative efforts in areas such as external auditing, legal support, legislative services, and general consulting. The savings were based on an approximate 20 percent reduction in Niagara Mohawk's stand-alone, annual professional services costs.

### ***Comparison with Other Transactions***

We reviewed a number of transactions, including both contiguous and non-contiguous mergers. The 5.6 percent reduction in positions for the National Grid-Niagara Mohawk merger falls in the 3 percent to 11 percent range for other transactions that we reviewed.

### ***Cost to Achieve***

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

- ***Transaction costs:*** primarily the fees paid to investment bankers for advice on the merger transaction and to outside legal counsel for advice on the merger transaction and support in regulatory proceedings
- ***Personnel costs:*** primarily the out-of-pocket costs incurred to achieve the reduction in positions, e.g., voluntary or other severance packages; other costs including retention payments to employees deemed necessary for a successful integration, as well as relocation and retraining costs
- ***Transition costs:*** the costs incurred to integrate the two companies, e.g., support for organizational redesign and process integration and for communications costs.
- ***Information systems costs:*** the cost associated with integrating systems, consolidating data centers, and connecting telecommunication networks

During the July-November period, a detailed estimate of cost to achieve was not developed, as a number of unknowns exist. The most significant unknown is the level of personnel costs that will actually be incurred. Decisions have not been made as to how many positions will be eliminated and to what extent attrition will provide the reductions targeted.

At this point, a high-level estimate of costs is approximately 2.0 - 2.5 times the annual level of savings, or \$180 million - \$225 million (based on the \$90 million annual savings estimate). The estimated cost to achieve in the New England Electric System – Eastern Utilities Associates merger was 2.0 times estimated annual savings. In the Consolidated Edison – Northeast Utilities transaction, cost to achieve was estimated at approximately 2.5 times annual savings, based on data presented in their filing.

Over the following months, the integration team will address cost to achieve and be able to produce a better estimate of the costs that will ultimately be incurred.



### **III. Post-Merger Integration Planning Initiative**

National Grid USA and Niagara Mohawk are currently engaged in post-merger integration planning. This chapter describes the planning effort, including:

- Merger integration objectives
- Integration team structure and participants
- Team tasks, deliverables and timetable
- Current status

#### ***Merger Integration Objectives***

The primary objective of the integration planning effort is to help National Grid USA and Niagara Mohawk maximize the benefits of the merger in a timely manner. Specific objectives, focusing on operations, financial targets, customers and regulators, and employees are set out in Exhibit III-1.

*Exhibit III-1*

**Merger Integration Objectives**

**Operational**

- “Keep the lights on”: provide excellent reliability and service
- “Keep the money coming in”, execute customer revenue cycle activities well
- Provide a platform for additional growth
  - Integrate processes, functions and organizations where feasible
  - Leverage “better” and “best” practices as much as possible

**Financial**

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

**Customer and  
Regulatory**

- Maintain or grow customer satisfaction and loyalty
- Make the merger seamless to regulators and customers from a service and safety perspective
- Gain necessary approvals quickly

**Employee**

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

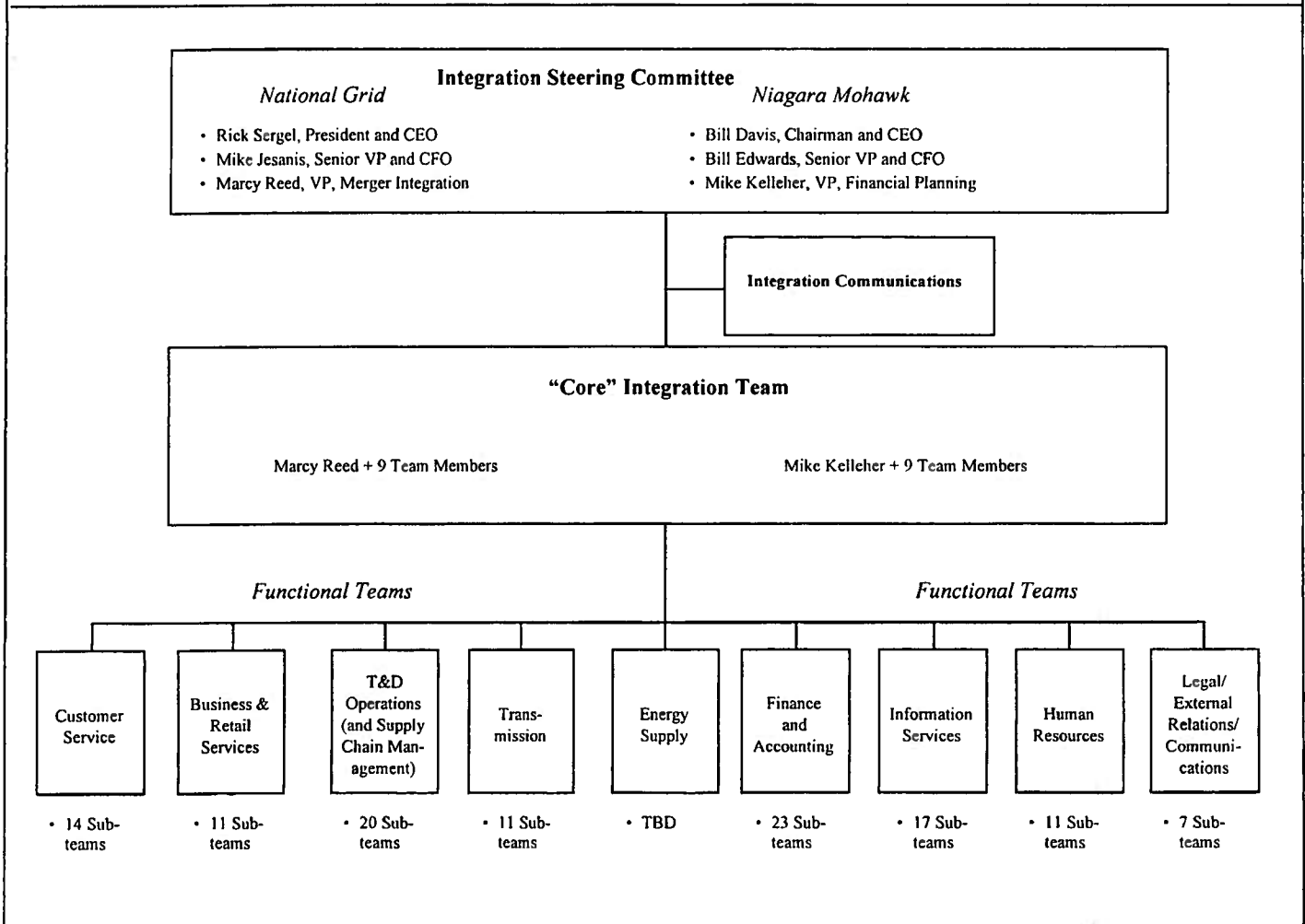
## ***Integration Team Structure and Participants***

An integration team was created in September-October 2000 to achieve the objectives described above. The overall team structure, illustrated in Exhibit III-2, includes:

- An Integration Steering Committee charged with setting the overall direction for the planning effort and, ultimately, making decisions on how the post-merger business will be managed and operated. This committee includes Rick Sergel, the President and CEO of National Grid USA and Bill Davis, the Chairman and CEO of Niagara Mohawk.
- A “core” Integration Team of 20 individuals (10 from National Grid USA and 10 from Niagara Mohawk) responsible for managing the day-to-day effort and coordinating the work of the various functional teams. This Integration Team is being led by Marcy Reed of National Grid USA and Mike Kelleher of Niagara Mohawk.
- Nine “Tier 1” functional teams that are organized around the major utility functions, e.g., T&D operations, customer service, information services. These teams are responsible for understanding current National Grid USA and Niagara Mohawk approaches and processes; designing recommended approaches and processes for the future; and developing detailed estimates of potential synergy savings and costs to achieve.
- “Tier 2” subteams that will focus on specific parts of the nine functions. For example, the Customer Service Team includes 14 subteams responsible for specific areas such as call center, meter reading, meter testing, and billing. At this point, 114 subteams have been created within the structure of the nine functional teams. A complete list of the functional teams and subteams is presented in Attachment 2.

Exhibit III-2

**Integration Team Structure**



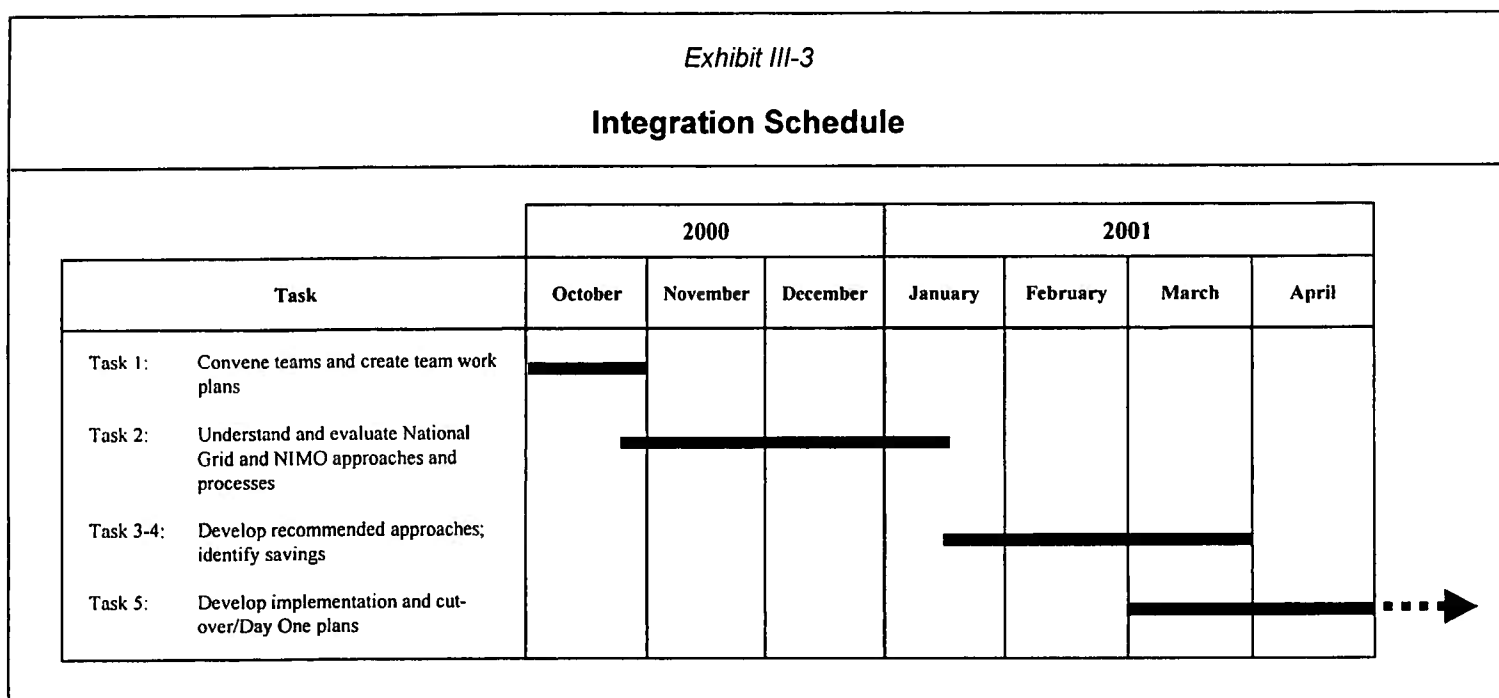
### ***Team Tasks, Deliverables and Timetable***

The integration teams (and subteams) are using a five-task work plan to meet the integration objectives. These tasks are:

- ***Task 1:*** Convene teams, create work plans; evaluate on-going and planned initiatives greater than \$100,000 (for each company to independently determine if initiatives should continue, be deferred or be stopped); and set baseline staffing and budget numbers
- ***Task 2:*** Understand and evaluate National Grid and Niagara Mohawk performance, philosophies, organizations, processes and systems; identify similarities and differences; and identify opportunities for synergy savings and performance improvement
- ***Task 3:*** Develop detailed recommendations for how the companies will operate in the future, e.g., policies, processes and practices; further refine estimated synergy savings and cost to achieve; and also identify potential savings that are not merger-related, but part of a plan to improve operations and performance
- ***Task 4:*** Develop recommendations for how the companies will be organized and staffed in the future, e.g., structure, roles and responsibilities, job definitions, performance targets and staffing levels and locations
- ***Task 5:*** Develop implementation plans that include a summary of implementation initiatives; a schedule with key milestones; the latest estimate of synergy savings and costs to achieve; and a list of implementation barriers and challenges with strategies to address them

The actual integration will be led by line management with support from individuals involved in the integration process.

The schedule for completing these five tasks, illustrated in Exhibit III-3, runs from October 2000 through April 2001.



### **Current Status**

As of this date, the teams have completed Task 1 (work planning) and are currently completing Task 2 (understanding and evaluating current approaches and processes). The teams have not yet begun to develop estimates of potential synergy savings and costs to achieve.

We expect that during March-April 2001 period, estimates will be developed and available for the Commission's review.

**Attachment 1**

**Summary of Synergy Savings and Cost to Achieve**

**(2002-2011)**

10-Year Summary of Synergy Savings and Cost to Achieve

in \$000

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>Personnel Savings</b>	28,896	42,655	46,515	47,678	48,866	50,080	51,322	52,590	53,887	55,212	477,700
<b>Non-Personnel Savings</b>											
Information Systems	1,486	9,228	16,349	17,901	19,488	21,109	22,766	24,460	26,191	27,960	186,938
Supply Chain	1,925	4,032	4,317	4,608	4,906	5,210	5,521	5,839	6,164	6,496	49,020
Facilities	-	1,648	1,685	1,722	1,760	1,798	1,838	1,878	1,920	1,962	16,211
Administrative and General	14,145	15,213	15,704	16,049	16,402	16,763	17,132	17,509	17,894	18,288	165,100
<b>Total Savings</b>	<b>46,452</b>	<b>72,777</b>	<b>84,569</b>	<b>87,958</b>	<b>91,422</b>	<b>94,962</b>	<b>98,580</b>	<b>102,277</b>	<b>106,056</b>	<b>109,918</b>	<b>894,968</b>
<b>Cost to Achieve</b>	<b>153,000</b>	<b>27,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>180,000</b>
<b>Net Savings</b>	<b>(106,548)</b>	<b>45,777</b>	<b>84,569</b>	<b>87,958</b>	<b>91,422</b>	<b>94,962</b>	<b>98,580</b>	<b>102,277</b>	<b>106,056</b>	<b>109,918</b>	<b>714,968</b>



# 10-Year Savings Summary

## Personnel Savings Summary in \$000

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>A&amp;G Personnel</b>											
% Capitalized	0%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized— IS	10%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
% Realized—Other	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
	Reductions										
Ongong savings - IS	6,659	75									
Ongoing savings - Other	30,718	346									
<b>Total Savings</b>	<b>23,705</b>	<b>35,477</b>	<b>39,039</b>	<b>39,898</b>	<b>40,776</b>	<b>41,673</b>	<b>42,590</b>	<b>43,527</b>	<b>44,485</b>	<b>45,463</b>	<b>396,633</b>
<b>O&amp;M Savings</b>	<b>23,705</b>	<b>35,477</b>	<b>39,039</b>	<b>39,898</b>	<b>40,776</b>	<b>41,673</b>	<b>42,590</b>	<b>43,527</b>	<b>44,485</b>	<b>45,463</b>	<b>396,633</b>
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
<b>Total Capital Savings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Rev Req Savings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total O&amp;M + Rev Req Savings</b>	<b>23,705</b>	<b>35,477</b>	<b>39,039</b>	<b>39,898</b>	<b>40,776</b>	<b>41,673</b>	<b>42,590</b>	<b>43,527</b>	<b>44,485</b>	<b>45,463</b>	<b>396,633</b>

# 10-Year Savings Summary

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
<b>Customer Related Personnel</b>											
% Capitalized	0%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongoing savings	4,173	47									
Total Savings	3,130	4,265	4,358	4,454	4,552	4,652	4,755	4,859	4,966	5,075	45,067
O&M Savings	3,130	4,265	4,358	4,454	4,552	4,652	4,755	4,859	4,966	5,075	45,067
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	3,130	4,265	4,358	4,454	4,552	4,652	4,755	4,859	4,966	5,075	45,067

# 10-Year Savings Summary

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
<b>T&amp;D Personnel</b>											
% Capitalized	30%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongoing savings	3,729	42									
Total Savings	2,797	3,811	3,895	3,980	4,068	4,157	4,249	4,342	4,438	4,536	40,272
<b>O&amp;M Savings</b>											
1 Capital Savings	839	839	839	839	839	839	839	839	839	839	
2		1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	1,143	
3			1,168	1,168	1,168	1,168	1,168	1,168	1,168	1,168	
4				1,194	1,194	1,194	1,194	1,194	1,194	1,194	
5					1,220	1,220	1,220	1,220	1,220	1,220	
6						1,247	1,247	1,247	1,247	1,247	
7							1,275	1,275	1,275	1,275	
8								1,303	1,303	1,303	
9									1,331	1,331	
10										1,361	
Total Capital Savings	839	1,982	3,151	4,345	5,565	6,812	8,087	9,390	10,721	12,082	62,974
Rev Req Savings	104	246	391	539	690	845	1,003	1,164	1,329	1,498	7,809
<b>Total O&amp;M + Rev Req Savings</b>	<b>2,062</b>	<b>2,913</b>	<b>3,117</b>	<b>3,325</b>	<b>3,538</b>	<b>3,755</b>	<b>3,977</b>	<b>4,204</b>	<b>4,436</b>	<b>4,673</b>	<b>35,999</b>

# 10-Year Savings Summary

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
<b>Other Personnel</b>											
% Capitalized	0%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	75%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
		<u>Reductions</u>									
Ongoing savings	-	-									
Total Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
<b>Total Personnel Savings</b>											
A&G	23,705	35,477	39,039	39,898	40,776	41,673	42,590	43,527	44,485	45,463	396,633
Customer-Related	3,130	4,265	4,358	4,454	4,552	4,652	4,755	4,859	4,966	5,075	45,067
T&D	2,062	2,913	3,117	3,325	3,538	3,755	3,977	4,204	4,436	4,673	35,999
Other	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>28,896</b>	<b>42,655</b>	<b>46,515</b>	<b>47,678</b>	<b>48,866</b>	<b>50,080</b>	<b>51,322</b>	<b>52,590</b>	<b>53,887</b>	<b>55,212</b>	<b>477,700</b>

# 10-Year Savings Summary

## IS Savings Summary in \$000

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total	
% Capitalized		23.4%											
Rev Req Rate		27.7%											
Escalation			2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%		
%Realized		10%	60%	100%	100%	100%	100%	100%	100%	100%	100%		
	Ongoing Savings												
Contractors		3,264											
O&M		10,445											
Capital		4,178											
		17,887	1,789	10,968	18,682	19,093	19,514	19,943	20,382	20,830	21,288	21,757	174,246
O&M Savings		1,370	8,402	14,311	14,626	14,947	15,276	15,612	15,956	16,307	16,666		133,472
1 Capital Savings		419	419	419	419	419	419	419	419	419	419		
2			2,567	2,567	2,567	2,567	2,567	2,567	2,567	2,567	2,567		
3				4,372	4,372	4,372	4,372	4,372	4,372	4,372	4,372		
4					4,468	4,468	4,468	4,468	4,468	4,468	4,468		
5						4,566	4,566	4,566	4,566	4,566	4,566		
6							4,667	4,667	4,667	4,667	4,667		
7								4,769	4,769	4,769	4,769		
8									4,874	4,874	4,874		
9										4,981	4,981		
10											5,091		
Total Capital Savings		419	2,985	7,357	11,825	16,391	21,057	25,827	30,701	35,682	40,773		193,017
Rev Req Savings		116	827	2,038	3,275	4,540	5,833	7,154	8,504	9,884	11,294		53,466
Total O&M + Rev Req Savings		1,486	9,228	16,349	17,901	19,488	21,109	22,766	24,460	26,191	27,960		186,938

# 10-Year Savings Summary

## Supply Chain Savings Summary in \$000

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Inventory											
% Capitalized	100%										
Carrying Cost	12.0%										
Total Escalation											
% Realized	50%	2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Inventory Reduction	-										
Annual Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
Capital Savings	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
<b>O&amp;M +Rev Req Savings</b>	-	-	-	-	-	-	-	-	-	-	-

**10-Year Savings Summary**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>Procurement</b>											
% Capitalized	30%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	50%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	4,178										
<b>Total Savings</b>	<b>2,089</b>	<b>4,270</b>	<b>4,364</b>	<b>4,460</b>	<b>4,558</b>	<b>4,658</b>	<b>4,761</b>	<b>4,865</b>	<b>4,972</b>	<b>5,082</b>	<b>44,079</b>
<b>O&amp;M Savings</b>	<b>1,462</b>	<b>2,989</b>	<b>3,055</b>	<b>3,122</b>	<b>3,191</b>	<b>3,261</b>	<b>3,332</b>	<b>3,406</b>	<b>3,481</b>	<b>3,557</b>	<b>30,855</b>
<b>1 Capital Savings</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	<b>627</b>	
2		1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281	
3			1,309	1,309	1,309	1,309	1,309	1,309	1,309	1,309	
4				1,338	1,338	1,338	1,338	1,338	1,338	1,338	
5					1,367	1,367	1,367	1,367	1,367	1,367	
6						1,397	1,397	1,397	1,397	1,397	
7							1,428	1,428	1,428	1,428	
8								1,460	1,460	1,460	
9									1,492	1,492	
10										1,525	
<b>Total Capital Savings</b>	<b>627</b>	<b>1,908</b>	<b>3,217</b>	<b>4,555</b>	<b>5,922</b>	<b>7,320</b>	<b>8,748</b>	<b>10,207</b>	<b>11,699</b>	<b>13,224</b>	<b>67,425</b>
<b>Rev Req Savings</b>	<b>78</b>	<b>237</b>	<b>399</b>	<b>565</b>	<b>734</b>	<b>908</b>	<b>1,085</b>	<b>1,266</b>	<b>1,451</b>	<b>1,640</b>	<b>8,361</b>
<b>Total O&amp;M + Rev Req Savings</b>	<b>1,540</b>	<b>3,225</b>	<b>3,454</b>	<b>3,687</b>	<b>3,925</b>	<b>4,168</b>	<b>4,417</b>	<b>4,671</b>	<b>4,931</b>	<b>5,197</b>	<b>39,216</b>

# 10-Year Savings Summary

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>Contractor Services</b>											
% Capitalized	30%										
Rev Req Rate	12.4%										
Escalation		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	50%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	1,044										
Total Savings	522	1,067	1,091	1,115	1,139	1,165	1,190	1,216	1,243	1,270	11,020
O&M Savings	366	747	764	780	798	815	833	851	870	889	7,714
1 Capital Savings	157	157	157	157	157	157	157	157	157	157	
2		320	320	320	320	320	320	320	320	320	
3			327	327	327	327	327	327	327	327	
4				334	334	334	334	334	334	334	
5					342	342	342	342	342	342	
6						349	349	349	349	349	
7							357	357	357	357	
8								365	365	365	
9									373	373	
10										381	
Total Capital Savings	157	477	804	1,139	1,481	1,830	2,187	2,552	2,925	3,306	16,856
Rev Req Savings	19	59	100	141	184	227	271	316	363	410	2,090
Total O&M + Rev Req Savings	385	806	863	922	981	1,042	1,104	1,168	1,233	1,299	9,804



# 10-Year Savings Summary

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
<b>Vehicles</b>											
% Capitalized	0%										
Rev Req Rate	12.4%										
Escalation Total		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	-										
Total Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	-
2		-	-	-	-	-	-	-	-	-	-
3			-	-	-	-	-	-	-	-	-
4				-	-	-	-	-	-	-	-
5					-	-	-	-	-	-	-
6						-	-	-	-	-	-
7							-	-	-	-	-
8								-	-	-	-
9									-	-	-
10										-	-
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
<b>Total SCM Savings</b>											
Inventory	-	-	-	-	-	-	-	-	-	-	-
Procurement	1,540	3,225	3,454	3,687	3,925	4,168	4,417	4,671	4,931	5,197	39,216
Contractor Services	385	806	863	922	981	1,042	1,104	1,168	1,233	1,299	9,804
Vehicles	-	-	-	-	-	-	-	-	-	-	-
Total	1,925	4,032	4,317	4,608	4,906	5,210	5,521	5,839	6,164	6,496	49,020

# 10-Year Savings Summary

## Facilities Savings Summary in \$000

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
% Capitalized	0%										
Rev Req Rate	14.6%										
Escalation		2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
% Realized	0%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing Savings	1,613										
Total Savings	-	1,648	1,685	1,722	1,760	1,798	1,838	1,878	1,920	1,962	16,211
O&M Savings	-	1,648	1,685	1,722	1,760	1,798	1,838	1,878	1,920	1,962	16,211
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4	0			-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	0	-	-	-	-	-	-	-	-	-	0
Rev Req Savings	0	-	-	-	-	-	-	-	-	-	0
Total O&M + Rev Req Savings	-	1,648	1,685	1,722	1,760	1,798	1,838	1,878	1,920	1,962	16,211

# 10-Year Savings Summary

## Non-Personnel A&G Savings Summary in \$000

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
% Capitalized		0%										
Rev Req Rate		12.4%										
Escalation			2.2%	4.4%	6.7%	9.1%	11.5%	13.9%	16.5%	19.0%	21.6%	
%Realized		94%	99%	100%	100%	100%	100%	100%	100%	100%	100%	
	Ongoing Savings											
A&G Overheads	2,663											
Advertising	522											
Association Dues	522											
Corporate Governance	1,567											
Financing Costs and Fees	2,449											
Insurance	2,089											
Professional Services	5,222											
	15,035	14,145	15,213	15,704	16,049	16,402	16,763	17,132	17,509	17,894	18,288	165,100
O&M Savings		14,145	15,213	15,704	16,049	16,402	16,763	17,132	17,509	17,894	18,288	165,100
1 Capital Savings		-	-	-	-	-	-	-	-	-	-	
2			-	-	-	-	-	-	-	-	-	
3				-	-	-	-	-	-	-	-	
4					-	-	-	-	-	-	-	
5						-	-	-	-	-	-	
6							-	-	-	-	-	
7								-	-	-	-	
8									-	-	-	
9										-	-	
10											-	
Total Capital Savings		-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings		-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings		14,145	15,213	15,704	16,049	16,402	16,763	17,132	17,509	17,894	18,288	165,100

# Cost to Achieve

		in \$000		
	2002	2003	2004	Total
<b>Transaction Costs</b>				
Bankers fees				
Legal fees				
D&O liability tail coverage				
Shareholder and proxy costs				
Total				
<b>Personnel Costs</b>				
Employee Separation				
Management Separation				
Retention				
Relocation				
Retraining				
PV of Total Savings (\$895 million)				
Total				
<b>Transition Costs</b>				
Internal Support				
Outside Support (non-IS)				
Communications, Corporate Identity and Miscellaneous				
Facilities Consolidation				
Other				
Total				
<b>Information Systems Costs</b>				
Data Center Consolidation				
Applications Integration, Desktop Upgrades, Connectivity and Other				
Total				
<b>Total Cost to Achieve</b>	153,000	27,000		180,000
	85%	15%		

# Assumptions

Assumptions			
<b>Capitalization Rates</b>		<b>Revenue Requirements Rates</b>	
A&G Personnel	0%	WACC	12.0%
Customer Personnel	0%		
T&D Personnel	30%	Capital	12.4%
Other Personnel	0%		based on 12% wacc, 30 year, levelized
IS	23.4%	Facilities	14.6%
			based on 12% wacc plus 2.5% taxes, 40 year, levelized
Inventory	100%	IS	27.7%
Procurement	30%		based on 12.0% wacc, 5 year, levelized
Contractor Sevices	30%		
Vehicles	0%		
Facilities	0%	<b>Escalation Rates</b>	
Non-Personnel A&G	0%	Labor and Benefits	2.2%
		Other	2.2%
<b>From Personnel Savings Model</b>			
	Reductions		Savings
A&G			
IS	75		6,659
Other	346		30,718
Total A&G	421		37,377
Customer	47		4,173
T&D	42		3,729
Total	510		45,278

## **Attachment 2**

### **Integration Planning Teams and Subteams**

## Attachment 2

### Integration Planning Teams and Subteams

<b>Function: Customer Service</b>
<b>Subteams</b> <ul style="list-style-type: none"> <li>• Call Center</li> <li>• Customer Satisfaction/Quality Improvement/Assurance</li> <li>• Billing Systems (Load Data Services)</li> <li>• Billing Systems (Billing Support)</li> <li>• Billing Systems (Supplier Services)</li> <li>• Auxiliary (Mail) Operations</li> <li>• Customer Service/Operations (A/P)</li> <li>• Credit/Collections</li> <li>• Revenue Protection</li> <li>• Meter Reading</li> <li>• Meter Operations/Service Department</li> <li>• Meter Testing</li> <li>• Dispatch/Service/CAD</li> <li>• Small Business</li> </ul>

<b>Function: Business &amp; Retail Services</b>
<b>Subteams</b> <ul style="list-style-type: none"> <li>• Streetlighting</li> <li>• National Accounts</li> <li>• Economic and Community Development</li> <li>• Policy and Procedure</li> <li>• Core Services/Customer Relations</li> <li>• New Products and Services</li> <li>• Demand-Side Management</li> <li>• Philanthropy and Community Relations</li> <li>• Special Projects</li> <li>• Government Relations</li> <li>• Consumer Advocacy/Low Income Program</li> </ul>

<b>Function: T&amp;D Operations (and SCM)</b>
<b>Subteams</b> <ul style="list-style-type: none"> <li>• Distribution Construction Standards</li> <li>• Substation/Protection Engineering</li> <li>• Supply/Sub-Transmission Planning</li> <li>• Laboratory Processes</li> <li>• GIS Systems</li> <li>• Distribution Engineering</li> <li>• Distribution Design</li> <li>• Distribution Construction/Maintenance</li> <li>• Vegetation Management</li> <li>• Substation Construction/Maintenance</li> <li>• Control/Dispatch</li> <li>• Fleet</li> <li>• Safety</li> <li>• Environmental</li> <li>• Third-Party Attachments</li> <li>• Training</li> <li>• Procurement</li> <li>• Stores and Inventory Management</li> <li>• Investment Recovery</li> <li>• Accounts Payable</li> </ul>

<b>Function: Transmission</b>
<b>Subteams</b> <ul style="list-style-type: none"> <li>• Commercial and Billing</li> <li>• Metering and Data Services</li> <li>• Transmission Infrastructure Planning</li> <li>• Transmission Strategy</li> <li>• Transmission Line Engineering</li> <li>• Transmission Line Services</li> <li>• Transmission Security/Power Control</li> <li>• Energy Management System (EMS)</li> <li>• Research and Development</li> <li>• Performance Measurement</li> <li>• T&amp;D Interface</li> </ul>

## Attachment 2

### Integration Planning Teams and Subteams

<p style="text-align: center;"><b>Function:</b> <b>Finance &amp; Accounting</b></p> <p><b>Subteams</b></p> <ul style="list-style-type: none"> <li>• Budgeting</li> <li>• Business Planning</li> <li>• Property and Asset Management</li> <li>• Property Tax</li> <li>• Facility Management</li> <li>• Risk Management</li> <li>• Investor Relations</li> <li>• Internal Audit</li> <li>• Plant Accounting</li> <li>• Project Accounting</li> <li>• Financial Analyses</li> <li>• Performance Measurement</li> <li>• Planning and Forecasting</li> <li>• Cash Management</li> <li>• Investment Management</li> <li>• General Accounting</li> <li>• Revenue Accounting</li> <li>• Corporate Tax</li> <li>• External Reporting</li> <li>• Strategic/Regulatory Planning</li> <li>• Rates/Tariffs/Pricing</li> <li>• Accounting Systems</li> <li>• Accounting Policy</li> </ul>	<p style="text-align: center;"><b>Function:</b> <b>Information Services</b></p> <p><b>Subteams</b></p> <ul style="list-style-type: none"> <li>• Customer Service Applications</li> <li>• Business Services Applications</li> <li>• Operations Applications</li> <li>• Corporate Applications</li> <li>• Transmission Services Applications</li> <li>• Telecommunications</li> <li>• Telecommunications (Wireless)</li> <li>• Development Tools, Middleware, DBMS</li> <li>• Network</li> <li>• Mainframe/Midrange</li> <li>• Personal Computers</li> <li>• LAN Servers</li> <li>• Data Center Operations</li> <li>• Help Desk</li> <li>• Email</li> <li>• Web Infrastructure</li> <li>• IT Administration</li> </ul>
<p style="text-align: center;"><b>Function:</b> <b>Human Resources</b></p> <p><b>Subteams</b></p> <ul style="list-style-type: none"> <li>• Employee Relations/Medical</li> <li>• Payroll</li> <li>• Benefits (Qualified Plans)</li> <li>• Benefits (Health and Welfare)</li> <li>• Labor Relations</li> <li>• HRIS</li> <li>• Compensation</li> <li>• Organizational Development</li> <li>• Professional/Recruiting</li> <li>• Workers' Compensation</li> <li>• Executive Benefits</li> </ul>	<p style="text-align: center;"><b>Function:</b> <b>Legal/External Relations/Communications</b></p> <p><b>Subteams</b></p> <ul style="list-style-type: none"> <li>• Legal</li> <li>• Corporate Communications</li> <li>• Governmental Affairs</li> <li>• Ethics</li> <li>• Security</li> <li>• Records Management</li> <li>• Corporate Secretary</li> </ul> <p style="text-align: center;"><b>Function:</b> <b>Energy Supply</b></p> <p><b>Subteams</b></p> <ul style="list-style-type: none"> <li>• To be determined</li> </ul>





## **Environmental Assessment Form**

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### Attachments

- A. Short Form Environmental Assessment Form
- B. Niagara Mohawk Environmental Program
- C. National Grid USA Environmental Program

ENVIRONMENTAL ASSESSMENT FORM FOR MERGER OF  
NIAGARA MOHAWK HOLDINGS, INC.,  
NIAGARA MOHAWK POWER CORPORATION,  
NATIONAL GRID GROUP plc,  
AND NATIONAL GRID USA

PREPARED FOR:

New York State Public  
Service Commission  
Department of Public Service  
Three Empire State Plaza  
Albany, NY 12223

PREPARED BY:

Niagara Mohawk Holdings, Inc.  
300 Erie Blvd. West  
Syracuse, NY 13202

Niagara Mohawk Power Corporation  
300 Erie Boulevard West  
Syracuse, NY 13202

National Grid USA  
25 Research Drive  
Westborough, MA 01552

1. Executive Summary

On September 5, 2000, Niagara Mohawk Holdings Inc. ("NM Holdings") and National Grid Group plc ("National Grid") announced an Agreement under which National Grid will acquire NM Holdings. As a result of this transaction, National Grid indirectly will acquire 100 percent of the common stock of Niagara Mohawk Power Corporation ("Niagara Mohawk"), an electric and gas utility owned by NM Holdings. NM Holdings, Niagara Mohawk, National Grid and Grid USA (collectively "Petitioners") have requested authorization to effect the indirect acquisition of Niagara Mohawk by National Grid through the filing of a Joint Petition for Approval of Merger and Stock Acquisition.

The following Environmental Assessment Form ("EAF") is provided to assist the New York State Public Service Commission (PSC or Commission) in determining whether the merger will have a significant impact on the environment.

## 2. Description of Proposed Action

### A. Background

The State Environmental Quality Review Act ("SEQRA"), and its implementing regulations at 6 NYCRR Part 617, require a systematic review of the environmental consequences of those "actions" of State agencies which may have significant environmental impacts. Under the provisions of SEQRA, the Commission's proposed action that is being considered is the approval of the joint petition of NM Holdings, Niagara Mohawk, National Grid and Grid USA for approval of the merger and stock acquisition (the "merger").

### B. Statement of Proposed Action

SEQRA regulations define the term "actions" to include, among other things, "agency planning and policy making activities that may effect the environment and commit the agency to a definite course of future decisions." [6 NYCRR Sections 617.2(b)(21)]. The proposed action here is the approval by the New York State Public Service Commission of the merger.

### C. Scope of EAF

This document provides the substantive information solicited by Appendix A of 6 NYCRR 617, part of the regulations promulgated by the New York State Department of Environmental Conservation pursuant to SEQRA. An environmental assessment is an evaluation of the known or potential environmental consequences of a proposed action. Such an assessment also determines whether additional relevant information about such impacts is needed. This EAF is limited to identification and consideration of potentially significant and reasonably likely adverse environmental, social and economic impacts associated with the merger.

### D. The SEQRA Process

An EAF provides an organized approach to identifying the information needed by the lead agency to make its determination of significance. A properly completed EAF describes a proposed action, its location, its purpose and its potential impacts on the environment. The EAF is the first step in the environmental impact review process and leads to either a positive declaration (requiring further analysis of the environmental impacts) or a negative declaration (requiring no further action) of potentially significant adverse environmental impacts.

E. Outline of This EAF

The remainder of this document is organized as follows: Section 3 provides a brief discussion of the Petitioners. Section 4 provides an overview of the key components of the merger. Section 5 provides a description of the service territories of the Petitioners. Section 6 discusses zoning and planning information. Section 7 provides an overview of the environmental impacts of the merger. Section 8 provides a conclusion.

3. Petitioners

Please refer to the Petition for a complete description of the Petitioners.

4. Description of Merger

Please refer to the Petition for a complete description of the merger transaction as well as the benefits of the merger.

5. Description of Service Territories

A. Niagara Mohawk Holdings Inc.

NM Holdings, Inc., is an investor-owned energy services company that provides electricity to more than 1.5 million customers across 24,000 square miles of upstate New York.

The Company also delivers natural gas to more than 540,000 customers over 4,500 square miles of eastern, central and northern New York. The company has approximately 7,600 employees.

B. National Grid Group plc

National Grid builds, owns and operates electric and telecommunications networks around the world, focusing on liberalizing markets. National Grid operates electric networks in the U.K., the U.S., Argentina and Zambia. The company's growing portfolio of telecommunications businesses includes ventures in the U.K., the U.S., Brazil, Argentina, Chile and Poland. National Grid's headquarters are in London, England.

Grid USA includes retail electric companies Massachusetts Electric, Narragansett Electric, Granite State Electric, and Nantucket Electric, and a substantial transmission Business. These companies serve more than 1.7 million customers in Massachusetts, Rhode Island and New Hampshire. The company has approximately 3,800 employees.

6. Zoning Information, Planning Information and Approvals from Other Government Agencies

A. Zoning and Planning

The merger will not involve any changes to land use and will comply with existing zoning and other land use restrictions. No short-term, long-term or incremental adverse impacts to the land will occur as a result of the proposed action. NM Holdings and Grid USA will remain separate wholly-owned subsidiaries of National Grid after the merger. Each will maintain its current permits, approvals and licenses. As the companies will remain separate entities after the merger, any transfers of title, changes of name or similar modifications to permits will not have an impact upon the environment.

B. Approvals from Other Government Agencies

Please refer to the Petition for a description of other regulatory filings which must be made and approvals to be obtained as conditions precedent to the closing of the merger.

7. Environmental Impacts of the Merger

Set forth in Appendix B and C is a discussion of the environmental programs of both Niagara Mohawk and Grid USA. These programs will not be adversely affected by the merger.

A. Air Quality Impacts

In the spring of 2000, Niagara Mohawk completed the divestiture of its fossil generating stations (with the sale of the Albany Steam Station). As a result, major sources of air contamination were no longer part of the Niagara Mohawk system. Nevertheless, the remaining Niagara Mohawk facilities are subject to federal and state permitting regulations governing emissions of air pollutants. Under 6 NYCRR Part 201, Niagara Mohawk has documented that



most of its remaining sources of air contaminants are small sources (i.e. vent hoods) which are exempt from permitting requirements.

Grid USA does not currently own or operate any major sources of air contaminants. As a result, the merger will not have a negative impact on air quality.

B. Water Quality Impacts

Both Niagara Mohawk and Grid USA are required to comply with federal and state water quality statutes and regulations including the Federal Clean Water Act (Clean Water Act) of 1972. The Clean Water Act was implemented to protect the nation's water sources and the animal and plant life depending on them by restoring and monitoring the chemical, physical and biological integrity of rivers, streams, bays and other sources. Water quality regulations are monitored at the federal, state and local levels. The Clean Water Act requires that point sources be in compliance with state issued State Pollution Discharge Elimination System ("SPDES") permits which prescribe applicable conditions to protect water quality. The program requires permits to be issued for industrial and commercial discharges, including heat, into surface and ground waters. Depending on the type of discharge, a periodic monitoring program may also be required.

The New York State Department of Environmental Conservation (NYSDEC) issued SPDES permits for several Niagara Mohawk facilities (including the Nine Mile Point facility). Niagara Mohawk is required to comply with permit conditions under these permits, including periodic monitoring.

Grid USA has also received similar permits for its facilities as well.

After the merger, both Niagara Mohawk and National Grid will continue to maintain their discharge permits and comply with the conditions therein as well as obtain new permits as

required. The SPDES permit at Nine Mile will have been transferred to the new owner prior to the merger. As a result, impacts on the quality or quantity of surface or ground water are not anticipated as a result of the merger.

C. Noise Impacts

The merger of Niagara Mohawk and Grid USA will not significantly affect the utility operations of these companies. As a result, it is not anticipated that there will be a change in the noise levels.

D. Traffic Impacts

The merger of Niagara Mohawk and Grid USA will not significantly affect traffic patterns. Impacts to existing traffic patterns are not anticipated and can be evaluated on a site-specific basis.

E. Solid Waste

The merger of Niagara Mohawk and Grid USA will not significantly affect the utility operations of these companies. As a result, there will not be an increase in solid waste production or disposal.

F. Erosion Damage or Flooding

The merger of Niagara Mohawk and Grid USA will not significantly affect the utility operations of these companies. No specific plans for new construction result from the merger. Therefore, the potential for erosion, damage or flooding problems is not an issue.

G. Aesthetic, Agricultural, Archeological, Historic or Other Natural Resources

As noted above, the merger of these companies will not significantly affect the aesthetic, agricultural, archeological, historic or other natural resources.

H. Community or Neighborhood Character

The merger will not significantly affect neighborhood or community character. However, the merger will result in some employment impacts. The Petition includes a reduction of between 500 and 750 positions over a four-year period, spread over a combined Grid USA / Niagara Mohawk workforce. The Petitioners believe, however, that the rate plan contemplated as part of the Petition will spur economic development in Upstate New York (which will lead to job opportunities). Thus, as a whole, any negative employment impacts will be mitigated. Petitioners also commit to honor all existing labor contracts and to negotiate new contracts when current agreements expire. Also, in light of the global nature of the National Grid enterprise, Niagara Mohawk will be able to offer its employees new and diverse professional opportunities. Upstate New York will realize intangible benefits from the broad perspective realized by Niagara Mohawk's employees.

As noted in the Petition, National Grid recognizes Niagara Mohawk's status as a corporate citizen in Upstate New York. As such, after the merger, Niagara Mohawk will retain its name, and its headquarters will remain in Syracuse. Furthermore, Niagara Mohawk will continue to focus on economic development in Upstate New York. In fact, the delivery rate cut and freeze made possible by the merger savings should help to enhance economic development in Niagara Mohawk's service territory.

I. Vegetation or Farming, Fish, Shellfish or Wildlife Species, Significant Habitats or Threatened and Endangered Species

There are no current plans arising from the merger which will disrupt vegetation, farms or habitat.

J. Community's Existing Plans or Goals

The merger will not significantly affect land use, and land use changes will comply with existing zoning and other land use restrictions. As a result, use or intensity of land or other natural resources will not be impacted.

K. Growth, Subsequent Development and Related Activities likely to be Induced by the Proposed Action

Lower rates under the Incentive Rate Plan may contribute to growth and development in Niagara Mohawk's service territory. As described above, after the merger, Niagara Mohawk will continue to focus on economic development. Any growth, subsequent development or related activities will be independently evaluated for its environmental impacts.

L. Long-Term, Short-Term, Cumulative or Other Effects

No significant long-term, short-term, cumulative or other impacts will occur as a direct result of the merger. Each entity will maintain its current permits, approvals and licenses. The environmental impacts of specific proposals and projects will be evaluated as they are developed.

M. Other Impacts

1. Energy

The merger is not expected to have a significant affect on current or projected energy use.

2. Toxic Substances and Hazardous Waste

Under the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization

Act of 1986 (Superfund) owners and operators of facilities where releases of hazardous substances into the environment have occurred and the generators and transporters of hazardous substances disposed of at the facilities, are jointly and severally liable for all response, removal and remediation costs and also for damages to natural resources.

The Resource Conservation and Recovery Act also governs the generation, transportation and disposal of hazardous waste.

As part of the operations of Niagara Mohawk and Grid USA, various materials are generated that are deemed hazardous under both Superfund and RCRA. These materials include, but are not limited to asbestos, mercury regulators and dielectric fluids containing PCBs, all of which are disposed of at licensed off-site facilities not owned by the companies.

As identified in Attachment B and C, both Niagara Mohawk and Grid USA have comprehensive programs in place for purposes of complying with RCRA and CERCLA. Furthermore, the Rate Plan proposed as part of the merger includes a proposal to fund environmental response costs that provides adequate resources for clean-up efforts.

3. Local Property Taxes

The merger will not result in a significant impact on property taxes.

8. Conclusions

It is anticipated that the merger of NM Holdings and National Grid will provide benefits to both companies as well as their respective customers.

The merger does not include any specific plans for additional construction activities. Any future construction would be implemented in accordance with applicable environmental laws and regulations.

As a result of the above, no significant environmental impacts will result from the subsequent merger.

## **Attachment A**

### **Short Form Environmental Assessment Form**

SEQR

14-004 (11/99) - Toxic 12

PROJECT I.D. NUMBER


617.20

## Appendix C

State Environmental Quality Review  
**SHORT ENVIRONMENTAL ASSESSMENT FORM**  
 For UNLISTED ACTIONS Only

PART I—PROJECT INFORMATION (To be completed by Applicant or Project sponsor)	
1. PROJECT NUMBER	2. PROJECT NAME

**PART I—PROJECT INFORMATION** (To be completed by Applicant or Project sponsor)

1. APPLICANT /SPONSOR <b>Niagara Mohawk Holdings, Inc.</b>		2. PROJECT NAME <b>National Grid Merger</b>	
3. PROJECT LOCATION: Municipality _____ County _____			
4. PRECISE LOCATION (Street address and road intersections, prominent landmarks, etc., or provide map) <b>NM Holdings, Inc., 300 Erie Boulevard West, Syracuse, NY 13202</b> <b>Niagara Mohawk Power Corporation, 300 Erie Boulevard West, Syracuse, NY 13202</b> <b>National Grid USA, 25 Research Drive, Westborough, MA 01552</b> <b>See Environmental Assessment Form for description of Service Territories</b>			
5. IS PROPOSED ACTION: <input checked="" type="checkbox"/> New <input type="checkbox"/> Expansion <input type="checkbox"/> Modification/alteration			
6. DESCRIBE PROJECT BRIEFLY: <b>Merger of Niagara Mohawk Holdings, Inc. and National Grid USA</b>			
7. AMOUNT OF LAND AFFECTED: Initially <u>n/a</u> acres    Ultimately <u>n/a</u> acres			
8. WILL PROPOSED ACTION COMPLY WITH EXISTING ZONING OR OTHER EXISTING LAND USE RESTRICTIONS? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No    If No, describe briefly _____			
9. WHAT IS PRESENT LAND USE IN VICINITY OF PROJECT? <input checked="" type="checkbox"/> Residential <input checked="" type="checkbox"/> Industrial <input checked="" type="checkbox"/> Commercial <input checked="" type="checkbox"/> Agriculture <input checked="" type="checkbox"/> Park/Forest/Open space <input type="checkbox"/> Other Describe: _____			
10. DOES ACTION INVOLVE A PERMIT APPROVAL, OR FUNDING, NOW OR ULTIMATELY FROM ANY OTHER GOVERNMENTAL AGENCY (FEDERAL, STATE OR LOCAL)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No    If yes, list agency(s) and permit/approvals <b>NYS Public Service Commission</b>			
11. DOES ANY ASPECT OF THE ACTION HAVE A CURRENTLY VALID PERMIT OR APPROVAL? <input type="checkbox"/> Yes <input type="checkbox"/> No    If yes, list agency name and permit/approval <b>N/A</b>			
12. AS A RESULT OF PROPOSED ACTION WILL EXISTING PERMIT/APPROVAL REQUIRE MODIFICATION? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
I CERTIFY THAT THE INFORMATION PROVIDED ABOVE IS TRUE TO THE BEST OF MY KNOWLEDGE <b>Niagara Mohawk Holdings, Inc.</b>			
Applicant/sponsor name: _____		Date: <b>11/17/01</b>	
Signature: 			

**If the action is in the Coastal Area, and you are a state agency, complete the Coastal Assessment Form before proceeding with this assessment:**

OVER

1



**PART II—ENVIRONMENTAL ASSESSMENT (To be completed by Agency)**

A. DOES ACTION EXCEED ANY TYPE I THRESHOLD IN 6 NYCRR PART 617.47		If yes, coordinate the review process and use the FULL EAF.
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
B. WILL ACTION RECEIVE COORDINATED REVIEW AS PROVIDED FOR UNLISTED ACTIONS IN 6 NYCRR, PART 617.57		If No, a negative declaration may be superseded by another involved agency.
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
C. COULD ACTION RESULT IN ANY ADVERSE EFFECTS ASSOCIATED WITH THE FOLLOWING: (Answers may be handwritten, if legible)		
C1. Existing air quality, surface or groundwater quality or quantity, noise levels, existing traffic patterns, solid waste production or disposal, potential for erosion, drainage or flooding problems? Explain briefly:		
No. See Environmental Assessment Form		
C2. Aesthetic, agricultural, archaeological, historic, or other natural or cultural resources; or community or neighborhood character? Explain briefly:		
No. See Environmental Assessment Form		
C3. Vegetation or fauna, fish, shellfish or wildlife species, significant habitats, or threatened or endangered species? Explain briefly:		
No. See Environmental Assessment Form		
C4. A community's existing plans or goals as officially adopted, or a change in use or intensity of use of land or other natural resources? Explain briefly:		
No. See Environmental Assessment Form		
C5. Growth, subsequent development, or related activities likely to be induced by the proposed action? Explain briefly:		
No. See Environmental Assessment Form		
C6. Long term, short term, cumulative, or other effects not identified in C1-C5? Explain briefly:		
No. See Environmental Assessment Form		
C7. Other impacts (including changes in use of either quantity or type of energy)? Explain briefly:		
No. See Environmental Assessment Form		
D. WILL THE PROJECT HAVE AN IMPACT ON THE ENVIRONMENTAL CHARACTERISTICS THAT CAUSED THE ESTABLISHMENT OF A CEA?		
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
E. IS THERE, OR IS THERE LIKELY TO BE, CONTROVERSY RELATED TO POTENTIAL ADVERSE ENVIRONMENTAL IMPACTS?		
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, explain briefly		

**PART III—DETERMINATION OF SIGNIFICANCE (To be completed by Agency)**

**INSTRUCTIONS:** For each adverse effect identified above, determine whether it is substantial, large, important or otherwise significant. Each effect should be assessed in connection with its (a) setting (i.e. urban or rural); (b) probability of occurring; (c) duration; (d) irreversibility; (e) geographic scope; and (f) magnitude. If necessary, add attachments or reference supporting materials. Ensure that explanations contain sufficient detail to show that all relevant adverse impacts have been identified and adequately addressed. If question D of Part II was checked yes, the determination and significance must evaluate the potential impact of the proposed action on the environmental characteristics of the CEA.

<input type="checkbox"/> Check this box if you have identified one or more potentially large or significant adverse impacts which MAY occur. Then proceed directly to the FULL EAF and/or prepare a positive declaration.	
<input type="checkbox"/> Check this box if you have determined, based on the information and analysis above and any supporting documentation, that the proposed action WILL NOT result in any significant adverse environmental impacts AND provide on attachments as necessary, the reasons supporting this determination:	
Name of Lead Agency	
Print or Type Name of Responsible Officer in Lead Agency	Title of Responsible Officer
Signature of Responsible Officer in Lead Agency	Signature of Preparer (if different from responsible officer)
Date	

ATTACHMENT B  
NIAGARA MOHAWK  
ENVIRONMENTAL PROGRAM

Niagara Mohawk has initiated a number of environmental programs as part of its commitment to a cleaner, healthier environment and is working to achieve even higher levels of performance, stewardship and environmental excellence. This document describes the Company's major environmental programs.

1. Environmental Policy

Niagara Mohawk's corporate policy on protection of the environment states that the company will:

- meet or surpass the requirements of all environmental laws and regulations.
- promote the wise use of energy
- assume a responsible stewardship role for the natural resources under our management
- reduce pollution and conserve raw materials
- fully account for environmental considerations in corporate planning and decision making.

2. Environmental Organization

Niagara Mohawk establishes, implements and manages its corporate and strategic environmental plan as well as its environmental policy agenda through a comprehensively structured and integrated organization:

- The Board Subcommittee on Public Policy and the Environment
- The Corporate Environmental Compliance Oversight Committee
- Vice President, Environmental Affairs and Property Management
- Executive Director, Environmental Affairs

3. Environmental Management System

Niagara Mohawk has a proven environmental management system which was reviewed as part of its ISO 14001 program and which led to the certification of a number of facilities to the ISO 14001 standard.

4. Environmental Training Program

Niagara Mohawk offers a comprehensive environmental training program to all employees. Niagara Mohawk Power Corporation's goal is to continue to develop and refine the corporate environmental training program, both the Compliance and general (stewardship) components in order to provide superior environmental training to all employees.

Ongoing efforts include providing and scheduling focused training module/video presentations on up to 15 different topics, targeted to company employees, by subject matter experts (EAD or Law staff). Presentations are conducted at regional locations. Tracking of class sessions is done on the Company's S.U.N. system, and coordinated with the IT department. Also, intensive training is conducted for all ECF's (Environmental Compliance Facilitators).

5. Environmental Auditing Program

To establish an accurate perspective for assessment, Niagara Mohawk administers a self-imposed, in-depth environmental auditing program. Throughout the year, a cross-functional team of environmental professionals performs periodic, objective reviews of company operations to measure performance, validate results, assess risks and ultimately improve compliance.

The program provides for a timely corrective / preventive action system that corrects findings identified during audits and prevents recurrence.

6. Environmental Permitting for Electric and Gas Facilities

Niagara Mohawk's Environmental Affairs Department provides support services to ensure that the Company's electric and gas facilities and operations are properly licensed in accordance with applicable environmental regulatory requirements:

- PSC Article VII permitting for major new electric and gas transmission facilities
- PSC Section 68 permitting for new facilities in new franchise territories
- PSC Part 102 permitting for applicable electric transmission facilities
- Permitting for major projects located in the Adirondack Park
- State & federal permits (protection of waters and fresh water wetlands) for major and non-major electric & gas facilities
- Local and/or state environmental quality review permits (SEQR)

These services also include permitting for right-of-way vegetation management activities, preparation and update of Right of Way (ROW) Management Plans, preparation of relevant permit applications necessary to support maintenance, relocation and rehabilitation of existing facilities.

7. Environmental Compliance

The Environmental Affairs Department of Niagara Mohawk has direct responsibility and accountability for managing environmental affairs and ensuring compliance with all applicable environmental regulations. Set forth below is a list (not exhaustive) of the compliance-related activities managed by the group:

- petroleum storage tank compliance
- Polychlorinated Biphenyls (PCBs)
- hazardous waste management
- solid waste management
- asbestos
- wetlands and protection of waters permitting
- water discharge permitting
- air permitting
- environmental training
- Spill Prevention Countermeasure and Control (SPCC) Plan development and implementation
- State Environmental Quality Review Act (SEQRA) compliance
- environmental guidance procedures
- environmental regulatory reporting
- site investigation and remediation

8. Environmental Performance Index

The Environmental Performance Index is a unique measurement tool developed to establish standards by which company progress is tracked and assessed. The Index measures and compares environmental data against a benchmark level established in 1989-91. The Company has also participated in an Environmental Benchmarking Program that collects, analyzes, and disseminates environmental performance and best practices data from a number of utility companies across the country.

9. Environmental Issues and Regulatory Advocacy

Niagara Mohawk's Environmental Affairs Department, with key support from the Law Department, monitors and assesses emerging environmental regulatory developments, which may have an impact on the Company. Activities include:

- Review, analyze, and summarize new regulatory requirements
- Participate in federal, state, and local industry group initiatives
- Provide periodic reports to key Company personnel (regulatory alerts, issues analyses, etc.)
- Advocate Company positions on important environmental issues with industry groups, environmental regulatory agencies, environmental groups and other opinion leaders

#### 10. Environmental Stewardship

With over 100,000 acres of Company-owned land distributed throughout upstate New York, Niagara Mohawk is committed to promoting a comprehensive stewardship program on behalf of the habitats, wildlife and natural resources in our care. Niagara Mohawk's goal is to enhance relationships with external stakeholders while strengthening environmental leadership practices that will build Company value, by maximizing asset value through responsible environmental commitment, stewardship and sustainable economic development.

Ongoing efforts include the Environmental Millennium Initiative, environmental education activities, corporate environmental report, New York State Fair exhibits, R&D/Academic partnership projects, conference activities and the development of a new Adirondack Gateway Initiative, that involves numerous Park stakeholders, the Conservation Fund, New York State and others.

#### 11. Site Investigation and Remediation Program

One of the greatest challenges facing Niagara Mohawk is to manage successfully contingent environmental liabilities associated with past industrial operations. Among these important responsibilities, environmental hazards left by the defunct coal gas manufacturing industry of the past century are the most complex and potentially costly for the corporation.

In 1992, Niagara Mohawk established a centralized and dedicated program to provide cost effective management of contingent environmental liabilities associated with contaminated properties, past waste disposal sites, and past utility operations. The Site Investigation and Remediation (SIR) program is organizationally located within the corporate Environmental Affairs Department and is responsible for managing:

- 206 total sites, including 54 former manufactured gas plant (MGP) sites, 83 electric and/or natural gas operating sites, and 69 non-owned, third-party sites
- \$240 million of total estimated liabilities
- efforts to protect public/worker health and safety and the environment
- regulatory compliance with associated Orders on Consent and Voluntary Cleanup Agreements with the U.S. EPA and New York State Department of Environmental Conservation (NYSDEC)
- annual SIR costs, resources, priorities, and schedules
- elimination or control of future environmental risks and liabilities
- effective public, local government, regulatory and internal relations

The SIR program supports corporate cost recovery efforts associated with Public Service Commission-related rate agreements and with legal actions involving other responsible parties. As appropriate, site remediation is conducted to support compatible reuse or redevelopment of Company properties and of non-owned properties. The SIR program also supports corporate efforts to estimate and externally disclose SIR-related liabilities.

The SIR program has successfully remediated, closed, or settled 67 of the 206 currently listed sites. Niagara Mohawk estimates that SIR program efforts will be required over the next ten years or more (some sites will require long-term monitoring and operation and maintenance efforts involving 30 years or more). These efforts will primarily involve the management of former MGP sites that are subject to multi-site Orders on Consent and Voluntary Cleanup Agreements with the NYSDEC.

12. Pollution Prevention

Niagara Mohawk has a comprehensive pollution prevention program focusing on pollution prevention / waste minimization efforts. A key component of its program is the Investment Recovery facility. Niagara Mohawk's Investment Recovery Center has been recycling industrial waste since 1986. The Company also has programs in place to address hazardous waste management issues and pollution prevention / waste management issues affecting Company electric and gas facility rights-of-way.

13. Communications/Corporate Environmental Image

Niagara Mohawk's goal in this area is to increase communication activities that promote and enhance understanding of our commitment to environmental excellence and maintain our strong corporate environmental image.

Ongoing efforts include The Facilitator and EnviroNotes newsletters, school-based environmental education activities, corporate environmental report, New York State Fair exhibits, conference activities, stories in Niagara Mohawk Update and Niagara Mohawk News, and other media outlets.

**Attachment C**

**National Grid USA**

**Environmental Program**

## **National Grid USA Environmental Programs**

National Grid USA and its subsidiaries are committed to conducting business in a manner that preserves the quality of the environment by continuously seeking ways to minimize the environmental impact of past, present and future operations. We believe that aggressively addressing environmental issues is good business and in the best interest of the communities we serve, our employees, our shareholders, and all our other stakeholders. The following provides a brief overview of National Grid USA's environmental programs.

### **1. Environmental Policy**

National Grid USA has stated its commitment to the environment in our Environmental Policy. We have also committed to ten specific principles including to:

- Conduct our activities to meet all applicable laws and regulations as well as company policies and compliance objectives;
- Work to prevent pollution at the source, minimize waste generation, recycle materials when economically feasible, and dispose of remaining wastes only through safe and environmentally sound methods; and
- Promote continual improvement in our environmental management systems and environmental performance.

### **2. Environmental Organization**

The General Counsel who also chairs the Compliance Committee oversees National Grid USA's compliance program. The Compliance Committee has the following responsibilities:

- a. Overseeing the compliance by National Grid USA and its subsidiaries with all laws governing their operations, including the development of appropriate compliance programs and training;
- b. Setting and administering compliance goals for all-employee goals;
- c. Reviewing compliance violations and overseeing follow-up to prevent recurrence;
- d. Overseeing National Grid USA's Standard of Ethical Conduct;



- e. Overseeing environmental and safety management systems and training;  
and
- f. Providing reports to the National Grid USA Board on compliance matters.

The Director of the Environmental & Safety Compliance Group (ESCG), along with his staff, provides regulatory and technical support to all functions within the National Grid USA subsidiaries. This includes the development of environmental procedures, determination of permitting requirements, development of environmental training content, design and implementation of the environmental management systems, and facilitating monthly environmental engineering staff meetings.

Transmission and Distribution (T&D) Environmental Engineers have responsibility for all facets of environmental compliance at operations facilities and of field operations, including responding to spills of oil and hazardous materials, preparing and filing applicable reports, managing underground storage tanks (USTs) and aboveground storage tanks (ASTs), developing and maintaining Contingency and Spill Prevention Control and Countermeasure (SPCC) Plans and conducting annual environmental and chemical safety training of all required personnel.

3. Environmental Management Systems

National Grid USA designed and implemented environmental management systems (EMSs), which are compatible with the ISO 14001 EMS Standard, for its T&D core business functions during the second half of 2000. A decision to seek certification of our EMSs will be made during the first half of 2001.

4. Environmental Training Program

All National Grid USA subsidiary personnel involved with activities that may have a significant environmental impact receive training tailored to their specific job function, and in accordance with *Environmental Procedure No. 12, Environmental & Chemical Safety Training Program*. Elements of this program are designed to fulfill the training requirements of ISO Awareness, environmental regulatory and chemical hazards standards as well as National Grid USA procedures and policies. Program elements are designed to assure that employees involved in hazardous waste management and/or spill response are taught how to safely perform their duties.

5. Environmental Monitoring

National Grid USA's subsidiaries have several programs in place to monitor and measure on a regular basis the key characteristics of T&D system operations and activities that may have an impact on the environment. We also monitor and approve hazardous waste and recycling vendors in order to minimize liabilities from off-site disposal activities.

Monitoring and measurement includes the following components:

- Environmental Compliance & EMS Conformance Monitoring
- Operations Monitoring for Environmental Performance
- Environmental Performance Monitoring – Objectives & Targets.

The goals of National Grid USA's Environmental & Safety Compliance Audit Program are to ensure that the company's operations are performed in accordance with applicable environmental and safety laws and regulations, that the Company's operations conform with internal policies and procedures, and that management systems are in place to ensure continued compliance.

The scope of the program includes all company facilities and all environmental disciplines. The frequency of audits are risk-based and currently range from once every three years per each operations facility to initial audits of each substation. Audits of specific projects and or programs are also included in the scope.

Audits of the EMSs are performed to determine that the elements of the EMS have been properly implemented and maintained, in accordance with the requirements of ISO 14001, and the organization's planned arrangements for environmental management.

Monitoring of operations is routinely conducted by T&D Environmental Engineers with responsibility for maintaining compliance at all operating facilities and for field operations.

Progress in achieving National Grid USA's Environmental Objectives and Targets is periodically monitored by the EMS Coordinator.

6. Environmental Permitting of Transmission Lines, Substations and Vegetation Management

All new projects whether originating within the transmission, substation or district engineering functions are reviewed to determine potential environmental

permitting and/or licensing requirements. The process for conducting environmental reviews of projects is documented in various Engineering Design Procedures (EDPs) and in *Environmental Procedure No. 13, Environmental Permitting*.

Responsibility for performing environmental reviews and for obtaining all regulatory approvals includes Attorneys, Project Engineers, the ESCG Permitting Specialist, ESCG Environmental Engineers, District Environmental Engineers and the Transmission Operations and Engineering Services Environmental Engineer.

All required notifications, plan submittals, approvals and permits related to the management of vegetation on Transmission Right-of-Ways are overseen by the System Forester.

7. Environmental Compliance

The ESCG provides technical support and written guidance to T&D Environmental Engineers in a multitude of areas. Responsibility for compliance at operations facilities and for field operations has been delegated to the District Environmental Engineers and to the Transmission Operations and Engineering Services Environmental Engineer.

National Grid USA's Environmental personnel have responsibility for ensuring compliance of company activities in the following areas:

- Asbestos
- Air
- Comprehensive Response, Compensation and Liability Act (CERCLA) and state-specific (MA, RI, NH and VT) notification, and clean-up regulations
- Emergency Planning and Right To Know Act (Tier II Reporting)
- Federal Water Pollution Control Act
  - National Pollutant Discharge Elimination System (NPDES)
  - Storm Water
  - SPCC Plans and Program
- Oil Pollution Act (OPA Plan)
- Pollution Prevention Act of 1990 (Recycling Programs)
- Resource Conservation Recovery Act (RCRA)
  - EPA ID'd Generator facilities
  - Underground Storage Tank Program
- Rivers and Harbors Act of 1899 (Army Corps)
- Safe Drinking Water Act

- Solid Waste Disposal Act
- Toxic Substances Control Act (PCBs)

8. Legal and Other

National Grid USA's Environmental Procedure No. 4, *Environmental & Safety Regulatory Tracking & Analysis*, establishes a procedure for identifying legal & other requirements, such as company commitments, as applicable to the organization's activities. This Procedure also describes the process to track and evaluate the impact of proposed environmental regulations on the T&D system operations, influence the development of final laws and regulations, and distribute the proposed and final regulations to appropriate environmental personnel. The designated "Issue Leader" will then identify recommended changes to operations, procedures or policies that may be necessary.

Additionally, Environmental Engineers, Project Engineers, the ESCG Permitting Specialist or other environmental professional, are responsible for ensuring Permit requirements are met, for tracking any changes to Permits and for ensuring their timely renewal.

9. Environmental Stewardship

Besides constantly striving to improve the environmental quality of the products and services we deliver to our customers, National Grid USA's subsidiaries have developed a variety of award-winning programs that contribute directly to the environmental health and safety of the communities we serve.

**Recycle and re-use**

In all aspects of the company's operations, we try to recycle and re-use equipment, materials and supplies. We use non-chlorinated cleaners, for example, not chlorinated cleaners when splicing cables or maintaining our fleet of vehicles. Our recycling programs for fluorescent lamps, metal wire and utility poles re-use many tons of non-renewable resources every year.

**Vegetation Management**

We follow strict environmental standards for trimming trees and shrubs around our poles and wires and recycle many tons of the wood and brush into bales that protect the environment at construction sites.

Because we use herbicides in our vegetation management program, we actively participate in the Pesticide Environmental Stewardship Program, a voluntary partnership between the U.S. Environmental

located in Vermont. Except for the Vermont site, which is being addressed under the Comprehensive Response, Compensation and Liability Act (“CERCLA”), the other locations are being assessed and remediated in accordance with state cleanup programs. The scope of assessment and cleanup varies from location to location and is subject to state government requirements and the wishes of current property owners.

The goals of the MGP Assessment and Remediation include the protection of human health, safety and the environment. The program also focuses on maintaining regulatory compliance and participating in the development of any regulations that might impact site assessment and cleanup. Through the program, National Grid USA manages costs, schedules and the internal and external labor resources required to address the sites. A major portion of the program also deals with maintaining positive community relations throughout the assessment and cleanup process.

The program also supports potential property reuse or redevelopment, where appropriate. Other areas of support include third-party cost recovery, insurance recovery and corporate liability estimation and disclosure

#### 11. Waste Minimization

National Grid USA and its subsidiaries actively promote and implement a “Reduce, Reuse, and Recycle” policy for hazardous waste and other materials used by the companies. By reducing our use of natural resources and reusing and recycling what we use, we do our part to conserve the environment for future generations while reducing pollution and other harmful environmental impacts.

In most of our recycling programs we collect waste materials and ship them to companies that specialize in different kinds of recycling.

- Ballast and Lamps - We help reduce the release of mercury and PCBs into the environment by recycling the fluorescent lamps and “ballasts” (a component of the lamps) we use and by giving economic incentives to our commercial customers to recycle their lamps and ballasts too.
- Wood Chips - Our innovative program to recycle wood chips helps protect the environment at construction sites and also helps to support tree planting in the communities we serve.
- Metal and Oil - We recycle metal and oil from the millions of pounds of electrical equipment such as transformers, regulators and circuit-breakers we replace on our electricity T&D systems every year.

- Treated Wood - We send out millions of pounds of treated wood from old electric poles and discarded shipping pallets to be burned in generators and recovered as energy.
- Scrap Metal - In 1999, we recycled more than two and a half million pounds of scrap metal left over from constructing and maintaining our T&D systems. Copper cable and wire, aluminum wire, lead cable and steel were collected at twenty locations and sent to licensed vendors who sorted and processed it into raw materials to be used in many different kinds of new products.
- Contaminated Soil - Oil contaminated soil from accidental spills on Company property is recycled at several asphalt batching plants for commercial re-use in road building.
- Miscellaneous Materials - Among the many other materials we recycle are lamps from the thousands of streetlights we own and maintain; corrugated cardboard from packaging and shipping materials; glass from broken or decommissioned electric meters; and oil filters and oily rags that have been used to maintain the company's cars and trucks.

12. Communications/Corporate Environmental Image

National Grid USA has committed to communicating our Environmental Policy and environmental programs to our employees and stakeholders. The Corporate Communications Department provides technical writing and publishing services for internal customers and handles all communications from the media.

In an effort to communicate to the public about environmental issues more effectively, a major redesign and expansion of the Environmental Commitment section of the Massachusetts Electric Company web site was just completed, as of January 2, 2001. Plans are underway to similarly update the Environmental Commitment sections of the other National Grid USA subsidiary web sites.

Internal communications between various levels and functions within the organization are accomplished through the "chain of command", and established communication practices.

All internal communications regarding the Environmental Policy, significant environmental aspects and the EMS fall into the following categories:

1. General Awareness communications will be provided through the various methods including, but not limited to:

- Environmental Policy postings
  - New employee orientation
  - Environmental Awareness Training (Level 1);
  - Various internal publications on general or specific topics of interests;
  - Departmental leadership communications, e.g., meetings, memos, directives, etc.; and
  - Staff meetings
  - Compliance Committee communications
  - The All-employee Goals Program
2. Environmental guidance communications are accomplished through documented Operational Control and Environmental Procedures, various other training and internal correspondence.
  3. Policy is communicated through executive directives and other policy documents, e.g., Corporate Code of Conduct, web pages, training, etc.
  4. Feedback mechanisms for employee concerns.
  5. Environmental performance reporting.

**AGREEMENT AND PLAN OF MERGER  
AND SCHEME OF ARRANGEMENT**

**by and among**

**NATIONAL GRID GROUP PLC,  
NIAGARA MOHAWK HOLDINGS, INC.,**

**NEW NATIONAL GRID LIMITED,**

**and**

**GRID DELAWARE, INC.**

**Dated as of September 4, 2000**



anytime prior to the date hereof, or who becomes prior to the Scheme Effective Time, an officer director or employee of Parent (each an "*Indemnified Party*" and collectively, the "*Indemnified Parties*") against (i) all losses, expenses (including reasonable attorneys' fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Merger Effective Time or the Scheme Effective Time, as the case may be (and whether asserted or claimed prior to, at or after the Merger Effective Time or Scheme Effective Time, as the case may be) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of such party (the "*Indemnified Liabilities*"), and (ii) all Indemnified Liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Merger Effective Time or the Scheme Effective Time, as the case may be), (i) Newco shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Newco, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, (ii) Newco will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under relevant law and the memorandum of association or by-laws of Newco shall be made by independent counsel mutually acceptable to Newco and the Indemnified Party; *provided, however*, that Newco shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the opinion of counsel to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of such Indemnified Party and any other Indemnified Party or Indemnified Parties.

(b) *Insurance.* For a period of six years after the Merger Effective Time and the Scheme Effective Time, Newco at Newco's election (i) shall cause to be maintained in effect an extended reporting period for current policies of directors' and officers' liability insurance for the benefit of such persons who are currently covered by such policies of the Company or Parent on terms no less favorable than the terms of such insurance coverage or (ii) provide tail coverage for such persons which provides coverage for a period of six years for acts prior to the Merger Effective Time or the Scheme Effective Time, as the case may be, on terms no less favorable than the terms of such current insurance coverage.

(c) *Successors.* In the event Newco or any of its successors or assigns (i) consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any person or entity, then, and in each such case, proper provision shall be made so that the successors and assigns of Newco shall assume the obligations set forth in this Section 7.5 and in Sections 7.8 and 7.9.

(d) *Survival of Indemnification.* To the fullest extent permitted by law, (i) from and after the Merger Effective Time, all rights to indemnification as of the date hereof in favor of the

approve in advance drafts and final applications, notices, petitions, filings and other documents submitted to or filed with applicable Governmental Authorities, which approval shall not be unreasonably withheld or delayed. The Company shall not agree to the imposition of any condition in the Company Required Statutory Approvals without the prior consent of Parent.

#### Section 7.4 *Shareholder Approval.*

(a) *Approval of Parent Shareholders.* Parent shall, through its Board of Directors, (i) duly call, give notice of, convene and hold the Parent Merger Meeting, for the purpose of securing the Parent Merger Shareholders' Approval as soon as reasonably practicable after the date hereof and (ii) duly call, give notice of, convene and hold the Parent Scheme Meeting and apply to the Court to convene the Parent Court Meeting required to complete the Parent Scheme Shareholders' Approval at such time as Parent determines is appropriate to insure that the Parent Scheme Shareholders' Approval may be obtained not later than forty days following satisfaction or waiver of the conditions set forth in Article VIII hereof (other than the condition set forth in Section 8.2(h)). Subject to its fiduciary obligations with respect to a transaction involving a change in control of Parent and the requirements of applicable law, Parent shall include in the Circular the recommendation of the Board of Directors of Parent that the shareholders of Parent approve the Merger and the other transactions contemplated hereby and shall include in the Scheme Document the recommendation of the Board of Directors of Parent that the shareholders of Parent approve the Scheme, and shall use its reasonable endeavors to obtain such approvals in accordance with its usual practices.

(b) *Approval of the Company Shareholders.* The Company shall, through its Board of Directors, duly call, give notice of, convene and hold a meeting of its shareholders (the "*Company Meeting*"), for the purpose of securing the Company Shareholders' Approval as soon as reasonably practicable after the date hereof. Subject to fiduciary obligations and the requirements of applicable law, the Company shall include in the Proxy Statement the recommendation of the Board of Directors of the Company that the shareholders of the Company approve the Merger and the other transactions contemplated hereby, and shall use its reasonable best efforts to obtain such approval.

(c) *Meeting Date for Merger Approvals.* The Parent Merger Meeting for the purpose of securing the Parent Merger Shareholders' Approval, and the Company Meeting for the purpose of securing the Company Shareholders' Approval shall be held on such dates as the Company and Parent shall mutually determine.

#### Section 7.5 *Directors' and Officers' Indemnification.*

(a) *Indemnification.* To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, Newco shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless (i) from and after the Merger Effective Time, each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Merger Effective Time, an officer, director or employee of the Company or any of the Company Subsidiaries and (ii) from and after the Scheme Effective Time, each person who is now, or who has been at

before the date of the Registration Statement, and addressed to the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form F-4.

(d) *Parent Disclosure Documents.* Subject to applicable law, Parent and Newco shall, as soon as reasonably practicable after the date of this Agreement and in accordance with the listing rules of the U.K. Listing Authority, prepare and submit to the U.K. Listing Authority for approval the Circular, and shall use its reasonable endeavors to have the Circular approved by the U.K. Listing Authority as soon as reasonably practicable after the date of this Agreement. Newco, Parent and the Company shall cooperate with each other in the preparation of the Parent Disclosure Documents and any amendments or supplements thereto as well as the preparation of any responses to the U.K. Listing Authority in connection therewith. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Parent Disclosure Documents. Each of Newco, Parent and the Company agrees to use its reasonable best efforts to respond promptly to any requests of the U.K. Listing Authority.

(e) *Mailing to Shareholders.* Each of the Company and Parent shall, consistent with the requirements of the securities laws of the United States and the United Kingdom, use their reasonable best efforts to cause the Proxy Statement and the Circular to be mailed or dispatched to their respective shareholders entitled to vote on the Merger and other transactions contemplated hereby.

### Section 7.3 *Regulatory Matters.*

(a) *HSR Filings.* Each party hereto shall file or cause to be filed with the Federal Trade Commission and the Department of Justice any notifications required to be filed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "*HSR Act*"), and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Each party hereto will use all commercially reasonable efforts to make such filings in a timely manner and to respond on a timely basis to any requests for additional information made by either of such agencies.

(b) *Other Regulatory Approvals.* Each party hereto shall cooperate and use its best efforts to prepare and file promptly all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to use all commercially reasonable efforts to obtain all necessary permits, consents, approvals, clearance and authorizations of all Governmental Authorities necessary or advisable to obtain the Company Required Statutory Approvals and the Parent Required Statutory Approvals. The parties agree that they will consult with each other with respect to obtaining the Company Required Statutory Approvals and Parent Required Statutory Approvals; *provided, however*, that it is agreed that Parent shall have primary responsibility for the preparation and filing of any related applications, filings or other material with Governmental Authorities other than the Nuclear Approvals (as defined in Section 8.1(e)(ii)), with respect to which the Company shall have primary responsibility. Each of Parent and the Company shall have the right to review and

required or contemplated by this Agreement or for any other reason related to the transactions contemplated by this Agreement. Each party shall, and shall cause its Subsidiaries and Representatives to, hold in strict confidence all documents and information concerning the other furnished to it in connection with the transactions contemplated by this Agreement in accordance with the Confidentiality Agreement, dated December 13, 1999, between the Company and Parent (the "*Confidentiality Agreement*").

**Section 7.2     *Proxy Statement and Registration Statement; Listing; Parent Disclosure Documents.***

(a)     *Preparation and Filing of Proxy Statement and the Registration Statement; Listing.* As soon as practicable after the date of this Agreement, the Company shall, in cooperation with Parent and Newco, prepare and file the Proxy Statement and Newco shall, in cooperation with the Company and Parent, prepare and file the Registration Statement, in which the Proxy Statement will be included as the prospectus. Parent, Newco and the Company shall cooperate in the preparation of the Proxy Statement and the Registration Statement and any amendments thereto and shall promptly notify each other of the receipt of any comments from the SEC or any requests for any amendment or supplement thereto or for additional information. The parties hereto shall each use reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after such filing. Each party hereto shall also take such action as may be reasonably required to cause the Newco ADRs issuable in connection with the Merger to be registered or to obtain an exemption from registration under applicable state "blue sky" or securities laws; *provided, however*, that Newco shall not be required to register or qualify as a foreign corporation or to take other action which would subject it to service of process in any jurisdiction where Newco will not be, following the Merger, so subject. The parties shall cause the shares of Newco ADRs issuable in the Merger to be approved for listing on the NYSE upon official notice of issuance. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Proxy Statement and the Registration Statement. The information provided by any party hereto for use in the Proxy Statement and the Registration Statement shall be true and correct in all material respects without omission of any material fact which is required to make such information not false or misleading. No representation, covenant or agreement is made by any party hereto with respect to information supplied by any other party for inclusion in the Proxy Statement or the Registration Statement.

(b)     *Letter of the Company's Accountants.* The Company shall use its best efforts to cause to be delivered to Parent and Newco a letter of PricewaterhouseCoopers, dated a date within two business days before the date of the Registration Statement, and addressed to Parent and Newco, in form and substance reasonably satisfactory to Parent and Newco and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form F-4.

(c)     *Letter of Parent's Accountants.* Parent shall use best efforts to cause to be delivered to the Company a letter of PricewaterhouseCoopers, dated a date within two business days

(b) *Conduct of Business of Merger Sub.* Prior to the Merger Effective Time, except as may be required by applicable law and subject to the other provisions of this Agreement, Newco shall cause Merger Sub to (i) perform its obligations under this Agreement in accordance with its terms and (ii) not engage, directly or indirectly, in any business or activity of the type or kind, and not enter into any agreement or arrangement with any person, or be subject to or bound by any obligation or undertaking, which is inconsistent with this Agreement.

Section 6.4 *Alternative Arrangement Concerning Company Nuclear Facilities.* If, following the date hereof, the Company and Parent determine that the Company Nuclear Facilities are likely to be sold but not on a timely basis in order to satisfy the condition contained in Section 8.1(e)(i), the Company and Parent agree to consider in good faith alternatives to a Nuclear Sale prior to the Closing, including but not limited to alternative governance, operational and ownership arrangements under which Parent would be willing and able to close the transactions contemplated by this Agreement without the Nuclear Sale having occurred, consistent with the requirements of the Atomic Energy Act and applicable NRC rules and regulations.

## ARTICLE VII

### ADDITIONAL AGREEMENTS

Section 7.1 *Access to Information.* Upon reasonable notice, (a) the Company shall, and shall cause its Subsidiaries to, afford the officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives (collectively, "Representatives") of Parent reasonable access, during normal business hours throughout the period prior to the Merger Effective Time, to all of its properties, facilities, operations, books, contracts, commitments and records (including, but not limited to, Tax Returns and any information relating to any audits or other examinations of such Tax Returns) and personnel (including the Company's environmental, health and safety personnel) and (b) Parent shall, and shall cause the Parent Significant Subsidiaries to, afford to the Representatives of the Company, reasonable access to senior executives of Parent for the purpose of discussing Parent's business (with reasonable access to the documents related thereto) during the period prior to the Merger Effective Time. Each party shall, and shall cause its Subsidiaries to, in addition to the advance approval requirements set forth in Section 7.3(b), furnish promptly to the other (a) access to each report, schedule and other document filed or received by it or any of its Subsidiaries pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the NRC, the DOE, the Department of Justice, the Federal Trade Commission or any other federal or state regulatory agency or commission that relates to the transactions contemplated hereby or, subject to the terms of any then existing confidentiality requirements, that is otherwise material to the financial condition or operations of the Company and its Subsidiaries taken as a whole, or to Parent and its Subsidiaries taken as a whole, as the case may be and (b) access to all information concerning themselves, their Subsidiaries, directors, officers and shareholders and such other matters as may be reasonably requested by the other party in connection with any filings, applications or approvals

acquisition, merger or consolidation could reasonably be expected to materially delay the consummation of the Merger.

(c) *Tax-Free Status.* Parent shall not, nor shall it permit any of its Subsidiaries to, take any actions that would, or would be reasonably likely to, (i) adversely affect the status of the Merger and the Scheme taken together as a transaction described in Section 351 of the Code or (ii) cause the Merger to be subject to Code Section 367(a)(1), and Parent shall use all reasonable efforts to achieve such result.

(d) *Other Actions.* Parent shall not, and shall not permit any of the Parent Subsidiaries to, take or fail to take any other action, including, without limitation, amending or proposing to amend their respective charters, by-laws or regulations, or similar organic documents (except as contemplated herein), engage in any activities which would cause a change in its status, or that of the Parent Subsidiaries, under the 1935 Act, or to make any changes in their accounting methods (except as required by law, rule, regulation or applicable generally accepted accounting principles), which would reasonably be expected to prevent or materially impede, interfere with or delay the Merger or the Scheme.

(e) *Cooperation, Notification.* Parent shall confer on a regular and frequent basis with the Company to discuss, subject to applicable law, (i) any material changes in its business, results of operations or prospects, and (ii) any change or event which has had or, insofar as reasonably can be foreseen, is reasonably likely to result in a Parent Material Adverse Effect or materially impair the ability of Parent to consummate the Merger or the Scheme, and will promptly provide the Company with copies of all filings made by Parent or any of the Parent Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(f) *Third-Party Consents.* Parent shall, and shall cause the Parent Subsidiaries to, use all commercially reasonable efforts to obtain all Parent Required Consents. Parent shall promptly notify the Company of any failure or prospective failure to obtain any such consents and, if requested by the Company, shall provide copies of all Parent Required Consents obtained by Parent to the Company.

(g) *No Breach, Etc.* Parent shall not, and Parent shall not permit any of the Parent Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

Section 6.3 *Covenants of Newco.* (a) Prior to the Merger Effective Time except as may be required by applicable law and subject to the other provisions of this Agreement, Newco shall not engage, directly or indirectly, in any business or activity of the type or kind, and not enter into any agreement or arrangement with any person, or be subject to or bound by any obligation or undertaking, which is inconsistent with this Agreement or the Scheme.

(w) *Third-Party Consents.* The Company shall, and shall cause the Company Subsidiaries to, use all commercially reasonable efforts to obtain all the Company Required Consents. The Company shall promptly notify Parent of any failure or prospective failure to obtain any such consents and, if requested by Parent, shall provide copies of all the Company Required Consents obtained by the Company to Parent.

(x) *Tax-Free Status.* The Company shall not, nor shall it permit any of its Subsidiaries to, take any actions that would or would be reasonably likely to, (i) adversely affect the status of the Merger and the Scheme taken together as a transaction described in Section 351 of the Code or (ii) cause the Merger to be subject to Code Section 367(a)(1), and the Company shall use all reasonable efforts to achieve such result.

(y) *No Breach, Etc.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue in a material respect on and as of the Closing Date.

Section 6.2 *Covenants of Parent.* After the date hereof and prior to the Merger Effective Time or earlier termination of this Agreement, Parent agrees as follows, as to itself and to each of the Parent Significant Subsidiaries, except as expressly contemplated or permitted in this Agreement, or as set forth in Section 6.2 of the Parent Disclosure Schedule or to the extent the Company shall otherwise consent in writing, which decision regarding consent shall be made as soon as reasonably practical (as used herein, the term "*Parent Significant Subsidiary*" shall mean any Parent Subsidiary that constitutes a "significant subsidiary" within the meaning of Rule 1-02(w)(3) of Regulation S-X of the U.S. Securities and Exchange Commission):

(a) *Ordinary Course of Business.* Parent shall cause the Parent Significant Subsidiaries to carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to preserve intact their respective present business organizations and goodwill, preserve the goodwill and relationships with customers, suppliers and others having business dealings with them. Parent shall not, and shall not permit the Parent Significant Subsidiaries to enter into a new line of business involving any material investment of assets or resources or any material expense, liability or loss to the Parent and the Parent Significant Subsidiaries taken as a whole; it being agreed that the limitations contained in this Section 6.2(a) do not limit the Parent or any of the Parent Significant Subsidiaries from entering into any line of business in which Parent or any of the Parent Significant Subsidiaries or any of its other affiliates is engaged on the date of this Agreement.

(b) *Certain Mergers.* Parent shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of or equity in, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets if the entering into of a definitive agreement relating to or the consummation of such

a Governmental Authority or regulatory agency with appropriate jurisdiction or under existing settlement agreements to which the Company is a party.

(r) *Contracts.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use commercially reasonable efforts to renew any contract or agreement to which the Company or the Company Subsidiary is a party, which is material to the Company and the Company Subsidiaries taken as a whole, to waive, release or assign any material rights or claims therein, or agree to any provisions thereof which would impede the ability of the Company to consummate the Merger, or in respect of which the Merger would constitute a default, or would result in the Merger triggering a right of termination by any unaffiliated parties.

(s) *Insurance.* The Company shall, and shall cause the Company Subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are consistent with the insurance maintained by the Company in the ordinary course of business in accordance with past practice.

(t) *Discharge of Liabilities.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, pay, settle, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise and whether criminal, civil or administrative in nature) material to the Company and the Company Subsidiaries taken as a whole, other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company included in the Company's reports filed with the SEC, or incurred in the ordinary course of business consistent with past practice.

(u) *Third Party Standstill Agreements.* During the period from the date of this Agreement through the Merger Effective Time, neither the Company nor any of the Company Subsidiaries shall terminate, amend, modify or waive any provision of any standstill agreement or any standstill provisions of other agreements to which it is a party. During such period, the Company shall take all appropriate steps to enforce the provisions of any such agreement.

(v) *Cooperation, Notification.* The Company shall (i) confer on a regular and frequent basis with one or more representatives of Parent to discuss, subject to applicable law, material business and operational matters and the general status of its ongoing operations, (ii) promptly notify Parent of any material changes in its business, properties, assets, condition (financial or other), results of operations or prospects, (iii) promptly advise Parent of any change or event which has had or, insofar as reasonably can be foreseen, is reasonably likely to result in a Company Material Adverse Effect and (iv) promptly provide Parent with copies of all filings made by the Company or any of the Company Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.



employee of the Company or any Company Subsidiary which was not in effect as of the effective date of this Agreement; *provided, however*, that this sentence shall not apply to any such compensation or benefits (A) provided pursuant to a collective bargaining agreement or arrangement described in Section 6.1(m) or a discharge of liability permitted in Section 6.1(t), (B) provided pursuant to any compensation or benefit plan, program or arrangement that is mutually agreed to, in writing, by the parties or (C) that are otherwise required pursuant to the current terms of the Company Employee Benefit Plans; *provided further*, that nothing in this Section 6.1(l) shall prevent the Company from entering into severance agreements intended solely to implement the terms of severance policies or programs in effect on the date hereof or from entering into retention or other arrangements as described in Section 6.1 of the Company Disclosure Schedule.

(m) *Labor Matters.* Notwithstanding any other provision of this Agreement to the contrary, the Company or the Company Subsidiaries may negotiate successor collective bargaining agreements to those referenced in Section 4.11(a) of the Company Disclosure Schedule. The Company shall keep Parent informed as to the status of, and shall consult with Parent as to the strategy for, all material negotiations with collective bargaining representatives. The Company and Company Subsidiaries shall act reasonably, consistent with their obligations under applicable law in such negotiations.

(n) *1935 Act.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, except as required or contemplated by this Agreement, engage in any activities which would cause a change in its status, or that of the Company Subsidiaries, under the 1935 Act.

(o) *Accounting.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or U.S. GAAP or except as mutually agreed to by the parties.

(p) *Affiliate Transactions.* The Company shall not permit any of the Company Subsidiaries to, enter into any material agreement or arrangement with any of their respective Affiliates (other than wholly owned Subsidiaries), on terms less favorable to such party than could be reasonably expected to have been obtained with an unaffiliated third-party on an arm's length basis.

(q) *Rate Matters.* Subject to applicable law and except for non-material filings in the ordinary course of business consistent with past practice, the Company shall consult with Parent prior to initiating any proposed changes in its or any of the Company Subsidiaries' rates or charges (other than automatic cost pass-through rate adjustment clauses), standards of service or accounting or executing any agreement with respect thereto that is otherwise permitted under this Agreement. The Company shall, and shall cause the Company Subsidiaries to, deliver to Parent a copy of each filing or agreement related to rates, changes, standards of service, accounting or regulatory policy which could lead to a material change in any of those areas at least four days prior to the filing or execution thereof so that Parent may comment thereon. The Company shall, and shall cause its Subsidiaries to, make all such filings only in the ordinary course of business (i) consistent with past practice or (ii) as required by

incurred by Niagara Mohawk Power Corp. not in excess of 110% of the amount budgeted for such fiscal year by the Company for capital expenditures as set forth in Section 6.1 of the Company Disclosure Schedule.

(k) *Indebtedness.* The Company shall not, nor shall it permit any of its Subsidiaries to incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another Person or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice (such as the issuance of commercial paper or the use of existing credit facilities) in amounts not exceeding the amounts set forth in Section 6.1 of the Company Disclosure Schedule, except as reasonably deemed necessary by the Company after consulting with Parent following a catastrophic event, (ii) long-term indebtedness in connection with the refinancing of existing indebtedness either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-tax basis) or (iii) guarantees or "keep well" agreements in favor of wholly owned Subsidiaries of the Company in connection with the conduct of the business of such wholly owned Subsidiaries of the Company.

(l) *Compensation, Benefits.* Except as set forth in Section 6.1 of the Company Disclosure Schedule or as may be required by applicable law or as contemplated by this Agreement, the Company shall not, and the Company shall not permit any Company Subsidiary to, enter into or amend or increase the amount or accelerate the payment or vesting or termination of any benefit or amount payable under any employee benefit or compensation plan or other contract, agreement, commitment, arrangement, plan, trust, fund or policy maintained by, contributed to or entered into by the Company or any Company Subsidiary or increase, or enter into any contract, agreement, commitment or arrangement to increase in any manner, the compensation or fringe benefits, or otherwise to extend, expand or enhance the term of employment, compensation or benefits of any former, present or future director, officer or employee of the Company or any Company Subsidiary, except for increases and accelerations that are made in the ordinary course of business consistent in process and amounts with the past practice or that are otherwise required pursuant to the current terms of the Company Employee Benefit Plans, which in the aggregate for any group of employees, officers or directors, do not result in a material increase in benefits or compensation expense as of the effective date of this Agreement and which would not result in (i) any material change in the amount of compensation which will fail to be deductible for federal income tax purposes by virtue of Section 280G or Section 162(m) of the Code or (ii) an acceleration or material increase in "parachute payments" set forth in Section 4.10(a) of the Company Disclosure Schedule as of the effective date of this Agreement.

Notwithstanding the foregoing, the Company shall not and the Company shall not permit any Company Subsidiary to adopt, establish, enter into or implement any new employee plan, benefit or compensation program or policy, or any new employment, severance or retention agreement, or other new contract, agreement or arrangement which would provide for any form of benefits or other compensation, or pay any compensation or benefits to any former, present, or future director, officer or

acquire or agree to acquire any assets other than in the ordinary course of its business consistent with past practice.

(f) *No Dispositions.* Except for dispositions in the ordinary course of business consistent with past practice, the Company shall not, and it shall not permit any of the Company Subsidiaries to, sell, lease (whether such lease is an operating or capital lease), encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of its assets.

(g) *Limitation on Investment in Joint Ventures.* Except as required by applicable law or any agreement to which the Company or any of the Company Subsidiaries is a party on the date hereof, the Company will not make, and will not permit any Subsidiary to make, any additional investments in, or loans or capital contributions to, or to undertake any guaranties or other obligations with respect to any joint venture or partnership.

(h) *Tax-Exempt Status.* The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, take any action that (or fail to take any action if such failure) could reasonably be expected to jeopardize the qualification of the Company's outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "*exempt facility bonds*" or as tax-exempt pollution control bonds under Section 103(b) (4) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

(i) *Tax Matters.* Neither the Company nor any of its Subsidiaries shall (i) make or rescind any material express or deemed election relating to Taxes or grant any power of attorney with respect to any Tax matters, (ii) make a request for a Tax Ruling or enter into a Closing Agreement, (iii) settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to Taxes, or (iv) change in any material respect any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its federal income tax return for the taxable year ending December 31, 1998, (in each case, a "*Tax Change*"); except for Tax Changes (A) required by applicable law, (B) with respect to any Tax period that involve Tax issues where the amount of income, gain, loss, deduction, credit, gross receipts, property value or any similar item does not exceed \$75,000,000 with respect to such Tax period (or more than \$75,000,000 in any subsequent Tax period); *provided that*, the Company has informed and consulted with Parent and Newco prior to making such Tax Change or (C) that are made with the written consent of Parent, which consent will not be unreasonably withheld. Notwithstanding the requirements of this Section 6.1(i), any Tax Change relating to the Nuclear Sale shall not be subject to this Section 6.1(i). The Company agrees to consult with and inform Parent and Newco of any events that are reasonably likely to result in a Tax Change relating to the Nuclear Sale and shall not make any such Tax Change without such consultation.

(j) *Capital Expenditures.* Except (i) as required by law, or (ii) as reasonably deemed necessary by the Company after consulting with Parent following a catastrophic event, such as a major storm, the Company shall not, and the Company shall not permit any of the Company Subsidiaries to, make capital expenditures during any fiscal year, except for capital expenditures

(a) *Ordinary Course of Business.* The Company shall, and shall cause the Company Subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to preserve intact their respective present business organizations and goodwill, preserve the goodwill and relationships with customers, suppliers and others having business dealings with it and, subject to prudent management of work force needs and ongoing programs currently in force, keep available the services of their respective present officers and employees. The Company shall not, and shall not permit the Company Subsidiaries to, enter into a new line of business involving any investment of assets or resources or any exposure to liability or loss to the Company and the Company Subsidiaries taken as a whole; *provided, however*, that notwithstanding the above and notwithstanding any other provision in Section 6.1, the Company and any of the Company Subsidiaries may make equity infusions into a Company Subsidiary to the extent required by law or a state regulatory commission.

(b) *Dividends.* The Company shall not, and shall not permit any of the Company Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of their respective capital stock except (A) to the Company or the Company Subsidiaries, (B) Company Subsidiaries may continue the declaration and payment of regularly scheduled dividends on, and distributions required by the terms of, preferred stock or similar securities not convertible into common equity securities ("*Non-Convertible Preferred Securities*") (ii) split, combine or reclassify any of their respective capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of their respective capital stock or (iii) redeem, repurchase or otherwise acquire any shares of their respective capital stock, other than (x) for the purpose of funding employee stock ownership plans and dividend reinvestment programs in accordance with past practice and (y) redemptions, purchases or acquisitions required by the terms of any Non-Convertible Preferred Securities of Company Subsidiaries.

(c) *Issuance of Securities.* The Company shall not, nor shall it permit any of its Subsidiaries to issue or sell, or authorize or propose the issuance or sale of, any shares of its capital stock or any option with respect thereto (other than (i) the issuance of options or awards pursuant to the Company Share Plans in accordance with their present terms and only in connection with the hiring of new employees, and the issuance of shares of Company capital stock upon exercise of such options or awards or (ii) the issuance by a wholly owned Subsidiary of its capital stock to its direct or indirect parent corporation, or modify or amend any right of any holder of outstanding shares of capital stock or options with respect thereto).

(d) *Charter Documents.* The Company shall not amend or propose to amend its charter or by-laws except as contemplated herein.

(e) *No Acquisitions.* The Company shall not, nor shall it permit any of the Company Subsidiaries to, acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof or otherwise

validly exercised) (the "*Parent Merger Shareholders' Approval*") at a general meeting of Parent Shareholders in relation to the Merger and other transactions contemplated hereby (the "*Parent Merger Meeting*") and (ii) the Scheme and other transactions contemplated thereby are, (x) at the meeting of Parent shareholders convened by an order of the Court (the "*Parent Court Meeting*"), the affirmative vote of a majority in number representing 75 percent of the value of Parent Ordinary Shares present and voting (either in person or by proxy) and (y) with respect to approval of the Scheme resolutions at an extraordinary general meeting of Parent shareholders (the "*Parent Scheme Meeting*"), the affirmative vote of 75 percent of ordinary shareholders of Parent as (being entitled to do so) are present in person and vote (or, on the case of a vote taken on a poll, the affirmative vote by shareholders representing 75 percent of the Parent Ordinary Shares in respect of which votes were validly exercised) (together, the "*Parent Scheme Shareholders' Approval*" and with the Parent Merger Shareholders' Approval, the "*Parent Shareholders' Approvals*").

(b) Newco and Merger Sub have received all necessary approvals, if any, from their respective shareholders required to consummate the transactions contemplated hereby.

Section 5.11 *Brokers.* Except as relates to the services provided by Rothschild, Inc. as financial advisor to Parent, all negotiations relative to the Scheme and the Merger and the transactions contemplated hereby have been carried out by Parent and Newco directly with the Company, without the intervention of any person on behalf of Parent or Newco in such manner as to give rise to any valid claim by any person against the Company, Parent, Newco or any of their respective Subsidiaries for a finder's fee, brokerage commission or similar payment.

Section 5.12 *Insurance.* Except as set forth in Section 5.12(b) of Parent Disclosure Schedule, neither Parent nor any of the Parent Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of Parent or any of the Parent Subsidiaries.

Section 5.13 *Ownership of Company Common Stock.* None of Parent or Newco nor any of their Subsidiaries beneficially own any shares of Company Common Stock.

## ARTICLE VI

### CONDUCT OF BUSINESS PENDING THE MERGER

Section 6.1 *Covenants of the Company.* After the date hereof and prior to the Merger Effective Time or earlier termination of this Agreement, the Company agrees as follows, each as to itself and to each of the Company Subsidiaries, except as expressly contemplated or permitted in this Agreement or as set forth in Section 6.1 of the Company Disclosure Schedule or to the extent Parent shall otherwise consent in advance in writing, which decision regarding consent shall be made as soon as reasonably practical:

Subsidiaries have been granted or are pending, except for requests with respect to such Taxes that, to the extent not adequately reserved, the assessment of which would not, individually or in the aggregate, have a Parent Material Adverse Effect.

(b) Neither Newco, Parent nor any of the Parent Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to (i) prevent the Merger and the Scheme taken together from qualifying as a transaction described in Section 351 of the Code or (ii) cause the Merger to be subject to Code Section 367(a)(1).

(c) On the Closing Date, Newco will directly own the whole of the issued share capital of Merger Sub.

#### Section 5.9 *Environmental Protection.*

Except as would not, in the aggregate, reasonably be expected to have a Parent Material Adverse Effect, and except as set forth in Section 5.9(a) of the Parent Disclosure Schedule or in the Parent SEC Reports,

(a) *Compliance.* To Parent's knowledge, Parent and the Parent Subsidiaries are in substantial compliance with all applicable Environmental Laws and the terms and conditions of all applicable Environmental Permits, and neither Parent nor any of the Parent Subsidiaries has received any written notice from Governmental Authority that alleges that Parent or any of the Parent Subsidiaries is not in such compliance with applicable Environmental Laws or the terms and conditions of all such Environmental Permits;

(b) *Environmental Claims/Releases.* There are no Environmental Claims, to Parent's knowledge, pending or threatened: (i) against Parent or any of the Parent Subsidiaries; (ii) against any person or entity whose liability for any Environmental Claim Parent or any of the Parent Subsidiaries has retained or assumed either contractually or by operation of Environmental Law; (iii) against any properties or operations that Parent or any of the Parent Subsidiaries owns; or (iv) as the result of a Release of Hazardous Materials in contravention of applicable Environmental Laws, at any properties or operations that Parent or any of the Parent Subsidiaries owns.

(c) *Parent Representations.* Notwithstanding any other representations and warranties in this Article V, the representations and warranties contained in this Section 5.9 constitute the sole representations and warranties of the Parent with respect to any Environmental Law, Environmental Permit, Environmental Claim, Releases or Hazardous Material.

Section 5.10 *Votes Required.* (a) The only votes of the holders of any class of shares of Parent that are required to approve (i) the Merger and other transactions contemplated thereby are the affirmative vote of a majority of such ordinary shareholders of Parent as (being entitled to do so) are present in person and vote (or, in the case of a vote taken on a poll, the affirmative vote by shareholders representing a majority of the Parent Ordinary Shares in respect of which votes were

reasonable for them to obtain by making inquiries) or (ii) all information relating to Newco and information which is within the knowledge of each of the directors of Newco (or which it would be reasonable for them to obtain by making inquiries), which, in each case, is required to enable the Parent Disclosure Documents and the parties hereto to comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act, the FSA, and the rules and regulations made thereunder, and the rules and requirements of the U.K. Listing Authority) and all such information contained in the Circular and Scheme Document will be in accordance with the facts and will not omit anything likely to affect the import of such information.

(b) None of the information supplied or to be supplied by or on behalf of Parent, Newco or Merger Sub for inclusion or incorporation by reference in (i) the Registration Statement (as defined in Section 4.8(a)) will, at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the Proxy Statement (as defined in Section 4.8(a)) will, at the dates mailed to the Company shareholders and at the times of the Company Meeting (as defined in Section 7.4(b)), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement and the Proxy Statement included therein shall comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

(c) Notwithstanding the foregoing provisions of this Section 5.7, no representation or warranty is made by Parent, Newco or Merger Sub with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement or the Parent Disclosure Documents based on information supplied by the Company for inclusion or incorporation by reference therein or based on information which is not made in or incorporated by reference in such documents but which should have been disclosed pursuant to this Section 5.7.

#### Section 5.8 *Tax Matters.*

(a) Newco, Merger Sub, Parent and the Parent Subsidiaries have filed all material Tax Returns required to be filed by it, or requests for extensions to file such Tax Returns have been timely filed or granted and have not expired and all Tax Returns are complete and accurate in all material respects. Newco, Merger Sub, Parent and the Parent Subsidiaries have paid (or Parent, if applicable, has paid on their behalf) all Taxes shown as due on such Tax Returns. The most recent financial statements contained in the Parent SEC Reports reflect an adequate reserve for all Taxes payable by Parent and the Parent Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements, and no deficiencies for any Taxes have been proposed, asserted or assessed against Newco, Merger Sub, Parent or any of the Parent Subsidiaries that are not adequately reserved for, except for inadequately reserved Taxes and inadequately reserved deficiencies that would not, individually or in the aggregate, have a Parent Material Adverse Effect. No requests for waivers of the time to assess any taxes against Newco, Merger Sub, Parent or any of the Parent

on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to Parent and Parent Subsidiaries taken as a whole)) the consolidated financial position of Parent and its consolidated subsidiaries as at the dates thereof and the consolidated results of operations and cash flows for the periods then ended. True, accurate and complete copies of the memorandum and articles of association of Parent, as in effect on the date hereof, are included (or incorporated by reference) in the Parent SEC Reports.

(b) All material filings required to be made by Parent or any Parent Subsidiaries since March 31, 1996 in the United Kingdom under the Electricity Act 1989, have been filed with the Office of Gas and Electricity Markets ("*OFGEM*") or any other appropriate Governmental Authority, as the case may be, including all material forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all material rates, tariffs, franchises, service agreements and related documents, complied, as of their respective dates, in all material respects with all applicable requirements of the statute and the rules and regulations thereunder.

Section 5.5 *Absence of Certain Changes or Events.* Except as disclosed in the Parent SEC Reports filed prior to the date hereof or as set forth in Section 5.5 of the Parent Disclosure Schedule, since March 31, 2000, Parent and each of the Parent Subsidiaries have conducted their business only in the ordinary course of business consistent with past practice and there has not been, and no fact or condition exists which has had or could reasonably be expected to have a Parent Material Adverse Effect.

Section 5.6 *Legal Proceedings.* Except as disclosed in the Parent SEC Reports filed prior to the date hereof or as set forth in Section 5.6, Section 5.8 or Section 5.9 of the Parent Disclosure Schedule, (a) there are no claims, suits, actions or proceedings by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the knowledge of Parent, threatened, nor are there, to the knowledge of Parent, any investigations or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting Parent or any of the Parent Subsidiaries, which would have a Parent Material Adverse Effect, (b) there have not been any significant developments since March 31, 2000 with respect to such disclosed claims, suits, actions, proceedings, hearings, investigations, audits or reviews that would have a Parent Material Adverse Effect and (c) there are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to Parent or any of the Parent Subsidiaries, except for such that could not reasonably be expected to have a Parent Material Adverse Effect.

Section 5.7 *Information Supplied.* (a) The Parent Disclosure Documents (as defined in Section 4.8(b)) will, at all relevant times, include (i) all information relating to Parent, and information which is within the knowledge of each of the directors of Parent (or which it would be



declarations, filings or registrations, giving such notices, obtaining such authorizations, consents or approvals, and having such waiting periods expire as are necessary to avoid a violation of law.

(d) *Compliance.* Except as set forth in Section 5.3(d), Section 5.6 and Section 5.9 of the Parent Disclosure Schedule, or as disclosed in the Parent SEC Reports (as defined in Section 5.4) filed prior to the date hereof, neither Parent nor any of the Parent Subsidiaries is in violation of, is under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (excluding any applicable Environmental Laws, compliance with which is the subject of Section 5.9) of any Governmental Authority, except for possible violations which individually or in the aggregate could not reasonably be expected to have a Parent Material Adverse Effect. Except as set forth in Section 5.3(d) of the Parent Disclosure Schedule, or as expressly disclosed in the Parent SEC Reports or Parent Disclosure Documents, Parent and the Parent Subsidiaries have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted which are material to the operation of the businesses of Parent and the Parent Subsidiaries. Except as set forth in Section 5.3(d) of the Parent Disclosure Schedule, each of Parent and the Parent Subsidiaries is not in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with the lapse of time or action by a third party, could result in a default by Parent or any Parent Subsidiary under (i) their respective charters or by-laws or (ii) any contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which they are a party or by which Parent or any Parent Subsidiary is bound or to which any of their property is subject, except for possible violations, breaches or defaults which individually or in the aggregate could not reasonably be expected to have a Parent Material Adverse Effect.

Section 5.4 *Reports and Financial Statements.* (a) All material filings required to be made by Parent and the Parent Subsidiaries since January 1, 1995 under the Securities Act, the Exchange Act, the 1935 Act, the Power Act, and applicable state public utility laws and regulations have been filed with the SEC, the FERC, the NRC, the FCC, the DOE or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statutes and the rules and regulations thereunder. Parent has made available to the Company a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed with the SEC by Parent pursuant to the requirements of the Securities Act or Exchange Act since October 7, 1999 (as such documents have since the time of their filing been amended, the "*Parent SEC Reports*"). As of their respective dates, the Parent SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of Parent included in the Parent SEC Reports (collectively, the "*Parent Financial Statements*") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with generally accepted accounting principles in the United Kingdom applied

Section 5.3     *Authority; Non-Contravention; Statutory Approvals; Compliance.*

(a)     *Authority.* Parent, Newco and Merger Sub have all requisite power and authority to enter into this Agreement and subject to the receipt of the Parent Required Statutory Approvals (as defined in Section 5.3(c)) and the Parent Shareholders' Approvals (as defined in Section 5.10), to consummate the Merger, the Scheme and related transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent, Newco and Merger Sub, subject to obtaining Parent Shareholders' Approvals. This Agreement has been duly and validly executed and delivered by Parent, Newco and Merger Sub and, assuming the due authorization, execution and delivery hereof by the other signatories hereto, constitutes the valid and binding obligation of Parent, Newco and Merger Sub enforceable against such parties in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting or relating to the enforcement of creditors rights generally or general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

(b)     *Non-Contravention.* Except as set forth in Section 5.3(b) of the Parent Disclosure Schedule, the execution and delivery of this Agreement by Parent, Newco and Merger Sub does not, and the consummation of the transactions contemplated hereby shall not, result in a Violation pursuant to any provisions of (i) the charter, by-laws or similar governing documents of Parent or any of the Parent Subsidiaries or Newco or Merger Sub, (ii) subject to obtaining Parent Required Statutory Approvals and the receipt of Parent Shareholders' Approvals, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to Parent or any of the Parent Subsidiaries or Newco or Merger Sub or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 5.3(b) of the Parent Disclosure Schedule (the "*Parent Required Consents*"), any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which Parent or any of the Parent Subsidiaries or Newco or Merger Sub is a party or by which they or any of their respective properties or assets may be bound or affected, except in the case of clause (ii) or (iii) above for any such Violation which could not reasonably be expected to have a material adverse effect on the business, assets, condition (financial or otherwise), current or reasonably anticipated future results of operations of Parent and the Parent Subsidiaries, taken as a whole, or on Parent's ability to consummate the Merger (a "*Parent Material Adverse Effect*").

(c)     *Statutory Approvals.* No declaration, filing or registration with, or notice to or authorization, consent or approval of, any Governmental Authority is necessary for the execution and delivery of this Agreement by Parent, Newco and Merger Sub or the consummation by Parent, Newco and Merger Sub of the transactions contemplated hereby except as described in Section 5.3(c) of the Parent Disclosure Schedule (the "*Parent Required Statutory Approvals*"). References in this Agreement to "*obtaining*" such Parent Required Statutory Approvals shall mean making such

of the State of Delaware. Newco and Merger Sub have been incorporated solely for the purposes of engaging in the transactions contemplated by this Agreement and have not conducted any other business prior to the date hereof and will not conduct any other business prior to the Closing Date except in connection with any activity related to the consummation of the Scheme or the Merger.

Section 5.2 *Capitalization.* (a) As of the date hereof, the authorized share capital of Parent consists of 2,125,000,000 Parent Ordinary Shares and the Parent Special Share. At the close of business on September 1, 2000 (i) 1,484,609,903 Parent Ordinary Shares were issued and outstanding, (ii) one Parent Special Share was outstanding and (iii) except as set forth in Section 5.2 of the Parent Disclosure Schedule, no Voting Debt is issued or outstanding. All outstanding Parent Ordinary Shares are validly issued and fully paid and are not subject to preemptive rights, except as provided in Section 89 of the Companies Act of 1985 of the United Kingdom (the "*Companies Act*") and except as set forth in Section 5.2 of the Parent Disclosure Schedule. As of the date of this Agreement, except as set forth in Section 5.2 of the Parent Disclosure Schedule or pursuant to this Agreement and the employment, severance, deferred compensation or similar agreements that are maintained or contributed to as of the date of this Agreement (the "*Parent Plans*"), there are no options, warrants, calls, rights, commitments or agreements of any character to which Parent or any Parent Subsidiary is a party or by which it is bound obligating Parent or any Parent Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional capital or other shares or any Voting Debt securities of Parent or any Parent Subsidiary or obligating Parent or any Parent Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. Except as set forth in Section 5.2 of the Parent Disclosure Schedule, or other than in connection with the Parent Plans, after the Scheme Effective Time, there will be no option, warrant, call, right, commitment or agreement obligating Parent or any Parent Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, any capital or other shares or any Voting Debt of Parent or any Parent Subsidiary, or obligating Parent or any Parent Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

(b) The authorized share capital of Newco consists of 100 ordinary shares ("*Newco Original Ordinary Shares*"), of which one share is issued and outstanding. Prior to the Scheme Effective Time, two Newco Original Ordinary Shares and 49,998 redeemable preference shares ("*Newco Original Preference Shares*") shall be issued and outstanding.

(c) Prior to the Merger Effective Time, the authorized capital stock of Merger Sub will consist of 100 common shares, par value \$0.10 per share, all of which will be issued and outstanding and owned by Newco. All such outstanding common shares will be duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights.

Section 4.21 *State Antitakeover Matters.* Assuming the accuracy of the representation contained in Section 5.13, no “fair price,” “moratorium,” “business combination,” “control share acquisition,” or other form of anti-takeover statute or regulation under New York law is applicable to the Merger and other transactions contemplated hereby.

Section 4.22 *Commodity Derivatives and Credit Exposure Matters.* Except as set forth in Section 4.22 of the Company Disclosure Schedule, as of September 1, 2000, the Company and the Company Subsidiaries do not in the aggregate have (qualified on a marked-to-market basis and calculated with respect to physical and financial positions exposure) (a) natural gas or electricity forward price exposure exceeding \$1 million, (b) pipeline transportation (basis) exposure exceeding \$1 million, or (c) credit exposures (which is unsecured and not backed by letters of credit or enforceable guarantees from A-rated credit providers) to any one counterparty that exceeds \$1 million.

Section 4.23 *The Company Associates.* The representations and warranties set forth (a) in Sections 4.4(b) and (c) are true and correct with regard to the Company Associates, and (b) in Sections 4.4(d), 4.6, 4.7, 4.10, 4.11 and 4.12 are, to the Knowledge of the Company, true and correct, as of the date hereof, with regard to the Company Associates.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF PARENT, NEWCO AND MERGER SUB

Parent, Newco and Merger Sub represent and warrant to the Company as follows:

Section 5.1 *Organization and Qualification.* (a) Except as set forth in Section 5.1 of the schedule delivered by Parent on the date hereof (the “Parent Disclosure Schedule”), Parent and each of the Parent Subsidiaries (as defined below) is a corporation or other entity duly organized, validly existing and in good standing (with respect to jurisdictions that recognize the concept of good standing) under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing (with respect to jurisdictions that recognize the concept of good standing) to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify could not reasonably be expected to have a Parent Material Adverse Effect (as defined in Section 5.3(b)). As used in this Agreement, the term “Parent Subsidiary” shall mean a Subsidiary of Parent.

(b) Newco is a corporation duly organized and validly existing under the laws of England and Wales. Newco holds all of the issued and outstanding shares of capital stock of Merger Sub, which is a corporation duly organized, validly existing and in good standing under the laws

To the Knowledge of the Company, the use of the Company Intellectual Property by the Company or the Company Subsidiaries does not infringe upon, violate or constitute a misappropriation of any right, title or interest in any intellectual property right (including, without limitation, any trademark, trade name, patent, service mark, brand mark, brand name, computer program, database, industrial design or copyright) of any other person, and neither the Company nor any of the Company Subsidiaries has received written notice of any claim or threatened claim that any of the Company Intellectual Property is invalid, infringes the asserted rights of any other person, and, to the Knowledge of the Company, the Company Intellectual Property owned by the Company has not been used or enforced or has failed to be used or enforced in a manner that would result in the abandonment, cancellation or unenforceability of any of such Company Intellectual Property, except for such infringements, violations, misappropriations, interferences, claims, invalidity, use, abandonments, cancellations or unenforceability that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

Section 4.19 *Nuclear Operations and NRC Actions.* (a) The Company owns Nine Mile Point Nuclear Station Unit No. 1 and a 41% tenant-in-common interest in Nine Mile Point Nuclear Station Unit No. 2 (the "*Company Nuclear Facilities*"). Except as disclosed in the Company SEC Reports filed prior to the date hereof, the operations of the Company Nuclear Facilities are and have at all times been conducted in compliance with applicable health, safety, regulatory and other legal requirements, and no Company Nuclear Facility is in violation of any applicable health, safety, regulatory or other legal requirements applicable to the Company Nuclear Facilities, except for such failures to comply as could not in the aggregate be reasonably expected to have a Company Material Adverse Effect. The Company Nuclear Facilities maintain emergency plans designed to respond to an unplanned release therefrom of radioactive materials into the environment and liability insurance to the extent required by law, and such further insurance (other than liability insurance) as is consistent with the Company's view of the risks inherent in the operation of a nuclear power facility and with the general practices of the nuclear power industry.

(b) Except as disclosed in the Company SEC Reports filed prior to the date hereof, neither the Company nor any of its Subsidiaries has been given written notice of or been charged with actual or potential violation of, or, to the Knowledge of the Company, is the subject of any ongoing proceeding, inquiry, special inspection, diagnostic evaluation or other NRC action of which the Company or any of its Subsidiaries has received notice under the Atomic Energy Act, any applicable regulations thereunder or the terms and conditions of any license granted to the Company or any of its Subsidiaries regarding the Company Nuclear Facilities that would have, or is reasonably likely to have, a Company Material Adverse Effect. No Company Nuclear Facility is, as of the date of this Agreement, on the List of Nuclear Power Plants Warranting Increased Regulatory Attention maintained by the NRC.

Section 4.20 *Ownership of Parent or Newco Common Stock.* None of the Company or any of the Company Subsidiaries beneficially owns any Parent Ordinary Shares, Parent ADSs, Newco Ordinary Shares or Newco ADSs.

service company. Except as set forth above and as set forth in Section 4.13 of the Company Disclosure Schedule, neither the Company nor any "subsidiary company" or "affiliate" of the Company is subject to regulation as a public utility or public service company (or similar designation) by the Federal government of the United States, any state in the United States or any political subdivision thereof, or any foreign country.

(b) As used in this Section 4.13, the terms "subsidiary company" and "affiliate" shall have the respective meanings ascribed to them in Section 2(a)(8) and Section 2(a)(11), respectively, of the 1935 Act.

Section 4.14 *Vote Required.* The approval of the Merger by the holders of a majority of the votes entitled to be cast by all holders of Company Common Stock (the "Company Shareholders' Approval") is the only vote of the holders of any class or series of the capital stock of the Company or any of the Company Subsidiaries required to approve this Agreement, the Merger and the other transactions contemplated hereby.

Section 4.15 *Opinion of Financial Advisor.* The Company has received the opinion of Donaldson, Lufkin & Jenrette Securities Corporation, dated the date of this Agreement, to the effect that, as of such date, Merger Consideration is fair from a financial point of view to the holders of Company Common Stock.

Section 4.16 *Brokers.* Except as relates to the services provided by Donaldson, Lufkin & Jenrette Securities Corporation as financial advisor to the Company, neither the Company nor any of its officers, directors or employees has employed any broker, or finder or incurred any liability for a finder's fee, brokerage commission or similar payment in connection with the transactions contemplated hereby.

Section 4.17 *Insurance.* Except as set forth in Section 4.17 of the Company Disclosure Schedule, neither the Company nor any of the Company Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of the Company or any of the Company Subsidiaries.

Section 4.18 *Intellectual Property.* The Company and the Company Subsidiaries own or have adequate rights to use all trademarks, trade names, patents, service marks, brand marks, brand names, computer programs, databases, industrial designs and copyrights used in the operation of their business (collectively, the "Company Intellectual Property"), subject to such exceptions as to such ownership and restrictions on such rights as could not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect. All of the Company Intellectual Property owned by the Company or one of the Company Subsidiaries is free and clear of any and all Encumbrances, subject to such exceptions as could not reasonably be expected, individually or in the aggregate, to have a Company Material Adverse Effect, and neither the Company nor any of the Company Subsidiaries has forfeited or otherwise relinquished any Company Intellectual Property which forfeiture or relinquishment could reasonably be expected to have a Company Material Adverse Effect.

governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, Release or threatened Release into the environment of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of the Company Subsidiaries (for purposes of this Section 4.12) or by Parent or any of the Parent Subsidiaries (for purposes of Section 5.9), (B) circumstances forming the basis of any violation or alleged violation of any Environmental Law or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials.

(ii) "*Environmental Laws*" means any and all laws in any relevant jurisdiction, including common law, all applicable federal, state and local laws, codes, ordinances, directives, orders, rules and regulations and binding administrative or judicial interpretations thereof relating to pollution, the environment (including, without limitation, ambient air, water (including groundwater and drinking water, land surface or subsurface strata), natural resources as well as protection of human health and safety from exposure to Hazardous Materials, including without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, remedial cleanup or otherwise relating to the manufacture, generation processing, distribution, use, treatment, storage, disposal, deposit, transport or handling of Hazardous Materials.

(iii) "*Hazardous Materials*" means (A) any petroleum or petroleum products, oil, coal ash, radioactive materials, coal tar or other forms of MGP waste or by-products, radon gas, asbestos in any form that is or could become friable, urea formaldehyde, foam insulation, lead-based paint and any materials, transformers or other equipment that contain dielectric fluid containing regulated concentrations of polychlorinated biphenyls ("*PCBs*"), (B) any chemicals, materials or substances which exhibit the characteristics of or are now defined as or included in the definitions of "*hazardous substances*," "*hazardous wastes*," "*hazardous materials*," "*extremely hazardous wastes*," "*restricted hazardous wastes*," "*toxic substances*," "*contaminants*", "*toxic pollutants*," or words of similar import under any Environmental Law and (C) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any applicable Environmental Law or harm from which would be actionable under any Environmental Law.

(iv) "*Release*" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, water (including groundwater) or property and related improvements.

Section 4.13 *Regulation as a Utility.* (a) The Company is a public utility holding company exempt under Section 3(a)(1) from all provisions of the 1935 Act except Section 9(a)(2) thereof. Section 4.13 of the Company Disclosure Schedule lists the subsidiaries of the Company that are "*public utility companies*" within the meaning of Section 2(a)(5) of the 1935 Act and lists the jurisdictions where each such Subsidiary is subject to regulation as a public utility company or public

the Company or any of the Company Subsidiaries owns, leases, occupies, uses or manages or has formerly owned, leased, occupied, used or managed, in whole or in part.

(iv) *Releases.* To the knowledge of the Company's environmental, health and safety managers, there are no Releases (as defined in Section 4.12(d)(iv)) of any Hazardous Material (as defined in Section 4.12(d)(iii)) that would be reasonably likely to result in any Environmental Claim against the Company or any of the Company Subsidiaries, or against any person or entity whose liability for any Environmental Claim, the Company or any of the Company Subsidiaries has or may have retained or assumed either contractually or by operation of Environmental Law, except for any Environmental Claims which could not reasonably be expected to have in the aggregate a Company Material Adverse Effect.

(v) *Predecessors.* To the knowledge of the Company's environmental, health and safety managers, there are no pending or threatened Environmental Claims or facts or circumstances which are reasonably likely to result in any Environmental Claim with respect to any known predecessor of the Company or any of the Company Subsidiaries which would have in the aggregate a Company Material Adverse Effect.

(b) Except as would not have in the aggregate a Company Material Adverse Effect, the Company has provided or otherwise made available to Parent: (i) copies of all material Environmental Permits, as well as material environmental compliance reports, audits, studies, assessments, complaints, notices of violations, orders or information requests (collectively, "*Environmental Documents*") received by or conducted or prepared by or on behalf of the Company or any of the Company Subsidiaries relating to the business, operations, facilities or properties currently or formerly owned, leased, managed, occupied, used or otherwise controlled by the Company or any of the Company Subsidiaries; and (ii) based on records in the possession or the control of the Company or any of the Company Subsidiaries, a complete list of all material Hazardous Materials used, stored or generated in the course of the Company's or any of the Company Subsidiaries' business or operations and all off-site Hazardous Materials treatment, storage or disposal facilities used by the Company or any of the Company Subsidiaries.

(c) Notwithstanding any other representations and warranty in this Article IV, the representations and warranties contained in this Section 4.12 constitute the sole representations and warranties of the Company with respect to any Environmental Law, Environmental Permit, Environmental Claim, Releases or Hazardous Material.

(d) *Definitions.* As used in this Agreement:

(i) "*Environmental Claim*" means any and all administrative, regulatory or judicial actions (whether civil or criminal), suits, demands, demand letters, directives, claims, liens, investigations, proceedings or written notices of noncompliance or violation by any person or entity (including any Governmental Authority), alleging potential liability (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs,



Section 4.12 *Environmental Protection.*

(a) Except as set forth in Section 4.12 of the Company Disclosure Schedule or in the Company SEC Reports filed prior to the date hereof:

(i) *Compliance.* The Company and each of the Company Subsidiaries has been and is in compliance with all applicable Environmental Laws (as defined in Section 4.12(d)(ii)) except where the failure to so comply would not in the aggregate have a Company Material Adverse Effect, and neither the Company nor any of the Company Subsidiaries has received any communication (written or oral) from any person or Governmental Authority that alleges that the Company or any of the Company Subsidiaries is not in such compliance with applicable Environmental Laws, except as would not in the aggregate have a Company Material Adverse Effect. To the Knowledge of the Company and the Company Subsidiaries, compliance with all applicable Environmental Laws will not require the Company or any Company Subsidiary to incur additional costs over the next five years, beyond those currently recorded or budgeted for the five Company fiscal years beginning with January 1, 2000, including, but not limited to, (i) the costs of pollution prevention or control equipment that are known or anticipated to be required over the next five years; and (ii) investigatory, removal, remediation or response costs or investigatory, removal, remediation or response costs known to be required over the next five years, in each case, both on-site and off-site, except for such additional costs that reasonably would not be expected to result in the aggregate in a Company Material Adverse Effect.

(ii) *Environmental Permits.* The Company and each of the Company Subsidiaries has obtained or has applied for all environmental, health and safety permits and governmental authorizations, consents or licenses (collectively, the "*Environmental Permits*") necessary for their operations as presently conducted, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending before the appropriate Governmental Authority, except for such Environmental Permits that would not reasonably be expected in the aggregate to have a Company Material Adverse Effect. The Company and the Company Subsidiaries are in compliance with all terms and conditions of the Environmental Permits, except where the failure to so comply could not in the aggregate reasonably be expected to have a Company Material Adverse Effect.

(iii) *Environmental Claims.* There are no written Environmental Claims (as defined in Section 4.12(d)(i)) or, to the knowledge of the Company's environmental, health and safety managers, facts or circumstances which are reasonably likely to result in any Environmental Claim which would have in the aggregate a Company Material Adverse Effect pending (A) against the Company or any of the Company Subsidiaries, (B) against any person or entity whose liability for any such Environmental Claim, the Company or any of the Company Subsidiaries has retained or assumed either contractually or by operation of Environmental Law, or (C) against any real or personal property, facility or operations which

(i) Full payment has been made of all material amounts which the Company or any Company Subsidiary was required under the terms of the Company Employee Benefit Plans to have paid as contributions to such plans on or prior to the Merger Effective Time (excluding any amounts not yet due) and no Company Employee Benefit Plan which is subject to Part III of Subtitle B of Title I of ERISA has incurred any "accumulated funding deficiency" within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived.

(j) Except as set forth in Section 4.10(j) of the Company Disclosure Schedule, no amounts payable under any Company Employee Benefit Plan or other agreement, contract, or arrangement, as a result of or in connection with the Merger, is expected to fail to be deductible for federal income tax purposes by virtue of Section 280G or Section 162(m) of the Code.

Section 4.11 *Labor and Employee Relations.* As of the date hereof, except as disclosed in Section 4.11(a) of the Company Disclosure Schedule or in the Company SEC Reports, (i) neither the Company nor any of the Company Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization and (ii) to the Knowledge of the Company or any Company Subsidiary, there is no current union representation question involving employees of the Company or any of the Company Subsidiaries, nor does the Company or any Company Subsidiary have Knowledge of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. The Company has delivered or otherwise made available to Parent true, correct and complete copies of the collective bargaining agreements listed in Section 4.11 of the Company Disclosure Schedule, together with all amendments, modifications or supplements thereto. Except as disclosed in Section 4.11(a) of the Company Disclosure Schedule or in the Company SEC Reports filed prior to the date hereof, there is no unfair labor practice, employment discrimination or other material grievance, arbitration, claim, suit, action, proceeding or employment related complaint against the Company or any of the Company Subsidiaries pending, or to the Knowledge of the Company or any Company Subsidiary, threatened against or affecting the Company or any Company Subsidiary before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, (b) there is no strike, lockout or dispute, slowdown or work stoppage pending or, to the Knowledge of the Company or any Company Subsidiary, threatened against or involving the Company or any Company Subsidiary, and (c) there is no proceeding, claim, suit, action or governmental investigation pending or, to the Knowledge of the Company, threatened in respect of which any director, officer, employee or agent of the Company or any Company Subsidiary is or may be entitled to claim indemnification from the Company or such Company Subsidiary pursuant to their respective charters or by-laws or as provided in the indemnification agreements listed in Section 4.11(c) of the Company Disclosure Schedule. Except as set forth in Section 4.11(a) of the Company Disclosure Schedule, to the Knowledge of the Company and each Company Subsidiary, the Company and each such Company Subsidiary are in material compliance with any and all laws in any relevant jurisdiction, including common law, all applicable federal, state and local laws with respect to employment practices, labor relations, safety and health regulations and mass layoffs and plant closings.

any Company Employee Benefit Plan (other than as an incidental benefit under a Plan qualified under Section 401(a) of the Code) which provides health or welfare benefits to retirees or other terminated employees other than benefit continuations as required pursuant to Section 601 of ERISA. Each Company Employee Benefit Plan subject to the requirements of Section 601 of ERISA has been operated in material compliance therewith. Neither the Company nor any Company Subsidiaries have contributed to a nonconforming group health plan (as defined in Code Section 5000(c)). No person or entity other than the Company or a Company Subsidiary is, or has in the last five years been, considered to be within a controlled group with the Company or any Company Subsidiary or under common control with the Company or a Company Subsidiary within the meaning of Section 414 of the Code or Section 4001 of ERISA.

(d) Except as set forth in Section 4.10(d) of the Company Disclosure Schedule, each Company Employee Benefit Plan covers only employees who are employed by the Company or a Company Subsidiary (or former employees or beneficiaries with respect to service with the Company or a Company Subsidiary).

(e) Except as set forth in Section 4.10(e) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary, within the five-year period preceding the date of this Agreement, at any time contributed to any "multiemployer plan," as that term is defined in Section 4001 of ERISA. Neither the Company nor any Company Subsidiary is subject to "withdrawal liability" as that term is defined in Part I, Subtitle E, Title IV, of ERISA and if the Company or any Company Subsidiary were to withdraw from a "multiemployer plan" at the Merger Effective Time, neither the Company, nor any Company Subsidiary would have any "withdrawal liability" as that term is defined in Part I, Subtitle E, Title IV, of ERISA.

(f) No event has occurred, and there exists no condition or set of circumstances in connection with any Company Employee Benefit Plan, under which the Company or any Company Subsidiary, directly or indirectly (through any indemnification agreement or otherwise), is likely to be liable under Section 409 of ERISA, Section 502(i) of ERISA, Title IV of ERISA or Section 4975 of the Code.

(g) Neither the Company nor any ERISA Affiliate has incurred any liability to the Pension Benefit Guaranty Corporation (the "PBGC") under Section 302(c)(ii), 4062, 4063, 4064 or 4069 of ERISA, or otherwise that has not been satisfied in full and no event or condition exists or has existed which could reasonably be expected to result in any such material liability. No "reportable event" within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived or extended has occurred with respect to any Company Employee Benefit Plan that is a defined benefit plan under Section 3(35) of ERISA within the 12-month period ending on the date hereof.

(h) Except as set forth in Section 4.10(h) of the Company Disclosure Schedule, no employer securities, employer real property or other employer property is included in the assets of any Company Employee Benefit Plan.

(p) Neither the Company nor any of the Company subsidiaries has taken any action or has any Knowledge of any fact or circumstance that is reasonably likely to (i) prevent the Merger and the Scheme taken together from qualifying as a transaction described in Section 351 of the Code or (ii) cause the Merger to be subject to Code Section 367(a)(1).

Section 4.10 *Employee Matters; ERISA.*

(a) Each "employee benefit plan" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*")), bonus, deferred compensation, share option or similar option, employment agreement, severance plan or similar option, plan, agreement or other written agreement relating to employment, compensation, employment benefits, and any other compensation or fringe benefits for employees, former employees, officers or directors of the Company or any Company Subsidiaries effective as of the date hereof or providing benefits as of the date hereof to current employees, former employees, officers, trustees, or directors of the Company or pursuant to which the Company or any of its Subsidiaries has or could reasonably be expected to have any liability (collectively, the "*Company Employee Benefit Plans*") is listed in Section 4.10(a) of the Company Disclosure Schedule (other than any such agreement with an individual who was never an officer or a director of the Company or any Company Subsidiary, if such agreement is not material when considered individually and would not be material if considered in the aggregate with all other such agreements with individuals who never were officers or directors of the Company or any Company Subsidiary), is in material compliance with applicable law except as set forth in Section 4.10(a) of the Company Disclosure Schedule, and has been administered and operated in all material respects in accordance with its terms. Each Company Employee Benefit Plan which is intended to be qualified within the meaning of Section 401(a) of the Code has received a favorable determination letter from the IRS as to such qualification and, to the Knowledge of the Company, no event has occurred and no condition exists which could reasonably be expected to result in the revocation of, or have any adverse effect on, any such determination.

(b) Complete and correct copies of the following documents have been made available to Parent as of the date of this Agreement: (i) all Company Employee Benefit Plans and any related trust agreements, insurance contracts or other funding arrangements and any amendments to each, (ii) the most current summary plan descriptions of each Company Employee Benefit Plan subject to ERISA and any summary of material modifications issued since such summary plan descriptions, (iii) the three most recent Form 5500s and Schedules thereto for each Company Employee Benefit Plan subject to such reporting, (iv) the most recent determination of the Internal Revenue Service with respect to the qualified status of each Company Employee Benefit Plan that is intended to qualify under Section 401(a) of the Code, (v) the most recent accountings with respect to each Company Employee Benefit Plan funded through a trust or through a funding arrangement and (vi) the most recent actuarial report of the enrolled actuary of each Company Employee Benefit Plan with respect to which actuarial valuations are conducted.

(c) Except as set forth in Section 4.10(c) of the Company Disclosure Schedule, neither the Company nor any Company Subsidiary maintains or is obligated to provide benefits under

(i) *Code Section 168.* To the Knowledge of the Company, no property of the Company or any of the Company Subsidiaries is property that the Company or any such Subsidiary or any party to this transaction is or will be required to treat as being owned by another person pursuant to the provisions of Code Section 168(f)(8) (as in effect prior to its amendment by the Tax Reform Act of 1986).

(j) *Code Section 481 Adjustments.* (i) Neither the Company nor any of the Company Subsidiaries is required to include in income on any Tax Return that has not been filed and made available to Parent any material adjustment pursuant to Code Section 481(a) (an "*Accounting Method Adjustment*") by reason of a voluntary change in accounting method initiated by the Company or any of the Company Subsidiaries and (ii) to the Knowledge of the Company, the Internal Revenue Service (the "*IRS*") has not proposed any such Accounting Method Adjustment with respect to any Tax Return that the statute of limitations for the assessment of all Taxes has not expired.

(k) *Indebtedness.* No material indebtedness of the Company or any of the Company Subsidiaries is (i) "corporate acquisition indebtedness" within the meaning of Code Section 279(b) or (ii) exempt facility bonds described in Code Section 142 or industrial development bonds described in Section 103 of the Internal Revenue Code of 1954, as amended, prior to the enactment of the Tax Reform Act of 1986.

(l) *Intercompany Transactions.* Neither the Company nor any of the Company Subsidiaries has engaged in any intercompany transactions within the meaning of Treasury Regulations Section 1.1502-13 for which any material income or material gain will remain unrecognized as of the close of the last taxable year prior to the Closing Date.

(m) *Code Section 897(c).* To the Knowledge of the Company, no Foreign Person owns within the meaning of Code Section 897 and the Treasury Regulations thereunder more than five percent (5%) of the Company Common Stock during the period described in Code Section 897(c)(1)(A)(ii).

(n) *Code Section 355(e).* Neither the Company nor any of the Company Subsidiaries has constituted a "distributing corporation" in a distribution of stock qualifying for tax-free treatment under Section 355 of the Code (i) in the past 24-month period or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(o) *Tax Basis.* As of December 31, 1999, to the Knowledge of the Company, the aggregate tax basis of (i) the stock held, directly or indirectly, by the Company other than the stock of Niagara Mohawk Power Corporation and (ii) the property, plant and equipment held by Niagara Mohawk Power Corporation is not, taken together, greater than \$4,400,000,000.

within the time and in the manner prescribed by law) all material Taxes that are currently due and payable, except for those Taxes contested in good faith.

(c) *Tax Liens.* There are no material Tax liens upon the assets of the Company or any of the Company Subsidiaries except liens for Taxes not yet due or for Taxes which are being contested in good faith.

(d) *Extensions of Time for Filing Tax Returns.* Except with respect to Tax Returns related to real property Taxes, neither the Company nor any of the Company Subsidiaries has requested any extension of time within which to file any material Tax Return which Tax Return has not since been filed.

(e) *Waivers of Statute of Limitations.* Except with respect to Tax Returns related to real property Taxes, neither the Company nor any of the Company Subsidiaries has executed any outstanding waivers or comparable consents regarding the application of the statute of limitations with respect to any material Taxes or material Tax Returns.

(f) *Expiration of Statute of Limitations.* The statute of limitations for the assessment of all material Taxes has expired for all applicable material Tax Returns of the Company and each of the Company Subsidiaries or those Tax Returns have been examined by the appropriate taxing authorities for all periods through 1990, except with respect to Tax Returns that the statute of limitations has not expired solely by reason of the carryback of a net operating loss from an open Tax year and Tax Returns related to real property Taxes.

(g) *Audit, Administrative and Court Proceedings.* No audits or other administrative proceedings or court proceedings are presently pending with regard to any material Taxes or material Tax Returns of the Company or any of the Company Subsidiaries and, to the Knowledge of the Company, no issue has been raised in writing by any taxing authority in connection with any material Tax or material Tax Return (a "Tax Controversy"), except with respect to Tax Controversies involving real property Taxes that could not, individually or in the aggregate, be reasonably expected to result in a Company Material Adverse Effect.

(h) *Availability of Tax Returns.* Except with respect to Real Property Taxes, the Company and the Company Subsidiaries have made available to Parent complete and accurate copies, covering all open years, of (i) all material Tax Returns, and any amendments thereto, filed by the Company or any of the Company Subsidiaries, (ii) all material audit reports received from any taxing authority relating to any Tax Return filed by the Company or any of the Company Subsidiaries, including any proposed, asserted or assessed deficiencies for Taxes that have not been resolved and paid in full, (iii) any material Tax Rulings and material Closing Agreements entered into by the Company or any of the Company Subsidiaries with any taxing authority, and all powers of attorney currently in force granted by the Company or any of the Company Subsidiaries covering all years ending on or before the Closing Date, and (iv) any material agreements relating to the allocation or sharing of Taxes between or among the Company and any of the Company Subsidiaries.

times, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and will be in accordance with the facts and will not omit anything likely to affect the import of such information.

(c) Notwithstanding the foregoing provisions of this Section 4.8, no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement or the Parent Disclosure Documents based on information supplied by Parent, Newco or Merger Sub for inclusion or incorporation by reference therein.

#### Section 4.9 *Tax Matters.*

"*Tax(es)*," as used in this Agreement, means any federal, state, county, local or foreign taxes, charges, fees, levies, or other assessments, including all net income, gross income, sales and use, ad valorem, transfer, gains, profits, windfall profits, excise, franchise, real and personal property, gross receipts, capital stock, production, business and occupation, disability, employment, payroll, license, estimated, stamp, custom duties, severance or withholding taxes or other taxes or similar charges imposed by any Governmental Authority, whether imposed directly on a person or resulting under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract or otherwise and includes any interest and penalties (civil or criminal) on or additions to any such taxes or in respect of a failure to comply with any requirement relating to any Tax Return and any expenses incurred in connection with the determination, settlement or litigation of any tax liability. "*Tax Return*," as used in this Agreement, means a report, return or other information supplied to a Governmental Authority with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes the Company or any of the Company Subsidiaries, on the one hand, or Parent or any of the Parent Subsidiaries (or Newco following the Scheme Effective Time), on the other hand. "*Tax Rulings*," as used in this Agreement, shall mean a written ruling of a taxing authority relating to Taxes. "*Closing Agreement*," as used in this Agreement, shall mean a written and legally binding agreement with a taxing authority relating to Taxes. "*Foreign Person*" as used in this Agreement, means any person other than a "United States person" as such term is defined in Code Section 7701(a)(30).

Except as disclosed in Section 4.9 of the Company Disclosure Schedule:

(a) *Timely Filing of Tax Returns.* The Company and each of the Company Subsidiaries have filed all material Tax Returns required to be filed by each of them under applicable law. All such Tax Returns were in all material respects (and, as to such Tax Returns not filed as of the date hereof, will be) true, complete and correct and filed on a timely basis (taking into account applicable extensions).

(b) *Payment of Taxes.* The Company and each of the Company Subsidiaries have, within the time and in the manner prescribed by law, paid (and until the Closing Date will pay

Section 4.7 *Legal Proceedings.* Except as disclosed in the Company SEC Reports filed prior to the date hereof or as set forth in Section 4.7, Section 4.9, Section 4.11 or Section 4.12 of the Company Disclosure Schedule, (a) there are no claims, suits, actions, proceedings or hearings before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the Knowledge of the Company, threatened, nor are there, to the Knowledge of the Company, any civil investigations, audits or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting the Company or any of the Company Subsidiaries which would have a Company Material Adverse Effect; (b) to the Knowledge of the Company, there are no criminal investigations by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting the Company or any of the Company Subsidiaries, (c) there have not been any significant developments since December 31, 1999 with respect to such disclosed claims, suits, actions, proceedings, hearings, investigations, audits or reviews that would have a Company Material Adverse Effect and (d) there are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to the Company or any of the Company Subsidiaries except for such that could not reasonably be expected to have a Company Material Adverse Effect.

Section 4.8 *Information Supplied.* (a) None of the information supplied or to be supplied by or on behalf of the Company for inclusion or incorporation by reference in (i) the registration statement on Form F-4 to be filed with the SEC by Newco in connection with the issuance of Newco ADSs in the Merger (the "*Registration Statement*") will, at the time the Registration Statement is filed with the SEC and at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) the proxy statement included in the Registration Statement relating to the Company Meeting (as defined in Section 7.4(b)) to be held in connection with the Merger (the "*Proxy Statement*") and any other documents to be filed by the Company with the SEC (including, without limitation, under the 1935 Act) or any other Governmental Authority in connection with the Merger will, at the dates mailed to shareholders and at the times of such meetings, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement shall comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

(b) The information supplied or to be supplied by the Company for inclusion in any filing by Newco or Parent with the SEC or the Financial Services Authority (the "*U.K. Listing Authority*") in respect of the Merger or Scheme (including, without limitation, the Class 1 circular to be issued to shareholders of Parent (the "*Circular*")), the listing particulars under Part IV of the Financial Services Act 1986 of the United Kingdom (the "*FSA*") relating to Newco Ordinary Shares (the "*Listing Particulars*") and the document, including an explanatory statement, to be sent to shareholders of Parent in connection with the Scheme (the "*Scheme Document*") (collectively with any amendments or supplements thereto, the "*Parent Disclosure Documents*") will not, at all relevant



Company pursuant to the requirements of the Securities Act or Exchange Act since January 1, 1998 (as such documents have since the time of their filing been amended, the "*Company SEC Reports*"). Except as set forth in Section 4.5 of the Company Disclosure Schedule, as of their respective dates, the Company SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Except as set forth in Section 4.5 of the Company Disclosure Schedule, the audited consolidated financial statements and unaudited interim financial statements of the Company included in the Company SEC Reports (collectively, the "*Company Financial Statements*") have been prepared in accordance with U.S. generally accepted accounting principles ("*U.S. GAAP*") (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal audit adjustments which will not be material in amount or effect. True, accurate and complete copies of the charter and by-laws of the Company, as in effect on the date hereof, are included (or incorporated by reference) in the Company SEC Reports.

Section 4.6 *Absence of Certain Changes or Events.* Except as disclosed in the Company SEC Reports filed prior to the date hereof or as set forth in Section 4.6 of the Company Disclosure Schedule, since December 31, 1999, the Company and each of the Company Subsidiaries have conducted their respective businesses only in the ordinary course of business consistent with past practice (other than with respect to the cessation of operations of non-material Company Subsidiaries) and there has not been (a) any change that has had or that could reasonably be expected to have a Company Material Adverse Effect, (b) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of the Company's outstanding capital stock (other than regular quarterly cash dividends in accordance with the Company's present dividend policy), (c) any split, combination or reclassification of any of its outstanding capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of its outstanding capital stock, (d) any entry by the Company or any of the Company Subsidiaries into any employment, severance, change-of-control, termination or similar agreement with any officer, director or other employee, or any increase in the severance or termination benefits payable to any director, officer or other employee of the Company or any of the Company Subsidiaries, other than any such agreement or increase made in the ordinary course of business consistent in process and amounts with past practice and any such agreement or increase offered pursuant to a collective bargaining agreement or arrangement described in Section 6.1(m), (e) any increase in the compensation or benefits not described in subsection (d) above other than increases made in the ordinary course of business consistent in process and amounts with past practice and increases made pursuant to a collective bargaining agreement or arrangement described in Section 6.1(m), or (f) any change in the method of accounting or policy used by the Company or any of the Company Subsidiaries and disclosed in the financial statements included in the Company SEC Reports.

SEC Reports (as defined in Section 4.5) filed prior to the date hereof, neither the Company nor any of the Company Subsidiaries is in violation of, is, to the Knowledge of the Company, under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (excluding Environmental Laws, compliance with which is the subject of Section 4.12) of any Governmental Authority, except for possible violations which individually or in the aggregate could not reasonably be expected to have a Company Material Adverse Effect. As used herein, "*Knowledge*" means the knowledge of the executive officers of the Company and Niagara Mohawk Power Corporation. Except as set forth in Section 4.4(d) and Section 4.12 of the Company Disclosure Schedule, or as expressly disclosed in the Company SEC Reports, the Company and the Company Subsidiaries have all permits, licenses, franchises and other governmental authorizations, consents and approvals (the "*Licenses*") necessary to conduct their businesses as presently conducted except such failures which individually or in the aggregate could not reasonably be expected to have a Company Material Adverse Effect. All such Licenses are in full force and effect, and there is no proceeding or investigation pending or, to the Knowledge of the Company, threatened that could reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any such License which action could reasonably be expected to have a Company Material Adverse Effect. Except as set forth in Sections 4.4(d), 4.7, 4.10 and 4.11 of the Company Disclosure Schedule, none of the Company or the Company Subsidiaries is in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with the lapse of time or action by a third party, could result in a default by the Company or any Company Subsidiary under (i) their respective charter or by-laws or (ii) any contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which the Company or any Company Subsidiary is bound or to which any of their respective property is subject, except for possible violations, breaches or defaults which individually or in the aggregate could not reasonably be expected to have a Company Material Adverse Effect.

Section 4.5 *Reports and Financial Statements.* Except as set forth in Section 4.5 of the Company Disclosure Schedule, all material filings required to be made by the Company and the Company Subsidiaries since January 1, 1998 under the Securities Act of 1933, as amended (the "*Securities Act*"), the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), the Public Utility Holding Company Act (the "*1935 Act*"), the Federal Power Act (the "*Power Act*"), the Atomic Energy Act of 1954 (the "*Atomic Energy Act*"), the Communications Act of 1934, applicable state public utility laws and regulations or pursuant to the requirements of any other Governmental Authority have been filed with the SEC, the Federal Energy Regulatory Commission (the "*FERC*"), the Nuclear Regulatory Commission (the "*NRC*"), the Federal Communications Commission (the "*FCC*"), the Department of Energy (the "*DOE*"), or the appropriate state public utilities commission or such other appropriate Governmental Authority, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates or as of the date of any amendment thereto, in all material respects with all applicable requirements of the appropriate statutes and the rules and regulations thereunder. The Company has made available to Parent a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed with the SEC by the

Company and, assuming the due authorization, execution and delivery hereof by the other signatories hereto, constitutes the valid and binding obligation of the Company enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting or relating to the enforcement of creditors rights generally or general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

(b) *Non-Contravention.* Except as set forth in Section 4.4(b) of the Company Disclosure Schedule, the execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby shall not, in any respect, violate, conflict with or result in a breach of any provision of, or constitute a default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration of any obligation or the loss of a benefit under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company or any of the Company Subsidiaries (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation, is referred to herein as a "*Violation*" with respect to the Company and such term when used in Article V has a correlative meaning with respect to Parent) pursuant to any provisions of (i) the charters, by-laws or similar governing documents of the Company or any of the Company Subsidiaries, (ii) subject to obtaining the Company Required Statutory Approvals and the receipt of the Company Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority (as defined in Section 4.4(c)) applicable to the Company or any of the Company Subsidiaries or any of their respective properties or assets or (iii) subject to obtaining the third-party consents set forth in Section 4.4(b)(iii) of the Company Disclosure Schedule (the "*Company Required Consents*"), any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which the Company or any of the Company Subsidiaries is a party or by which they or any of their properties or assets may be bound or affected, except in the case of clause (ii) or (iii) above for any such Violation which could not reasonably be expected to have a Company Material Adverse Effect.

(c) *Statutory Approvals.* No declaration, filing or registration with, or notice to or authorization, consent or approval of, any court, federal, state, local or foreign governmental or regulatory body (including a stock exchange or other self-regulatory body) or authority (each, a "*Governmental Authority*") is necessary for the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby except as described in Section 4.4(c) of the Company Disclosure Schedule (the "*Company Required Statutory Approvals*"). References in this Agreement to "*obtaining*" such Company Required Statutory Approvals shall mean making such declarations, filings or registrations, giving such notices, obtaining such authorizations, consents or approvals, and having such waiting periods expire as are necessary to avoid a violation of law.

(d) *Compliance.* Except as set forth in Section 4.4(d), Section 4.7, Section 4.10, Section 4.11 and Section 4.12 of the Company Disclosure Schedule, or as disclosed in the Company

fully paid, nonassessable and free of preemptive rights, and are owned, directly or indirectly, by Company free and clear of any liens, claims, encumbrances, security interests, charges and options of any nature whatsoever and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment.

Section 4.3 *Capitalization.* As of the date hereof, the authorized capital stock of the Company consists of 300,000,000 shares of Company Common Stock, and 50,000,000 shares of Preferred Stock, par value \$0.01 per share (the "*Company Preferred Stock*"). At the close of business on September 1, 2000, (i) approximately 160,239,983 shares of Company Common Stock were issued and outstanding, (ii) no shares of Company Preferred Stock were issued and outstanding, and (iii) no bonds, debentures, notes or other indebtedness having the right to vote (or convertible into securities having the right to vote) on any matters on which shareholders may vote ("*Voting Debt*"), were issued or outstanding. As of the date hereof, all outstanding shares of Company Common Stock are validly issued, fully paid and nonassessable and are not subject to preemptive rights. As of the Closing Date, all outstanding shares of Company Common Stock will be validly issued, fully paid and nonassessable and will not be subject to preemptive rights. As of the date of this Agreement, except as set forth in Section 4.3(a) of the Company Disclosure Schedule or pursuant to this Agreement, there are no options, warrants, calls, rights, commitments or agreements of any character to which the Company or any material Company Subsidiary is a party or by which it is bound obligating the Company or any material Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or any Voting Debt of the Company or any material Company Subsidiary or obligating the Company or any material Company Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. Except as set forth in Section 4.3(b) of the Company Disclosure Schedule, at the Merger Effective Time, there will be no option, warrant, call, right, commitment or agreement obligating the Company or any material Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or any Voting Debt of the Company or any material Company Subsidiary, or obligating the Company or any material Company Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

Section 4.4 *Authority; Non-Contravention; Statutory Approvals; Compliance.*

(a) *Authority.* The Company has all requisite power and authority to enter into this Agreement and, subject to the receipt of Company Shareholders' Approval (as defined in Section 4.14) and Company Required Statutory Approvals (as defined in Section 4.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject to obtaining Company Shareholders' Approval. This Agreement has been duly and validly executed and delivered by the

## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent, Newco and Merger Sub as follows:

Section 4.1 *Organization and Qualification.* Except as set forth in Section 4.1 of the schedule delivered by the Company on the date hereof (the "*Company Disclosure Schedule*"), the Company and each Company Subsidiary (as defined below) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify could not reasonably be expected to have a material adverse effect on the business, assets, condition (financial or otherwise), current or reasonably anticipated future results of operations (measured by net income plus the after-tax effect of the Master Restructuring Agreement amortization as reported in the most recent Company Financial Statement (as defined in Section 4.5)) of the Company and the Company Subsidiaries taken as a whole, other than effects resulting from execution of this Agreement or affecting the electric utility business in the United States generally or the specific matters set forth in Section 4.1 of the Company Disclosure Schedule, or on the Company's ability to consummate the Merger (a "*Company Material Adverse Effect*"). As used in this Agreement, (a) the term "*Subsidiary*" of a person shall mean any corporation or other entity (including partnerships and other business associations) of which at least a majority of the voting power represented by the outstanding capital stock or other voting securities or interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity shall at the time be held or owned, directly or indirectly, by such person, and (b) the term "*Company Subsidiary*" shall mean a Subsidiary of the Company.

Section 4.2 *Subsidiaries.* (a) Section 4.2(a) of the Company Disclosure Schedule sets forth a list as of the date hereof of (i) all of the Company Subsidiaries and (ii) all Company Associates and a list of any existing agreements requiring the Company or any of Company Subsidiaries to make any additional material investment in, or material loan or capital contribution to, or guarantee any material obligation of, such Company Associates. For purposes of this Agreement, "*Company Associates*" shall mean any corporation or other entity (including partnerships and other business associations) that is not a Company Subsidiary, in which the Company and/or one or more of its Subsidiaries, directly or indirectly, owns an equity interest (other than investments in the ordinary course of business in publicly-traded companies which constitute less than 5% of the outstanding voting securities of such entity).

(b) Except as set forth in Section 4.2(b) of the Company Disclosure Schedule, all of the issued and outstanding shares of capital stock of each Company Subsidiary are validly issued,

(j) *Certain Adjustments.* If, after the date hereof and on or prior to the Closing Date, the outstanding Parent Ordinary Shares or Parent ADSs shall be changed into a different number of shares by reason of any reclassification, recapitalization, issue by capitalization of reserves, split-up, combination, exchange of shares or rights issue, or any dividend payable in stock or other securities is declared thereon with a record date within such period, or any similar event shall occur, the Merger Consideration will be adjusted accordingly to provide to the holders of the Company Common Stock, the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, issue by capitalization of reserves, split-up, combination, exchange, rights issue or dividend or similar event.

(k) *Withholding Rights.* Each of the Surviving Entity and Newco shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of the Company Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law, other than Conveyance Taxes (as defined in Section 7.14). To the extent that amounts are so withheld by the Surviving Entity or Newco, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of the Company Common Stock in respect of which such deduction and withholding was made by the Surviving Entity or Newco, as the case may be.

### ARTICLE III

#### THE CLOSING

Section 3.1 *Closing.* The closing of the Merger (the "*Closing*") shall take place at the offices of LeBoeuf, Lamb, Greene & MacRae, L.L.P., 125 West 55th Street, New York, New York 10019 at 10:00 A.M., local time, on the business day that is no later than the first business day that is forty days following the date on which the last of the conditions set forth in Article VIII hereof (other than the condition set forth in Section 8.2(h)) is fulfilled or waived and which is also after, but no more than seven days after, the condition set forth in Section 8.2(h) hereof is fulfilled or waived, or at such other time, date and place as the Company, Newco and Parent shall mutually agree (the "*Closing Date*").

fractional shares shall not entitle the owner thereof to vote or to any other rights of a holder of Newco ADSs or Newco Ordinary Shares. A holder of Shares converted in the Merger who would otherwise have been entitled to a fractional Newco ADS shall be entitled to receive a cash payment (without interest) in lieu of such fractional share in an amount determined by multiplying (i) the fractional share interest to which such holder would otherwise be entitled by (ii) the closing price per Parent ADS as reported on the NYSE Composite Transaction Tape on the Closing Date.

(f) *No Further Ownership Rights in Company Common Stock.* All Newco ADSs issued upon the surrender for exchange of Certificates in accordance with the terms of this Article II (including any cash paid pursuant to this Article II) shall be deemed to have been issued (and paid) in full satisfaction of all rights pertaining to the Shares theretofore represented by such Certificates, *subject, however,* to any obligation of Newco or the Surviving Entity to pay any dividends or make any other distributions with a record date prior to the Merger Effective Time which may have been authorized or made with respect to shares of Company Common Stock that remain unpaid at the Merger Effective Time, and there shall be no further registration of transfers on the stock transfer books of the Surviving Entity of shares of Company Common Stock that were outstanding immediately prior to the Merger Effective Time. If, after the Merger Effective Time, Certificates are presented to Newco, the Surviving Entity or the ADR Depositary for any reason, they shall be cancelled and exchanged as provided in this Section 2.3, except as otherwise provided by law.

(g) *Termination of Exchange Fund.* Any portion of the Exchange Fund which remains undistributed to the holders of the Certificates for six months after the Merger Effective Time shall be delivered by the ADR Depositary to Newco, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to Newco for payment of their claim for such Newco ADSs or funds to which such holder may be due, subject to applicable law. None of Newco, Parent, the Company, the Surviving Entity or the ADR Depositary shall be liable to any person (as defined below) in respect of any such Newco ADSs or funds from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. As used in this Agreement, the term "*person*" shall mean any natural person, corporation, general or limited partnership, limited liability company, joint venture, trust, association or entity of any kind.

(h) *Investment of Exchange Fund.* The ADR Depositary will invest any cash included in the Exchange Fund, as directed by Newco, on a daily basis. Any interest and other income resulting from such investments will be paid to Newco.

(i) *Lost Certificates.* If any Certificate is lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by Newco or the Surviving Entity, as the case may be, the posting by such person of a bond in such reasonable amount as Newco or the Surviving Entity, as the case may be, may direct as indemnity against any claim that may be made against it with respect to such Certificate, the ADR Depositary will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration and, if applicable, any cash in lieu of fractional shares, and unpaid dividends and distributions on Newco ADSs, pursuant to this Agreement.

Certificates in exchange for the Merger Consideration determined by Newco pursuant to Section 2.2(i).

(iii) At the Merger Effective Time, with respect to properly made elections in accordance with Section 2.3(c)(i), and upon surrender in accordance with Section 2.3(c)(ii) of a Certificate for cancellation to the ADR Depositary or to such other agent or agents as may be appointed by Newco, Parent and the Company, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the ADR Depositary, the holder of such Certificate will be entitled to receive in exchange therefor the Merger Consideration that such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate so surrendered will forthwith be canceled. In the event of a transfer of ownership of Shares that are not registered in the transfer records of the Company, payment may be issued to a person other than the person in whose name the Certificate so surrendered is registered if such Certificate is properly endorsed or otherwise in proper form for transfer and the person requesting such issuance pays any transfer or other taxes required by reason of such payment to a person other than the registered holder of such Certificate or establishes to the satisfaction of Newco, Parent and the Company that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.3, each Certificate will be deemed at any time after the Merger Effective Time to represent only the right to receive upon such surrender the Merger Consideration that the holder thereof has the right to receive in respect of such Certificate pursuant to the provisions of this Article II. No interest will be paid or will accrue on any cash payable to holders of Certificates pursuant to the provisions of this Article II.

(d) *Distributions with Respect to Unexchanged Shares.* No dividends or other distributions with respect to the Newco ADSs with a record date after the Merger Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the Newco ADSs represented thereby, and no cash payment in lieu of any fractional shares shall be paid to any such holder pursuant to Section 2.3(e), and all such dividends, other distributions and cash in lieu of fractional Newco ADSs shall be paid by Newco to the ADR Depositary and shall be included in the Exchange Fund, in each case until the surrender of such Certificate in accordance with this Article II. Subject to the effect of unclaimed property, escheat and other applicable laws, following surrender of any such Certificate, there shall be paid to the holder of the Certificate representing whole Newco ADSs issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of any cash payable in lieu of a fractional Newco ADS to which such holder is entitled pursuant to Section 2.3(e) and the amount of dividends or other distributions with a record date after the Merger Effective Time theretofore paid with respect to such whole Newco ADSs and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Merger Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such whole Newco ADSs. Newco shall make available to the ADR Depositary cash for the foregoing purposes.

(e) *No Fractional Securities.* No Newco Certificates or scrip representing fractional Newco ADSs shall be issued upon the surrender for exchange of Certificates, and such



the holders of shares of Company Common Stock for exchange in accordance with this Article II, through the ADR Depositary, cash equal to the sum of the total aggregate Cash Consideration and the number of Newco Ordinary Shares represented by the Newco ADSs to be issued in the Merger (such cash and such Newco ADSs, together with any dividends or distributions with respect thereto with a record date after the Merger Effective Time and any cash payable in lieu of any fractional Newco ADSs, being hereinafter referred to as the "*Exchange Fund*") pursuant to Section 2.2 in exchange for outstanding shares of the Company Common Stock.

(c) *Merger Exchange Procedures.*

(i) Not more than 90 days nor fewer than 30 days prior to the Closing Date, the ADR Depositary will mail a form of election (the "*Form of Election*") to holders of record of shares of Company Common Stock (as of a record date as close as practicable to the date of mailing and mutually agreed to by the Company, Newco and Parent). In addition, the ADR Depositary will use its best efforts to make the Form of Election available to the persons (as defined in Section 2.3(g)) who become shareholders of the Company during the period between such record date and the Closing Date. Any election to receive Merger Consideration contemplated by Section 2.2(c) will have been properly made only if the ADR Depositary shall have received at its designated office or offices, by 5:00 p.m., New York City time, on the fifth business day immediately preceding the Closing Date (the "*Election Deadline*"), a Form of Election properly completed and accompanied by a Company Share Certificate ("*Certificate(s)*") for the shares to which such Form of Election relates, duly endorsed in blank or otherwise acceptable for transfer on the books of the Company (or an appropriate guarantee of delivery), as set forth in such Form of Election. An election may be revoked only by written notice received by the ADR Depositary prior to 5:00 p.m., New York City time, on the Election Deadline. In addition, all elections shall automatically be revoked if the ADR Depositary is notified in writing by Newco, Parent and the Company that the Merger has been abandoned. If an election is so revoked, the Certificate(s) (or guarantee of delivery, as appropriate) to which such election relates will be promptly returned to the person submitting the same to the ADR Depositary. Newco shall have the discretion, which it may delegate in whole or in part to the ADR Depositary, to determine whether Forms of Election have been properly completed, signed and submitted or revoked pursuant to this Article II, and to disregard immaterial defects in Forms of Election. The decision of Newco (or the ADR Depositary) in such matters shall be conclusive and binding.

(ii) As soon as reasonably practicable after the Merger Effective Time, the ADR Depositary will mail to each holder of record of a Certificate, whose shares of the Company Common Stock (the "*Shares*") were converted into the right to receive Merger Consideration and who failed to return a properly completed Form of Election, (i) a letter of transmittal (which will specify that delivery will be effected, and risk of loss and title to the Certificates will pass, only upon delivery of the Certificates to the ADR Depositary and will be in such form and have such other provisions as Newco, Parent and the Company may specify consistent with this Agreement) and (ii) instructions for use in effecting the surrender of the

entitled to elect to receive ADS Consideration for all or any part of such holder's shares of Company Common Stock (an "*ADS Election*"). Notwithstanding the foregoing, the aggregate number of shares of Company Common Stock that may be converted into the right to receive ADS Consideration in the Merger (the "*ADS Election Number*") shall be the difference between the total number of shares of Company Common Stock issued and outstanding immediately prior to the Merger Effective Time and the Cash Election Number.

(g) *ADS Election Shares.* If the aggregate number of shares of Company Common Stock covered by ADS Elections (the "*ADS Election Shares*") exceeds the ADS Election Number, (1) the number of ADS Election Shares covered by each Form of Election (defined below) to be exchanged for Cash Consideration will be determined by multiplying the number of ADS Election Shares covered by such Form of Election by a fraction, the numerator of which is the Cash Election Number less the number of Cash Election Shares and the denominator of which is the aggregate number of ADS Election Shares, and (2) all ADS Election Shares not exchanged for Cash Consideration will be exchanged for the right to receive ADS Consideration (and cash in lieu of fractional shares in accordance with Section 2.3(e)).

(h) *Mixed Election.* Subject to the immediately following sentence, each record holder of shares of Company Common Stock immediately prior to the Merger Effective Time shall be entitled to elect to receive ADS Consideration for part of such holder's shares of Company Common Stock and Cash Consideration for the remaining part of such holder's shares of Company Common Stock (the "*Mixed Election*" and, collectively with ADS Election and Cash Election, the "*Election*"). With respect to each holder of Company Common Stock who makes a Mixed Election, the shares of Company Common Stock such holder elects to be converted into the right to receive Cash Consideration shall be treated as Cash Election Shares for purposes of the provisions contained in Sections 2.2(d) and (e), and the shares such holder elects to be converted into the right to receive ADS Consideration shall be treated as ADS Election Shares for purposes of the provisions contained in Sections 2.2(f) and (g).

(i) *Non-Election Shares.* Shares of Company Common Stock in respect of which a timely and properly completed election has not been made (the "*Non-Election Shares*") shall be deemed by Newco to be Cash Election Shares or ADS Election Shares, as Newco shall determine.

### Section 2.3 *Exchange of Certificates.*

(a) *Scheme Exchange.* The exchange of certificates representing Parent Ordinary Shares and Parent ADRs in the Scheme shall occur substantially in accordance with the provisions of Exhibit A hereto.

(b) *Appointment of ADR Depositary for Merger Exchange.* As of the Merger Effective Time, Newco and Merger Sub will enter into an agreement ("*ADR Depositary Agreement*") with Newco's United States Depositary (the "*ADR Depositary*"), which will provide that Newco or Merger Sub will deposit with the ADR Depositary as of the Merger Effective Time, for the benefit of

Company Common Stock canceled in accordance with Section 2.2(b)) will be converted into the right to receive the Per Share Amount (as defined below) in the form of (x) cash (in such form, the "*Cash Consideration*"), (y) a number of Newco ADSs equal to the Exchange Ratio (in such form, the "*ADS Consideration*"), or (z) a combination of Cash Consideration and ADS Consideration determined in accordance with Section 2.2(h) (the "*Merger Consideration*"). The "*Per Share Amount*" shall be determined as follows: (i) if the Average Price is greater than or equal to \$32.50 and less than or equal to \$51.00, the Per Share Amount shall be \$19.00, (ii) if the Average Price is less than \$32.50, the Per Share Amount shall be \$19.00 reduced by the product of (x) \$12.67 (two-thirds of \$19.00) and (y) the percentage decrease in the Average Price below \$32.50, and (iii) if the Average Price is greater than \$51.00, the Per Share Amount shall be \$19.00 increased by the product of (x) \$12.67 (two-thirds of \$19.00) and (y) the percentage increase in the Average Price above \$51.00. "*Average Price*" means the average of the closing prices of Parent Ordinary Shares, as derived from the Daily Official List of the London Stock Exchange plc (converted to a U.S. dollar value using the exchange rate for each date for which the closing price is to be determined as reported in The Financial Times) for 20 Trading Days selected at random (using procedures mutually agreed upon by Parent and the Company) in the period of 40 consecutive Trading Days ending on the close of business on the tenth Trading Day prior to the Election Deadline, multiplied by five. "*Trading Day*" means a day on which the London Stock Exchange plc is open for trading. The "*Exchange Ratio*" shall be equal to the Per Share Amount as determined above divided by the Average Price.

(d) *Cash Election.* Subject to the immediately following sentence, each record holder of shares of Company Common Stock immediately prior to the Merger Effective Time shall be entitled to elect to receive Cash Consideration for all or any part of such Company Common Stock (a "*Cash Election*"). Notwithstanding the foregoing, the aggregate amount of Cash Consideration to be paid in the Merger shall be \$1,015,000,000 (the "*Cash Amount*"). As used in this Agreement, the "*Cash Election Number*" shall mean the aggregate number of shares of Company Common Stock converted into the right to receive Cash Consideration in the Merger, which shall equal the Cash Amount divided by the Per Share Amount; *provided that* Newco reserves the right in its sole discretion to increase the Cash Election Number to more closely follow the actual elections of the Company's shareholders (but not to a number which is greater than the number of shares of Company Common Stock in respect of which a valid Cash Election has been made).

(e) *Cash Election Shares.* If the aggregate number of shares of Company Common Stock covered by the Cash Elections (the "*Cash Election Shares*") exceeds the Cash Election Number, (1) the number of Cash Election Shares covered by each Form of Election (defined below) will be determined by multiplying the number of Cash Election Shares covered by such Form of Election by a fraction, the numerator of which is the Cash Election Number and the denominator of which is the number of Cash Election Shares, and (2) all Cash Election Shares not exchanged for Cash Consideration will be exchanged for the right to receive ADS Consideration (and cash in lieu of fractional shares in accordance with Section 2.3(e))

(f) *ADS Election.* Subject to the immediately following sentence, each record holder of shares of Company Common Stock immediately prior to the Merger Effective Time shall be

immediately prior to the Scheme Effective Time, though they shall not be required to (but may) provide for a Newco Special Share (as defined in Section 2.1) and Newco's name shall become "National Grid plc".

## ARTICLE II

### TREATMENT OF SHARES

Section 2.1 *Effect of the Scheme on Parent Capital Stock.* As of the Scheme Effective Time, in accordance with the terms of the Scheme (a) all ordinary shares of 11 13/17 pence each of Parent ("*Parent Ordinary Shares*") outstanding on the Scheme Effective Time will be cancelled and the holders thereof will receive in place of the Parent Ordinary Shares then held by them an identical number of ordinary shares of Newco ("*Newco Ordinary Shares*"), (b) all Parent Ordinary Shares represented by American Depositary Shares of Parent ("*Parent ADSs*"), each representing five (5) Parent Ordinary Shares and evidenced by American Depositary Receipts ("*Parent ADRs*"), outstanding as of the Scheme Effective Time will be cancelled and the holders thereof will receive in place of the Parent ADSs then held by them an identical number of American Depositary Shares of Newco ("*Newco ADSs*"), each representing five (5) Newco Ordinary Shares and evidenced by American Depositary Receipts ("*Newco ADRs*"), (c) Parent will issue and deliver Parent Ordinary Shares to Newco, and (d) if required by the Secretary of State for Trade and Industry in the UK as a condition of giving its consent to the Scheme, the Special Rights Redeemable Preference Share of Parent with a nominal value of £1 held by the Secretary of State for Trade and Industry in the UK (the "*Parent Special Share*") shall be cancelled and one Special Rights Redeemable Preference Share of Newco with a nominal value of £1 shall be issued by Newco to the Secretary of State for Trade and Industry in the UK (the "*Newco Special Share*").

Section 2.2 *Effect of the Merger on the Company Capital Stock.* As of the Merger Effective Time, by virtue of the Merger and without any action on the part of any holder of Company Common Stock (as hereinafter defined):

(a) *Conversion of Merger Sub Shares.* Each share of common stock, par value \$0.10 per share, of Merger Sub issued and outstanding immediately prior to the Merger Effective Time will be converted into one share of common stock, par value \$0.01 per share, of the Company (the "*Company Common Stock*").

(b) *Cancellation of Company Treasury Stock and Sub-Owned Stock.* Each Share of Company Common Stock, that is owned by the Company, Parent or Newco or by any wholly owned Subsidiary of the Company, Parent or Newco, will automatically be canceled, retired and cease to exist, and no consideration will be delivered in exchange therefor.

(c) *Conversion of Company Common Stock.* Subject to the other provisions of this Section 2.2, each issued and outstanding share of Company Common Stock (other than shares of

Section 1.1 *The Merger.* Subject to the terms and conditions of this Agreement, at the Merger Effective Time, Merger Sub will be merged with and into the Company in accordance with the Business Corporation Law of the State of New York (the "BCL") and the General Corporation Law of the State of Delaware (the "DGCL"). The Company will be the surviving entity in the Merger (the "Surviving Entity") and shall continue its existence under the laws of the State of New York. The effects and the consequences shall be as set forth in Section 1.5, Section 906 of the BCL and Section 259 of the DGCL.

Section 1.2 *Effective Time of the Merger.* On the Closing Date (as defined in Section 3.1) a certificate of merger complying with the requirements of the relevant provisions of the BCL shall be executed and delivered for filing with the Department of State of the State of New York with respect to the Merger. The Merger shall become effective upon the later of the filing of a certificate of merger relating thereto by the Department of State of the State of New York and the filing of a certificate of merger relating thereto with the Secretary of State of the State of Delaware or upon such later date as is agreed upon by the parties and specified in such certificates of merger (the "Merger Effective Time"); provided that the Merger Effective Time shall occur as soon as reasonably practical but no later than seven days after the Scheme Effective Time (as defined below).

Section 1.3 *The Scheme.* Subject to the terms and conditions of this Agreement and the Scheme having been sanctioned by the Court and having become effective in accordance with Section 1.4, on the Scheme Effective Time, all of the issued and outstanding share capital of Parent shall be cancelled and Parent shall issue and deliver to Newco such number of the Parent Ordinary Shares as has been so cancelled in consideration of the allotment by Newco of such number of Newco shares as shall be of an aggregate nominal amount equal to the aggregate nominal amount of the Parent Ordinary Shares so cancelled.

Section 1.4 *The Scheme Effective Time.* This Scheme shall become effective as soon as an office copy of the Court order sanctioning this Scheme has been duly delivered to the Registrar of Companies for registration and the order and relative minutes have been registered by him (such time being referred to herein as the "Scheme Effective Time"); provided that the Scheme Effective Time shall occur prior to the Merger Effective Time.

Section 1.5 *Governing Documents.* The memorandum and articles of association of Parent as in effect immediately prior to the Scheme Effective Time shall be the memorandum and articles of association of Parent following the Scheme Effective Time, until duly amended, except that the memorandum and articles of association of Parent following the Scheme Effective Time may reflect a change in the name of Parent and such other changes as are appropriate for Parent as a wholly owned subsidiary and any changes necessary to reflect any cancellations or redemption of the Parent Special Share (as defined in Section 2.1) pursuant to the Scheme or otherwise. The certificate of incorporation and by-laws of the Company as in effect immediately prior to the Merger Effective Time shall be the certificate of incorporation and by-laws of the Company following the Merger Effective Time, until duly amended. On or prior to the Closing Date, Newco shall adopt memorandum and articles of association substantially similar to the memorandum and articles of incorporation of Parent

AGREEMENT AND PLAN OF MERGER AND SCHEME OF ARRANGEMENT, dated as of September 4, 2000 (referred to herein as the "date hereof"), by and among National Grid Group plc., a public limited company incorporated under the laws of England and Wales with registration number 2367004 ("*Parent*"), Niagara Mohawk Holdings, Inc., a New York corporation (the "*Company*"), New National Grid Limited, a private limited company incorporated under the laws of England and Wales with registration number 4031152 ("*Newco*") and Grid Delaware, Inc., a Delaware corporation and a wholly owned subsidiary of Newco ("*Merger Sub*").

WHEREAS, the Company, Parent and Newco have determined that it would be in their respective best interests and in the interests of their respective shareholders to effect the transactions contemplated by this Agreement;

WHEREAS, the Board of Directors of Parent intends to recommend to its shareholders a proposal to introduce Newco as a new holding company for the Parent group pursuant to a scheme of arrangement (the "*Scheme*") to be sanctioned by the High Court of Justice, London, England (the "*Court*"), substantially in the form of the draft Scheme attached hereto as Exhibit A subject to such amendments as Parent may reasonably deem necessary or desirable; *provided*, that if such amendments would have a material adverse effect on the benefits of the Merger for the holders of Company Common Stock, or such amendments are not necessary to consummate the transactions contemplated hereby and have any adverse effect on the benefits of the Merger to the holders of Company Common Stock, such amendments may only be effected with the prior written consent of the Company;

WHEREAS, the respective Boards of Directors of Parent, Newco, Merger Sub and the Company have approved the merger (the "*Merger*") of Merger Sub with and into the Company, whereby the Company will become a wholly owned subsidiary of Newco, all pursuant to the terms and conditions set forth in this Agreement; and

WHEREAS, for United States federal income tax purposes, it is intended that the Scheme together with the Merger shall collectively qualify as a transaction described in Section 351 of the Internal Revenue Code of 1986, as amended (the "*Code*").

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

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employees, agents, directors and officers of the Company and the Company Subsidiaries with respect to their activities as such prior to the Merger Effective Time, as provided in the charter and by-laws or similar governing documents in effect on the date thereof, or otherwise in effect on the date hereof and disclosed to Newco in writing prior to the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Merger Effective Time and (ii) from and after the Scheme Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of Parent and the Parent Subsidiaries with respect to their activities prior to the Scheme Effective Time, as provided in the memorandum or articles of association, charter, by-laws or similar governing documents on the date thereof, or otherwise in effect on the date hereof and disclosed to Newco in writing prior to the date hereof, shall survive the Scheme and shall continue in full force and effect for a period of not less than six years from the Scheme Effective Time.

(e) *Benefit.* The provisions of this Section 7.5 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification that such person may have by contract or otherwise.

Section 7.6 *Public Announcements.* Except as otherwise required by law or the rules of any applicable securities exchange or national market system or any other Governmental Authority, so long as this Agreement is in effect, Newco, Parent and the Company will not, and will not permit any of their respective Subsidiaries or Representatives to, issue or cause the publication of any press release or make any other public announcement with respect to the Merger and other transactions contemplated by this Agreement without the prior consent of the other party, which consent shall not be unreasonably withheld or delayed. Newco, Parent and the Company will cooperate with each other in the development and distribution of all press releases and other public announcements with respect to the Merger and other transactions contemplated hereby, and will furnish the other with drafts of any such releases and announcements as far in advance as practicable.

Section 7.7 *Rule 145 Affiliates.* Within 30 days after the date of this Agreement, the Company shall identify in a letter to Newco all persons who are, and to such person's best knowledge who will be at the Closing Date, "affiliates" of the Company, as the case may be, as such term is used in Rule 145 under the Securities Act. The Company shall use commercially reasonable efforts to cause its affiliates (including any person who may be deemed to have become such an affiliate after the date of the letter referred to in the prior sentence) to deliver to Newco on or prior to the Closing Date a written agreement substantially in the form attached as *Exhibit 7.7* (each, an "*Affiliate Agreement*").

Section 7.8 *Labor Agreements and Workforce Matters.*

(a) *Labor Agreements.* Newco shall honor or cause the appropriate subsidiary to honor all collective bargaining agreements in effect as of the Merger Effective Time until their expiration, and shall assume all of the rights and obligations provided under such collective bargaining agreements.

(b) *Workforce Matters.* Subject to applicable law and obligations under applicable collective bargaining agreements, for a period of two years following the Merger Effective Time, reductions in workforce, if any, in respect of U.S. employees of Newco and its Subsidiaries shall be made on a fair and equitable basis as determined by Newco, and any employee whose employment is terminated or job is eliminated during such period shall be entitled to participate on a fair and equitable basis as determined by Newco in the job opportunity and employment placement programs offered by Newco or any of its Subsidiaries for U.S. employees for which they are eligible. Workforce reductions, if any, carried out following the Merger Effective Time by the Surviving Entity shall be done in accordance with all applicable collective bargaining agreements, and all laws and regulations governing the employment relationship and termination thereof including, without limitation, the Worker Adjustment and Retraining Notification Act and regulations promulgated thereunder, and any comparable state or local law.

#### Section 7.9 *Employee Benefit Plans; Stock Options.*

(a) For a period of two years immediately following the Closing Date, the compensation, benefits and coverage provided to current employees and retirees of the Company or any Company Subsidiary, other than those covered by a collective bargaining agreement, who continue employment with Newco or one of its Subsidiaries (the "*Affected Employees*") pursuant to compensation and employee benefit plans or arrangements maintained by Newco or one of its Subsidiaries shall be, in the aggregate, not less favorable (as determined by Newco and the Surviving Entity using reasonable assumptions and benefit valuation methods) than those provided, in the aggregate, to such Affected Employees by the Company and any Company Subsidiary immediately prior to the Closing Date. Newco shall, and shall cause the Surviving Entity and its other Subsidiaries to, honor in accordance with their terms and applicable law (i) all compensation, benefit, and funding obligations as in effect as of the date hereof or as may later be in effect in accordance with the terms of this Agreement to current and former officers of the Company or any Company Subsidiary, and to their beneficiaries, that are described in any applicable employment agreement or other Company Employee Benefit Plan (including, but not limited to, the Company's Supplemental Executive Retirement Plan) of the Company or any Company Subsidiary and that are accrued, owed or mutually agreed to on or before the Merger Effective Time as set forth in Section 4.10(a) of the Company Disclosure Schedule and (ii) all other obligations to Affected Employees and current and former directors of the Company and any Company Subsidiary, and to their beneficiaries, under employment, severance, consulting and retention agreements or arrangements and all Company Employee Benefit Plans that are accrued, owed or mutually agreed to on or before the Merger Effective Time, as set forth in Section 4.10(a) of the Company Disclosure Schedule. In addition to the foregoing, Newco shall and shall cause the Surviving Entity or its other Subsidiaries to pay any Affected Employees whose employment is terminated by Newco, the Surviving Entity or other Subsidiary within 24 months of the Closing Date, a severance benefit package equivalent to the severance-related benefits in effect under the following Company plans and programs as of the effective date hereof (subject to the modification described in the following (i)): (i) the Niagara Mohawk Involuntary Severance Plan (Section 1.9 of the Niagara Mohawk Involuntary Severance Plan shall be amended prior to the Merger Effective Date to provide that a job offer by Newco or one of its Subsidiaries shall not prevent an involuntarily terminated

Affected Employee from receiving severance benefits under such Plan if such job offer is for employment that is more than fifty miles one-way from the Affected Employee's work location at the time of such involuntary termination); (ii) the Niagara Mohawk Medical and Prescription Drug Plan For Eligible Participants In the Involuntary Severance Plan; and (iii) the "Career Center" and "Reimbursement For Job Training Educational Expenses" benefits described in the Company's "Transition Benefits" summary that describes transition benefits for eligible management employees whose jobs are abolished as a direct result of the Company's restructuring efforts.

(b) The compensation, benefits and coverage provided to employees who are covered by a collective bargaining agreement described in Section 7.8(a) shall be provided subject to the terms of such collective bargaining agreement.

(c) Newco shall, or shall cause its Subsidiaries to, give the Affected Employees full credit for purposes of eligibility, vesting, benefit accrual (including, without limitation, benefit accrual under any defined benefit pension plans) and determination of the level of benefits under any employee benefit or fringe benefit plans or arrangements maintained by Newco or one of its Subsidiaries for such Affected Employees' service with the Company or any Company Subsidiary (or any prior employer) to the same extent recognized by the Company or any Company Subsidiary immediately prior to the Closing Date, except where such credit would provide duplication of benefits. With respect to any employee benefit plan or arrangement established by Newco or one of its Subsidiaries after the Closing Date (the "*Post-Closing Plans*") that is not intended to replace any Company benefit for Affected Employees in existence immediately prior to the Merger Effective Time, service shall be credited in accordance with the terms of such Post-Closing Plans consistent with the crediting of service for employees of Parent and Parent Subsidiaries who participate in such plan or arrangement.

(d) Newco shall, or shall cause its Subsidiaries to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Affected Employees under any welfare benefit plan of Newco or its Subsidiaries in which such Affected Employees may be eligible to participate after the Closing Date, other than limitations or waiting periods that are already in effect with respect to such Affected Employees and that have not been satisfied as of the Closing Date under any welfare benefit plan maintained for the Affected Employees immediately prior to the Closing Date, and (ii) provide each Affected Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare benefit plans that such Affected Employees are eligible to participate in after the Closing Date.

(e) Except as may be limited by any applicable law or collective bargaining agreement, Newco and its Subsidiaries shall neither be required to or prevented from merging the Company's benefit plans, agreements, or arrangements into Newco or its Subsidiaries benefit plans, agreements, or arrangements or from replacing the Company's benefit plans, agreements or arrangements with Newco or its Subsidiaries benefit plans, agreements or arrangements.



(f) At the Merger Effective Time each stock option outstanding pursuant to the Company's 1992 Stock Option Plan (the "*Option*"), whether or not then exercisable, shall be canceled and shall only entitle the holder thereof to receive an amount in cash from the Company equal to the result of multiplying (i) the number of shares of Company Common Stock previously subject to such Option by (ii) the excess of the Cash Consideration over the per Share exercise price of such Option. The Company shall use its reasonable efforts to take all action necessary to effectuate the foregoing provision.

Section 7.10 *No Solicitations*. (a) From and after the date hereof, the Company (i) shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any of its Representatives to, directly or indirectly, (A) solicit, initiate or encourage (including by way of furnishing information), or take any other action designed to facilitate, any inquiries or the making of any offer or proposal (including, without limitation, any offer or proposal to its shareholders) which constitutes or may reasonably be expected to lead to an Acquisition Proposal (as defined herein) from any third party or (B) engage in any discussions or negotiations or furnish any confidential information or data to any person or group relating to any Acquisition Proposal and (ii) shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties with respect to any Acquisition Proposal; *provided, however*, that if, at any time prior to the date on which the Company Shareholders' Approval has been obtained (the "*Applicable Period*"), the Board of Directors of the Company (A) determines in good faith, based upon the written opinion of outside counsel that such Board's fiduciary duties under applicable law with respect to the Acquisition Proposal require it to do so in order to act in a manner consistent with its fiduciary duties to the Company shareholders under applicable law and (B) concludes in good faith based on the written advice of its financial advisors that the person or group making such Acquisition Proposal has adequate sources of financing to consummate such Acquisition Proposal and that such Acquisition Proposal, if consummated as proposed, is materially more favorable to the Company shareholders from a financial point of view than the Merger, the Company may, in response to an Acquisition Proposal which was not solicited by it or which did not otherwise result from a breach of this Section 7.10(a), and subject to providing prior written notice of its decision to take such action to Parent in compliance with Section 7.10(b), (x) furnish to such third party information with respect to itself and its business, properties and assets pursuant to a customary confidentiality agreement on terms not in the aggregate materially more favorable to such third party than the terms contained in the Confidentiality Agreement and (y) engage in discussions or negotiations regarding such Acquisition Proposal. As used herein, "*Acquisition Proposal*" shall mean any proposal or offer (other than by another party hereto) for a tender or exchange offer, merger, consolidation or other business combination involving the Company or any of its material Subsidiaries or any proposal to acquire in any manner, directly or indirectly, 10% or more of the shares of capital stock in or a substantial portion of the assets of the Company or any of its material Subsidiaries.

(b) Except as expressly permitted by this Section 7.10, neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw or modify, in any manner adverse to Parent, the approval or recommendation by such Board of Directors or such committee of the Merger or this Agreement, (ii) fail to reaffirm such approval or recommendation upon Parent's

request, (iii) approve or recommend any Acquisition Proposal or (iv) cause the Company to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, an "*Acquisition Agreement*") relating to any Acquisition Proposal. Notwithstanding the foregoing, in the event that during the Applicable Period the Board of Directors of the Company (i) determines in good faith based upon the written opinion of outside counsel that such Board's fiduciary duties under applicable law with respect to the Acquisition Proposal require, to do so in order to act in a manner consistent with its fiduciary duties to the Company shareholders and (ii) concludes in good faith based on the written advice of its financial advisors that the person or group making such Acquisition Proposal has adequate sources of financing to consummate such Acquisition Proposal and that such Acquisition Proposal, if consummated as proposed, is materially more favorable to the Company shareholders from a financial point of view than the Merger, such Board of Directors may terminate this Agreement pursuant to Section 9.1(e) (and concurrently with or after such termination, if it so chooses, cause the Company to enter into any Acquisition Agreement with respect to any Acquisition Proposal), but only at a time that is (x) during the Applicable Period and is after the fifth business day following receipt by Parent of written notice advising Parent that the Board of Directors of the Company is prepared to accept an Acquisition Proposal, specifying the material terms and conditions of such Acquisition Proposal and identifying the person making such Acquisition Proposal, (y) after the Company and its respective financial and legal advisors have given Parent a reasonable opportunity during such five-day period following receipt by Parent of such written notice to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the Merger or other transactions contemplated hereby on such adjusted terms, and (z) after the Company and such advisors have negotiated in good faith with Parent with respect to any such adjustments; provided that the Company's ability to terminate this Agreement pursuant to Section 9.1(e) is conditioned upon the concurrent payment by the Company to Parent of any amounts owed by it pursuant to Section 9.3(c).

(c) In addition to the obligations of the Company set forth in paragraphs (a) and (b) of this Section 7.10, the Company shall immediately advise Parent orally and in writing of any request for information or of any Acquisition Proposal, the material terms and conditions of such request or Acquisition Proposal and the identity of the person making such request or Acquisition Proposal. The Company shall keep Parent informed of the status and details (including amendments or proposed amendments) of any such request or Acquisition Proposal.

(d) Nothing contained in this Section 7.10 shall prohibit the Company from taking and disclosing to its shareholders a position contemplated by Rule 14e-2 promulgated under the Exchange Act or from making any disclosure to its shareholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure so to disclose would be inconsistent with its obligations under applicable law.

#### Section 7.11 *Boards of Directors.*

(a) *Newco Board.* Newco shall take such action as may be necessary to appoint (i) all members serving on the Parent Board of Directors immediately prior to the Effective Time, (ii) the current Chief Executive Officer of the Company and (iii) one additional person presently serving as an

outside director of the Board of Directors of the Company on the date hereof, as determined by Parent, to serve on the Newco Board of Directors following the Effective Time.

(b) *Advisory Board.* Promptly following the Merger Effective Time, Newco shall cause the Surviving Entity to establish an advisory board (the "*New York Advisory Board*") which shall be maintained for at least two years and which shall be comprised of up to 12 persons who were, immediately prior to the Merger Effective Time, serving as non-executive members of the Company's Board of Directors, who are not appointed to serve on Newco Board of Directors and who are willing to serve in such capacity on the New York Advisory Board. The function of the New York Advisory Board shall be to advise the Surviving Entity's Board of Directors with respect to general business as well as opportunities and activities in the State of New York and to maintain and develop customer relationships in the State of New York. The New York Advisory Board shall meet no less frequently than three times a year. The members of the New York Advisory Board shall each be named to serve as members thereof for a period of two years; *provided, however*, that Newco shall have no obligation to cause the Surviving Entity to elect or appoint, and may cause the Surviving Entity to remove, any member of the New York Advisory Board if Newco reasonably determines that such member has a conflict of interest that compromises such member's ability to serve effectively as a member of the New York Advisory Board or any cause exists that otherwise would allow for removal of such person as a director of the Surviving Entity if such person were a member of the Surviving Entity's Board of Directors.

(c) *National Grid USA Board.* For a period of two years commencing at the Effective Time, the current Chief Executive Officer of the Company shall serve as Chairman of the Board of Directors of National Grid USA and two other current executive officers of the Company as determined by Parent will serve on the Board of Directors of National Grid USA.

Section 7.12 *Charitable Contributions.* The parties agree that provision of charitable contribution and community support within the region served by the Company serves a number of important goals. After the Merger Effective Time, Newco intends to cause the Surviving Entity to provide charitable contributions and community support within the region served by the Company at annual levels substantially comparable to the annual level of charitable contributions and community support provided, directly or indirectly, by the Company and its public utility subsidiary within the region served by the Company during 1999.

Section 7.13 *Anti-Takeover Statutes.* If any "*fair price*," "*moratorium*," "*business combination*," "*control share acquisition*" or other form of anti-takeover statute or regulation shall become applicable to the Merger or any other transaction contemplated hereby, each of Parent and the Company and the members of their respective boards of directors shall grant such approvals and take such actions consistent with their fiduciary duties and in accordance with applicable law as are reasonably necessary so that the Merger and such other transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the Merger and other transactions contemplated hereby.

Section 7.14 *Conveyance Taxes*. The Company, Parent and Newco shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp Taxes, any transfer, recording, registration and other fees, and any similar Taxes ("*Conveyance Taxes*") which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be paid on or before the Merger Effective Time. Newco shall pay, without deduction or withholding from any amount payable to the holders of any shares of the Company Common Stock, any such Conveyance Taxes which become payable in connection with the transactions contemplated by this Agreement, on behalf of the shareholders of the Company.

Section 7.15 *Expenses*. Subject to Section 9.3, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that those expenses incurred in connection with printing the Proxy/Registration Statement, the filing fee relating to the Proxy/Registration Statement and for expert witnesses retained for the purpose of advising and supporting approvals where both Company and Parent have filed for approval from the same regulator, shall be shared equally by the Company and Parent.

Section 7.16 *Further Assurances*. Each party shall, and shall cause its Subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to consummate the Merger in accordance with the terms hereof. Parent and Newco shall, and shall cause their respective Subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to consummate the Scheme in accordance with the terms hereof, provided that Parent and Newco may amend the terms of the Scheme as they deem reasonably necessary or desirable, provided further that if any such amendment would have a material adverse effect on the benefits of the Merger to the shareholders of the Company, such amendment will require the consent of the Company.

Section 7.17 *Restructuring of Transactions*. It may be preferable to effectuate a business combination between Parent and the Company by means of an alternative structure to the Merger and the Scheme. Accordingly, if, prior to satisfaction of the conditions contained in Article VIII hereto, Parent proposes the adoption of an alternative structure that otherwise substantially preserves for Parent, the Company and the holders of the Company Common Stock the economic and Tax benefits of the transactions contemplated thereby then the parties shall use their respective best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits, including without limitation, a structure that does not require consummation of the Scheme. In particular, in the event that Parent determines that approval of the Scheme is uncertain and it waives the condition set forth in Section 8.2(h), Parent and the Company agree to adopt an alternative business combination transaction that does not require consummation of the Scheme. In the event that the parties adopt a restructured transaction, the Agreement shall be revised to reflect such transaction as determined necessary by the parties hereto and prior to closing

any such restructured transaction, all material third party and Governmental Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary for the effectuation of such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger and other transactions contemplated hereby, as applied to such alternative business combination, shall have been satisfied or waived.

Section 7.18 *Integration Team.* As soon as practicable after the date hereof, Parent and Company shall, subject to limitations imposed by applicable law, create an integration steering team with representatives appointed by the CEOs of Parent and the Company, and chaired by Parent. The integration steering team shall be responsible for facilitating the integration of the two companies as subsidiaries of Newco.

Section 7.19 *Newco Ordinary Shares.* Newco agrees that the Newco Ordinary Shares delivered by it on the Closing Date shall be validly issued and fully paid.

Section 7.20 *ADR Depositary Agreement.* Newco, Merger Sub and the ADR Depositary shall enter into the ADR Depositary Agreement in a form satisfactory to Newco, Parent and the Company.

## ARTICLE VIII

### CONDITIONS

Section 8.1 *Conditions to Each Party's Obligation to Effect the Merger.* The respective obligations of each party to effect the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, except, to the extent permitted by applicable law, that such conditions may be waived by the parties in writing pursuant to Section 9.5:

(a) *Shareholders' Approvals.* The Parent Shareholders' Merger Approval and the Company Shareholders' Approval shall have been obtained.

(b) *No Injunction.* No court of competent jurisdiction or other competent Governmental Authority shall have enacted, issued, promulgated, enforced or entered any law or order (whether temporary, preliminary or permanent) which is then in effect and has the effect of making illegal or otherwise restricting, preventing or prohibiting consummation of the Scheme, the Merger or other transactions contemplated hereby.

(c) *Proxy/Registration Statement.* The Proxy/Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remain in effect.

(d) *Listing of Shares.* The U.K. Listing Authority shall have agreed to admit to the Official List of the U.K. Listing Authority (subject to allotment) (i) the Newco Ordinary Shares represented by the Newco ADSs issuable in the Merger pursuant to Article II, and (ii) the Newco Ordinary Shares issued pursuant to the Scheme and such agreement shall not have been withdrawn, and the Newco ADSs issuable in the Merger pursuant to Article II shall have been approved for listing on the NYSE upon official notice of issuance.

(e) *Statutory Approvals.* (i) Either (x) the sale by the Company of its Nuclear Facilities (the "*Nuclear Sale*") shall have closed, the Company shall have received the purchase price therefor, and conforming license amendments shall have been issued by NRC to reflect the change in ownership or (y) Parent and the Company shall have agreed to an alternative to the Nuclear Sale in accordance with the provisions of Section 6.4 hereof with respect to which all required approvals, authorizations and consents from Governmental Authorities, including, without limitation, any necessary order of the NRC consenting to the transfer of the operating licenses for the Company's Nuclear Facilities and any necessary conforming license amendments, have been received.

(ii) Each of (x) the Company Required Statutory Approvals, including, with respect to the approval of the New York Public Service Commission, confirmation that PowerChoice will remain in effect in accordance with its terms in all material respects following consummation of the Merger, (y) the Parent Required Statutory Approvals, and (z) any declaration, filing, registration with, or notice to or authorization, consent or approval of any Governmental Authority required in connection with (A) the Nuclear Sale, as well as a determination by the New York Public Service Commission of the level of recovery of stranded costs resulting from the Nuclear Sale or (B) any alternative arrangement to the Nuclear Sale agreed to in accordance with the provisions of Section 6.4 hereof (collectively, the "*Nuclear Approvals*"), shall have been obtained at or prior to the Merger Effective Time, such approvals shall have become Final Orders (as defined below), and such Final Orders shall not, individually or in the aggregate, impose terms or conditions which (x) with respect to the Company Required Statutory Approvals and the Nuclear Approvals, could reasonably be expected to have a Company Material Adverse Effect taking into account the allowed recovery of any stranded costs from the Nuclear Sale, (y) with respect to the Parent Required Statutory Approvals, could reasonably be expected to have a Parent Material Adverse Effect or (z) with respect to the Company Required Statutory Approvals, the Parent Required Statutory Approvals and the Nuclear Approvals, could reasonably be expected to materially impair the ability of the parties to complete the Merger and the transactions contemplated hereby. A "*Final Order*" means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

(f) *HSR Act.* The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have otherwise expired.

Section 8.2 *Conditions to Obligation of Newco and Parent to Effect the Merger.* The obligation of Parent and Newco to effect the transactions contemplated by this Agreement shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by Parent and Newco in writing pursuant to Section 9.5:

(a) *Performance of Obligations of the Company.* The Company (and/or the appropriate Company Subsidiaries, as applicable) shall have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement which are required to be performed by it at or prior to the Merger Effective Time.

(b) *Representations and Warranties.* The representations and warranties of the Company set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time), except where the failure of representations or warranties to be true and correct could not, individually or in the aggregate, be reasonably expected to result in a Company Material Adverse Effect. For purposes of this Section 8.2(b), qualifications in any representation or warranty as to "materiality" or a "Company Material Adverse Effect" shall be disregarded.

(c) *Closing Certificates.* Parent and Newco shall have received a certificate signed by the chief financial officer of the Company, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 8.2(a) and Section 8.2(b) have been satisfied.

(d) *Tax Opinion.* Parent and Newco shall have received an opinion from PricewaterhouseCoopers, counsel to Parent and Newco, in form and substance reasonably satisfactory to Parent and Newco, dated as of the Closing Date, substantially to the effect that the Merger, together with the Scheme will be treated for United States federal income tax purposes as a transaction described in Section 351 of the Code, and no gain or loss will be recognized by Parent or Newco as a result thereof. In rendering such opinion, PricewaterhouseCoopers may require and rely upon representations reasonably satisfactory to PricewaterhouseCoopers contained in certificates of officers of the Company, Parent, Newco and Merger Sub.

(e) *Company and Parent Required Consents.* All material Company Required Consents and Parent Required Consents shall have been obtained and OFGEM shall not have imposed any modifications to any conditions of the license held by National Grid Company plc under the Electricity Act 1989 that would reasonably be expected to have a Parent Material Adverse Effect.

(f) *Affiliate Agreements.* Newco shall have received Affiliate Agreements, duly executed by each "Affiliate" of the Company, substantially in the form of *Exhibit 7.7*, as provided in Section 7.7.

(g) *Permits.* To the extent that the continued lawful operations of the business of the Company or any Company Subsidiary after the Merger requires that any license, permit (including, without limitation, Environmental Permits) or other governmental approval be transferred to Parent or any Parent Subsidiary or issued to Parent or any Parent Subsidiary, such licenses, permits or other authorizations shall have been transferred or reissued to Parent or such Parent Subsidiary at or before the Closing Date, except where the failure to transfer or reissue such licenses, permits or other authorizations would not have a Company Material Adverse Effect immediately after the Merger Effective Time.

(h) *Court Sanction.* The Court shall have sanctioned the Scheme on terms contemplated by this Agreement, and the Parent Shareholders' Scheme Approvals shall have been obtained.

Section 8.3 *Conditions to Obligation of The Company to Effect the Merger.* The obligation of the Company to effect the Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by the Company in writing pursuant to Section 9.5:

(a) *Performance of Obligations of Parent and Newco.* Parent (and/or the appropriate Parent Subsidiaries, as applicable) and Newco shall have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement which are required to be performed by it at or prior to the Merger Effective Time.

(b) *Representations and Warranties.* The representations and warranties of Parent, Newco and Merger Sub set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time), except where the failure of representations or warranties to be true and correct could not, individually or in the aggregate, be reasonably expected to result in a Parent Material Adverse Effect. For purposes of this Section 8.3(b), qualifications in any representation or warranty as to "materiality" or a "Parent Material Adverse Effect" shall be disregarded.

(c) *Closing Certificates.* The Company shall have received a certificate signed by the chief financial officer of Parent and Newco, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 8.3(a) and Section 8.3(b) have been satisfied.

(d) *Tax Opinion.* The Company shall have received an opinion from Bryan Cave LLP, special tax counsel to the Company, in form and substance reasonably satisfactory to the Company, dated as of the Closing Date, substantially to the effect that the Merger, together with the Scheme will be treated for United States federal income tax purposes as a transaction described in



Section 351 of the Code and no gain or loss will be recognized by the Company pursuant to the Merger and no gain or loss will be recognized by shareholders of the Company who receive solely Newco ADSs pursuant to the Merger. In rendering such opinion, Bryan Cave LLP may require and rely upon representations reasonably satisfactory to Bryan Cave LLP contained in certificates of officers of the Company, Parent, Newco and Merger Sub.

(e) *Parent Required Consents.* All material Parent Required Consents, the failure of which to obtain would have a Parent Material Adverse Effect, shall have been obtained.

(f) *Legal Opinion.* The Company shall have received an opinion from CMS Cameron McKenna, counsel to Parent, in form and substance reasonably satisfactory to the Company, dated as of the Closing Date, substantially to the effect that the Newco Ordinary Shares represented by the ADSs issued as the ADS consideration are validly issued and fully paid.

## ARTICLE IX

### TERMINATION, AMENDMENT AND WAIVER

Section 9.1 *Termination.* This Agreement may be terminated at any time prior to the Closing Date, whether before or after approval by the shareholders of the respective parties hereto contemplated by this Agreement:

(a) by mutual written consent of the Boards of Directors of Newco, the Company and Parent;

(b) by either Parent or the Company:

(i) if any state or federal law, order, rule or regulation is adopted or issued, which has the effect, as supported by the written opinion of outside counsel for such party, of prohibiting the Merger, or by Parent or the Company, if any court of competent jurisdiction in the United States or any state shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Merger, and such order, judgment or decree shall have become final and nonappealable;

(ii) by written notice to the other parties, if the Merger Effective Time shall not have occurred on or before December 31, 2001 (the "*Initial Termination Date*"); *provided, however,* that the right to terminate the Agreement under this Section 9.1(b)(ii) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Merger Effective Time to occur on or before such date; *provided, further,* that (A) if on the Initial Termination Date any of the conditions to the Closing set forth in Section 8.1(e) shall not have been fulfilled but (x) to the extent that the condition set forth in Sections 8.1(e)(i) and 8.1(e)(ii) (with respect to the Nuclear Approvals

only) shall not have been fulfilled, the Company shall have entered into a binding definitive agreement for the Nuclear Sale (the "*Nuclear Sale Agreement*") or satisfactory alternative arrangements shall have been reached pursuant to Section 6.4 and (y) all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date shall be extended to March 31, 2002 (the "*Extended Termination Date*"), and (B) if as of the Extended Termination Date, the conditions to Closing set forth in Section 8.1(e)(ii) (with respect to the Nuclear Approvals only) shall not have been fulfilled but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled and the Nuclear Sale Agreement remains in effect, then the Initial Termination Date shall be extended to August 31, 2002;

(iii) by written notice to the other parties, if Parent Merger Shareholders' Approval shall not have been obtained at a duly held Parent Merger Meeting, as the case may be, including any adjournments thereof, or the Company Shareholders' Approval shall not have been obtained at a duly held Company Meeting, including any adjournments thereof;

(c) by Parent, by written notice to the Company, if (i) there shall have been any breach of any representation or warranty, or any breach of any covenant or agreement of the Company hereunder, which breaches individually or in the aggregate would result in a Company Material Adverse Effect, and such breach shall not have been remedied within 20 business days after receipt by the Company of notice in writing from Parent, specifying the nature of such breach and requesting that it be remedied, or Parent shall not have received adequate assurance of a cure of such breach within such 20 business-day period or (ii) the Board of Directors of the Company shall withdraw or modify in any manner adverse to Parent its approval of this Agreement and the transactions contemplated hereby or its recommendation to its shareholders regarding approval of this Agreement, the Merger and other transactions contemplated hereby;

(d) by the Company, by written notice to Parent, if (i) there shall have been any breach of any representation or warranty, or any breach of any covenant or agreement of Parent or Newco hereunder, which breaches individually or in the aggregate would result in a Parent Material Adverse Effect, and such breach shall not have been remedied within 20 business days after receipt by Parent and Newco of notice in writing from the Company, specifying the nature of such breach and requesting that it be remedied, or the Company shall not have received adequate assurance of a cure of such breach within such 20 business-day period, (ii) the Board of Directors of Parent shall withdraw or modify in any manner adverse to the Company its approval of this Agreement and the transactions contemplated hereby or its recommendation to its shareholders regarding approval of this Agreement, the Scheme (if it remains a condition under Section 8.2(h) hereof) and the Merger and other transactions contemplated hereby or (iii) Newco shall fail to deliver or cause to be delivered the Merger Consideration to the ADR Depository required pursuant to Section 2.3 at a time when all other conditions to Newco's obligations to close have been satisfied or waived in writing by Newco; or

(e) by the Company in accordance with Section 7.10(b); *provided, that*, in order for the termination of this Agreement pursuant to this paragraph (e) to be deemed effective, the

Company shall have complied with all provisions of Section 7.10, including the notice provisions therein, and with applicable requirements, including the payment of the Termination Fee, of Section 9.3(c).

Section 9.2 *Effect of Termination.* In the event of termination of this Agreement by either the Company or Parent pursuant to Section 9.1, there shall be no liability on the part of either the Company or Parent or Newco or their respective officers or directors hereunder, except that the agreement contained in the last sentence of Section 7.1, Section 7.14, Section 9.3, Section 10.2 and Section 10.9 shall survive any such termination.

Section 9.3 *Termination Fee; Expenses.*

(a) In the event that this Agreement is terminated (i) by the Company pursuant to Section 9.1(d)(ii) as a result of an action by the Board of Directors of the Parent prior to obtaining the Parent Merger Shareholders' Approval or (ii) by Parent pursuant to Section 9.1(c)(ii) as a result of an action by the Board of Directors of the Company prior to obtaining the Company Shareholders' Approval, then (A) in the event of termination pursuant to Section 9.1(c)(ii), the Company shall pay to Parent and (B) in the event of termination pursuant to Section 9.1(d)(ii), Parent shall pay to the Company, (promptly but in each case no later than five (5) business days after the date of termination of this Agreement) by wire transfer of same day funds, a termination fee of \$150,000,000, plus, in each case, all of the terminating party's documented out-of-pocket expenses and fees incurred by the party (including, without limitation, fees and expenses payable to all legal, accounting, financial, and other professionals arising out of, in connection with or related to the transactions contemplated by this Agreement) not in excess of \$10,000,000 (the "*Out-of-Pocket Expenses*").

(b) In the event that (i) this Agreement is terminated by the Company pursuant to Section 9.1(e), or (ii) there shall have been an Acquisition Proposal involving the Company or any of its Affiliates that has not been withdrawn and thereafter this Agreement is terminated by Parent or the Company in the circumstances described in Section 9.1(b)(ii) or (b)(iii) or in accordance with Section 9.1(c)(i) and, in the case of this clause (ii) only, a definitive agreement with respect to such Acquisition Proposal is executed within two years of such termination, then the Company shall pay Parent a termination fee (the "*Termination Fee*") equal to \$150,000,000 in cash plus the Out-of-Pocket Expenses of Parent; *provided however*, that, if such termination has occurred pursuant to Section 9.1(b)(ii) solely as a result of the failure to meet conditions set forth in Sections 8.1(e)(i) and (ii) with respect to the Nuclear Sale and Nuclear Approvals only, then the Company shall pay the Termination Fee plus the Out-of-Pocket Expenses of Parent if a definitive agreement with respect to such Acquisition Proposal is executed within one year of such termination; *provided further* that there is no arrangement or understanding between the Company and the party making the Acquisition Proposal at the time of such termination.

(c) The parties agree that the agreements contained in this Section 9.3 are an integral part of the transactions contemplated hereby and constitute liquidated damages and not a penalty. The parties further agree that if any party is or becomes obligated to pay a termination fee

pursuant to Sections 9.3(a) and (b), the right to receive such termination fee shall be the sole remedy of the other party with respect to the facts and circumstances giving rise to such payment obligation. If this Agreement is terminated by a party as a result of a willful breach of a representation, warranty, covenant or agreement by the other party, the non-breaching party may pursue any remedies available to it at law or in equity and shall be entitled to recover any amounts thereunder. Notwithstanding anything to the contrary contained in this Section 9.3, if one party fails to promptly pay to the other any fee or expense due under this Section 9.3, in addition to any amounts paid or payable pursuant to such Section, the defaulting party shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

**Section 9.4    *Amendment.*** This Agreement may be amended by the Boards of Directors of the parties hereto, at any time before or after obtaining the Company Shareholders' Approval, the Parent Shareholders' Approvals and prior to the Merger Effective Time, but after such approvals, only to the extent permitted by applicable law. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

**Section 9.5    *Waiver.*** At any time prior to the Merger Effective Time, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein, to the extent permitted by applicable law. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed by a duly authorized officer of such party.

## **ARTICLE X**

### **GENERAL PROVISIONS**

**Section 10.1    *Non-Survival; Effect of Representations and Warranties.*** No representations or warranties in this Agreement shall survive the Merger Effective Time, except as otherwise provided in this Agreement.

**Section 10.2    *Notices.*** All notices and other communications hereunder shall be in writing and shall be deemed given (a) when delivered personally, (b) when sent by reputable overnight courier service or (c) when telecopied (which is confirmed by copy sent within one business day by a reputable overnight courier service) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

- (i) If to the Company, to

Niagara Mohawk Holdings, Inc.  
300 Erie Boulevard West  
Syracuse, New York 13202  
Attn: William Edwards  
Senior Vice-President and Chief Financial Officer  
Telephone: 315-474-1511  
Facsimile: 315-428-3406

with a copy to

Sullivan & Cromwell  
1701 Pennsylvania Avenue, N.W.  
Washington, D.C. 20006  
Attn: Janet Geldzahler, Esq.  
Telephone: 202-956-7695  
Facsimile: 202-293-6330

and

(ii) if to Parent, to

National Grid Group plc  
National Grid House  
15 Marylebone Road  
London NW1 5JD  
United Kingdom  
Attn: Stephen Box  
Group Finance Director  
Telephone: 011-44-20-7-312-5600  
Facsimile: 011-44-20-7-312-5655

and

National Grid USA  
25 Research Drive  
Westborough, MA 01582  
Attn: Richard P. Sergel  
President and Chief Executive Officer  
Telephone: 508-389-2000  
Facsimile: 508-366-5498

with a copy to

LeBoeuf, Lamb, Greene & MacRae, L.L.P.  
125 West 55th Street  
New York, NY 10019  
Attn: Steven H. Davis, Esq.  
and Thomas J. Moore, Esq.  
Telephone: 212-424-8000  
Facsimile: 212-424-8500

and

CMS Cameron McKenna  
Mitre House  
160 Aldersgate Street  
London EC1A 4DD  
United Kingdom  
Attn: Sean M. Watson, Esq.  
Telephone: 011-44-20-7-367-3000  
Facsimile: 011-44-20-7-367-2000

(iii) If to Newco, to

New National Grid Limited  
15 Marylebone Road  
London NW1 5JD  
United Kingdom  
Attn: Stephen Box  
Director  
Telephone: 011-44-20-7-312-5600  
Facsimile: 011-44-20-7-312-5655

and

National Grid USA.  
25 Research Drive  
Westborough, MA 01582  
Attn: Richard P. Sergel  
President and Chief Executive Officer  
Telephone: 508-389-2000  
Facsimile: 508-366-5498

with a copy to

LeBoeuf, Lamb, Greene & MacRae, L.L.P.  
125 West 55th Street  
New York, NY 10019  
Attn: Steven H. Davis, Esq.  
and Thomas J. Moore, Esq.  
Telephone: 212-424-8000  
Facsimile: 212-424-8500

and

CMS Cameron McKenna  
Mitre House  
160 Aldersgate Street  
London EC1A 4DD  
United Kingdom  
Attn: Sean M. Watson, Esq.  
Telephone: 011-44-20-7-367-3000  
Facsimile: 011-44-20-7-367-2000

(iv) If to Merger Sub, to

Grid Delaware, Inc.  
25 Research Drive  
Westborough, MA 01582  
Attn: Richard P. Sergel  
President  
Telephone: 508-389-2000  
Facsimile: 508-366-5498

Section 10.3 *Miscellaneous*. This Agreement (including the documents and instruments referred to herein) (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof other than the Confidentiality Agreement and (b) shall not be assigned by operation of law or otherwise.

Section 10.4 *Interpretation*. When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section or Exhibit of this Agreement, respectively, unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." Reference to any "person" shall include reference to any predecessor or successor of such person. Reference to any United States legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or

legal concept or thing shall in respect of any jurisdiction other than the United States be deemed to include what most nearly approximates in that jurisdiction to the United States legal term.

Section 10.5 *Counterparts; Effect.* This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 10.6 *Parties' Interest.* This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for the rights of Indemnified Parties as set forth in Section 7.5, nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 10.7 *GOVERNING LAW.* THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS EXECUTED IN AND TO BE FULLY PERFORMED IN SUCH STATE, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAW RULES OR PRINCIPLES.

Section 10.8 *Submission to Jurisdiction; Waivers.* Each of Parent and the Company irrevocably agree that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or assigns may be brought and determined in the Supreme Court of the State of New York in New York County or in the United States District Court for the Southern District of New York, and each of Newco, Parent and the Company hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Any service of process to be made in such action or proceeding may be made by delivery of process in accordance with the notice provisions contained in Section 10.2. Each of Newco, Parent and the Company hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 10.8, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 10.9 *Enforcement of Agreement.* The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specified terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce



specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 10.10 *WAIVER OF JURY TRIAL*. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTION CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be signed by its respective officer thereunto duly authorized as of the date first written above.

**THE NATIONAL GRID GROUP PLC**

By: Richard P. Sergel  
Its: Group Director, North America

**NIAGARA MOHAWK HOLDINGS INCORPORATED**

By: William E. Davis  
Its: Chairman and Chief Executive Officer

**NEW NATIONAL GRID LIMITED**

By: Richard P. Sergel  
Its: Director

**GRID DELAWARE, INC.**

By: Richard P. Sergel  
Its: President

## EXHIBIT A

Scheme of Arrangement  
(under section 425 of the Companies Act 1985)

**between National Grid Group plc and the Scheme Shareholders (as hereinafter defined) and the Special Shareholder (as hereinafter defined)**

### 1. Preliminary

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

*Act* means the Companies Act 1985, as amended;

*business day* means a day on which London Stock Exchange plc is open for the transaction of business;

*Court* means the High Court of Justice in England and Wales;

*Court Hearing* means the hearing of the Petition;

*Court Meeting* means the meeting of holders of National Grid Shares convened by direction of the Court pursuant to section 425 of the Act for a.m. on 2001, to consider and, if thought fit, approve this Scheme, including any adjournment thereof;

*CREST* means a relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations);

*CRESTCo* means CRESTCo Limited;

*CREST Regulations* means the Uncertificated Securities Regulations 1995 (SI 1995 No. 3272) as from time to time amended;

*holder* includes any person entitled by transmission;

*National Grid* means National Grid Group plc;

*National Grid Shares* means ordinary shares of 11 13/17 pence each in the capital of National Grid;

*National Grid Special Share* means the special rights non-voting redeemable preference share of £1 in the capital of National Grid;

*new National Grid Shares* means new ordinary shares of 11 13/17 pence each in the capital of National Grid;

*New National Grid* means New National Grid plc;

[*New National Grid Special Share* means the special rights non-voting redeemable preference share of £1 in the capital of New National Grid;]

*New Shares* means ordinary shares of pence each in the capital of New National Grid;

*Petition* means the petition to the Court to sanction the Scheme;

*Record Date* means the business day immediately preceding the Scheme Date;

*Scheme Date* means the date on which this Scheme becomes effective in accordance with clause 6 of this Scheme;

*Scheme Record Date* means the business day immediately preceding the date of the Court Hearing (or if the hearing continues beyond one day, the business day immediately preceding the final day of the hearing);

*Scheme Shareholder* means a holder of Scheme Shares as at 5:30 p.m. on the Record Date;

*Scheme Shares* means all National Grid Shares in issue at 5:30 p.m. on the Scheme Record Date;

*Special Shareholder* means the Secretary of State for Trade and Industry, the holder of the National Grid Special Share;

*this Scheme* means this Scheme of Arrangement in its present form or with any modification thereof or addition thereto or condition approved or imposed by the Court; and

*uncertificated or in uncertificated form* means recorded on the relevant register as being held in uncertificated form in CREST, and title to which by virtue of the CREST Regulations may be transferred by means of CREST.

- (B) The authorised share capital of National Grid as at the date of this Scheme is £ divided into National Grid Shares, of which have been issued and are fully paid up (and the remainder are unissued), and one National Grid Special Share which has been issued and is fully paid up.
- (C) New National Grid was incorporated as a private limited company on 11 July 2000 under the name Intercede 1610 Limited. Its name was changed on 30 August 2000 to New National Grid and it was re-registered as a public limited company on 2001. The authorised share capital of New National Grid at the date of this Scheme is £ divided into New Shares, of which 2 have been issued and are paid up [as to one-quarter] (and the remainder are unissued), [the New National Grid Special Share which has not been issued] and 49,998 redeemable preference shares of £1 each, all of which have been issued and are paid up [as to one-quarter].
- (D) The purpose of this Scheme is to provide for the cancellation of the Scheme Shares and the National Grid Special Share and the issue of new National Grid Shares with an aggregate nominal value equal to that of the shares so cancelled to New National Grid in consideration of the allotment by New National Grid of New Shares to the Scheme Shareholders [and the allotment by New National Grid of the New National Grid Special Share to the Special Shareholder].

- (E) New National Grid has given its written consent to this Scheme and has given a written undertaking to be bound by its terms. It is proposed that the Special Shareholder will agree to appear by Counsel at the Court Hearing to consent to this Scheme and to undertake to be bound by its terms.

## **2. The Scheme**

### *National Grid Cancellation*

1.
  - (a) The share capital of National Grid shall be reduced by cancelling the Scheme Shares and the National Grid Special Share.
  - (b) Forthwith and contingently upon the said reduction of capital taking effect:
    - (i) the share capital of National Grid shall be increased to its former amount by the creation of such number of new National Grid Shares as shall be of an aggregate nominal amount equal to the aggregate nominal amount of the shares cancelled in accordance with sub-clause (a) of this clause 1; and
    - (ii) National Grid shall apply the credit arising in its books of account on the reduction of capital pursuant to sub-clause (a) of this clause 1 in paying up, in full at par, the new National Grid Shares created pursuant to sub-clause (b)(i) of this clause 1 and shall allot and issue the same, credited as fully paid, to New National Grid and/or its nominee(s).

### *New Shares [and the New National Grid Special Share]*

2.
  - (a) In consideration of the cancellation of the Scheme Shares and the National Grid Special Share and the issue of the new National Grid Shares to New National Grid and/or its nominee(s) pursuant to clause 1 of this Scheme, New National Grid shall (subject to the provisions of sub-clause (c) of this clause 2):
    - (i) allot and issue (credited as fully paid) New Shares to the Scheme Shareholders on the basis of one New Share for each Scheme Share held at 5:30 p.m. on the Record Date, save that, for any person holding New Shares as at 5:30 p.m. on the Record Date his entitlement to receive New Shares pursuant to this clause 2 shall be reduced by the number of New Shares he holds at that time; and
    - [(ii) allot and issue (credited as fully paid) the New National Grid Special Share to the Special Shareholder.]

- (b) The New Shares to be issued pursuant to sub-clause (a)(i) of this clause 2 shall rank *pari passu* in all respects with any New Shares in issue at 5:30 p.m. on the Record Date and shall rank in full for all dividends or distributions made, paid or declared after the Scheme Date on the ordinary share capital of New National Grid.
- (c) The provisions of sub-clause (a) of this clause 2 shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Shareholder who is a citizen, resident or national of any jurisdiction outside the United Kingdom ("overseas shareholder"), New National Grid is advised that the allotment and issue of New Shares pursuant to this clause 2 would infringe the laws of any jurisdiction outside the United Kingdom or would require New National Grid to observe any governmental or other consent or any registration, filing or other formality, then New National Grid may determine that no New Shares shall be allotted or issued to such overseas shareholder under this clause 2, but shall instead be allotted to a nominee appointed by New National Grid, as a trustee for such overseas shareholder, on terms that the nominee shall, as soon as practicable following the Scheme Date, sell the New Shares so allotted at the best price which can reasonably be obtained and shall account for the net proceeds of such sale (after the deduction of all expenses and commissions, including value added tax, payable thereon) by sending a cheque or warrant to such overseas shareholder in accordance with the provisions of clause 3 below. None of National Grid, New National Grid, any nominee referred to in this subclause (c) or any broker or agent of any of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

*Certificates and payment*

- 3.
  - (a) Not later than ten (10) business days after the Scheme Date, New National Grid shall send by post to the allottees of the New Shares [and to the allottee of the New National Grid Special Share] allotted and issued pursuant to clause 2 of this Scheme certificates in respect of such shares, save that where Scheme Shares are held in uncertificated form, New National Grid will procure that CRESTCo is instructed to cancel the entitlement to Scheme Shares of each of the Scheme Shareholders concerned and to credit to the appropriate stock account in CREST of each such Scheme Shareholder his entitlement to New Shares.
  - (b) Not later than ten (10) business days following the sale of any relevant New Shares pursuant to clause 2(c), New National Grid shall procure that the nominee shall account for the cash payable by despatching to the persons respectively entitled thereto cheques and/or warrants by post.

- (c) All certificates required to be sent by New National Grid pursuant to sub-clause (a) of this clause 3 and all cheques or warrants required to be sent pursuant to sub-clause (b) of this clause 3 shall be sent through the post in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses appearing in the register of members of National Grid at the close of business on the Record Date (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of National Grid prior to the Record Date.
- (d) None of National Grid, New National Grid, any nominee referred to in clause 2(c) or any agent of any of them shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with this clause 3.
- (e) The preceding sub-clauses of this clause 3 shall take effect subject to any prohibition or condition imposed by law.

*Certificates representing Scheme Shares and the National Grid Special Share*

- 4. With effect from and including the Scheme Date, all certificates representing holdings of Scheme Shares and the National Grid Special Share shall cease to be valid in respect of such holdings.

*Mandates*

- 5. Each mandate in force at 5:30 p.m. on the Record Date relating to the payment of dividends on Scheme Shares and each instruction then in force as to notices and other communications from National Grid shall, unless and until varied or revoked, be deemed as from the Scheme Date to be a valid and effective mandate or instruction to New National Grid in relation to the corresponding New Shares to be allotted and issued pursuant to this Scheme.

*Scheme Date*

- 6. This Scheme shall become effective as soon as an office copy of the Court Order sanctioning this Scheme under section 425 of the Act and confirming under section 137 of the Act the reduction of capital proposed under this Scheme shall have been duly delivered to the Registrar of Companies for registration and registered by him.
- 7. Unless this Scheme shall have become effective on or before , 2002 or such later date, if any, as the Court may allow, it shall lapse.

*Modification*

- 8. National Grid and New National Grid may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated the            day of            2001



Form of Affiliate Agreement

[DATE]

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value \$0.01 per share ("Common Stock"), of Niagara Mohawk Holdings, Inc., a New York corporation (the "Company"), and is entitled to receive American Depositary Shares of New National Grid Limited (the "ADSs"), a public limited company incorporated under the laws of England and Wales ("New National Grid"), each representing the right to receive five Ordinary Shares of New National Grid [deposited with the Bank of New York] and evidenced by American Depositary Receipts, in connection with the merger (the "Merger") of Grid Delaware, Inc. with and into the Company, in which the Company will become a wholly owned subsidiary of New National Grid pursuant to that certain Agreement and Plan of Merger and Scheme of Arrangement dated as of September 4, 2000, by and among National Grid Group plc, New National Grid, the Company, and Grid Delaware, Inc..

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of the Company within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act of 1933, as amended (the "Act"), although nothing contained herein shall be construed as an admission of such status.

If in fact the undersigned were an affiliate of the Company under the Act, the undersigned's ability to sell, assign or transfer any ADSs received by the undersigned in exchange for any shares of the Company pursuant to the Merger may be restricted unless such transaction is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including instruction with respect to the applicability to the sale of such securities of Rules 144 and 145(d) promulgated under the Act.

The undersigned hereby represents to and covenants to New National Grid that it will not sell, assign or transfer any ADSs received by the undersigned in exchange for shares of the Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Act, (ii) by a transaction in conformity with the volume and other limitations of Rule 145 or Rule 144, to the extent applicable, or any other applicable rules promulgated by the Securities and Exchange Commission (the "Commission") or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to New National Grid, or as described in a "no-action" or interpretive letter from the Staff of the Commission, is not required to be registered under the Act.

In the event of a sale of any ADSs pursuant to Rule 145, the undersigned will supply New National Grid with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as New National Grid may otherwise reasonably request. The undersigned

understands that New National Grid is under no obligation to register the sale, transfer or other disposition of ADSs by it or on its behalf under the Act or to take any other action necessary in order to make compliance with the registration requirements of the Act possible or to make an exemption from such requirements available. The undersigned understands that New National Grid may instruct its transfer agent to withhold the transfer of any ADSs disposed of by the undersigned in a manner inconsistent with this letter.

The undersigned acknowledges and agrees that an appropriate legend will be placed on each ADR evidencing ADSs received by the undersigned in the Merger or issued to a transferee thereof, which legend will be removed on the earlier of (i) receipt by New National Grid of an opinion in form and substance reasonably satisfactory to it to the effect that such legend is no longer required for the purposes of the Act and the rules and regulations of the Commission promulgated thereunder and (ii) a sale of such ADSs which has been registered under the Act, whereupon New National Grid will ensure that there is executed and delivered to the undersigned or his transferee (as the case may be) a replacement a ADR or ADRs free of such legend.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of such ADSs.

Very truly yours,

---

[Name]

As an inducement to the above individual to deliver this letter, New National Grid agrees that for so long as and to the extent necessary to permit such individual, pursuant to Rule 145 and, to the extent applicable, Rule 144 under the Act, to sell such ADSs received by such individual in connection with the Merger, New National Grid shall use all reasonable efforts to file, on a timely basis, all reports and data required to be filed by it with the Commission pursuant to Section 13 of the Securities and Exchange Act of 1934.

Very truly yours,

New National Grid Limited

By: \_\_\_\_\_

Name:

Title:

[DATE]

# **Company Disclosure Schedules**

September 4, 2000

## SCHEDULE INDEX

Schedule 4.1	Organization and Qualification; Material Adverse Effect
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## **COMPANY DISCLOSURE SCHEDULES**

Delivered in connection with Agreement and Plan of Merger and Scheme of Arrangement (the "Agreement"), dated as of September 4, 2000, by and among National Grid Group PLC, Niagara Mohawk Holdings, Inc., New National Grid Limited and Grid Delaware, Inc.

For purposes of the Company Disclosure Schedules, hereafter set forth, terms in the Agreement as capitalized herein shall have the meanings given to them in the Agreement unless the context otherwise dictates. The inclusion of such information for purposes of the Company Disclosure Schedule does not in and of itself constitute information that is deemed by the Company to be material for purposes of the Agreement.

**SCHEDULE 4.1**  
**Organization and Qualification; Material Adverse Effect**  
**(Section 4.1)**

None of the following will be included in determining whether a Company Material Adverse Effect has occurred:

1. The Company estimates the potential exposure on the eight (8) natural gas indexed swap agreements, which were part of the Master Restructuring Agreement ("MRA"), at August 23, 2000 mark-to-market NYMEX futures prices is:

July through December 2000	\$43.6 Million
January through August 2001	<u>\$48.8 Million</u>
Total	\$92.4 Million

2. Any accounting effect on the Company's balance sheet resulting from a write-down of nuclear assets in connection with the sale of (or agreement to sell) such assets.

SCHEDULE 4.2(a)  
Subsidiaries and Associates  
(Section 4.2(a))

Percent Voting Stock  
Owned By Company

**I. Subsidiaries**

Niagara Mohawk Power Corporation

100%

(Niagara Mohawk Power Corporation, is a subsidiary of "the Company" and is also referred to as "Niagara Mohawk" or "NMPC")

Owns 100 % of NM Properties, Inc., 100%  
Of NM Uranium, Inc, 100 % of NM  
Receivables Corporation II, 99.99836% of NM  
Receivables LLC. NM Receivables  
Corporation II owns the remaining .00164%  
of NM Receivables LLC.

- ♦ NM Uranium, Inc.
- ♦ NM Properties, Inc.
- ♦ NM Receivables Corp. II
- ♦ NM Receivables LLC

Opinac North America, Inc.

100%

An investment holding  
company which owns 100% of  
Opinac Energy Corp. and 100%  
of Niagara Mohawk Energy, Inc.,  
as well as investments in other  
development stage businesses.

**II Company Associates**

Opinac Energy Corporation owns 50% of Canadian Niagara Power Corporation, Limited ("CNP LTD", an electric utility incorporated and located in Ontario, Canada).

CNP LTD owns 100% of Canadian Niagara Power, Inc. and 100% of 1161557 Ontario Limited.

Niagara Mohawk Energy, Inc., an unregulated company, is an energy marketing and related energy services company located in Syracuse, New York, Incorporated in the State of Delaware. Niagara Mohawk Energy, Inc. owns 100% of Niagara Mohawk Energy Marketing, Inc. (incorporated in the State of Delaware), 100% of Niagara Mohawk Energy, India Private Limited, 90% of Dolphin Investments International, Inc. (a corporation organized and existing under the laws of Nevis, West Indies).



**SCHEDULE 4.2(a)**  
**Subsidiaries and Associates**  
**(Section 4.2(a))**

- **Telergy, Inc.**  
\$500,000 in Telergy Joint Venture (converted to Telergy Central, LLC in April 1998), \$10 million of Class A common stock (issued November 1998) and \$30 million of Class A common stock (issued May 1999).
- **EVonyx, Inc.**  
\$42.75 million of common stock and common stock warrants (see Schedule 6.1)

**III Additional Investments or Guarantees**

The following are existing Agreements requiring the Company or Company Subsidiaries to make additional investments, loans, capital contributions, guarantees or obligations:

On March 23, 2000, the Company's Board of Directors adopted a resolution that authorized the Company to guarantee payment and/or performance of Niagara Mohawk Energy, Inc. or Niagara Mohawk Energy Marketing, Inc. obligations up to an aggregated amount not to exceed \$20 million.

See also Schedule 4.6

**SCHEDULE 4.2(b)**  
**Subsidiary Capitalization**  
**(Section 4.2(b))**

- Niagara Mohawk Power Corporation has the following classes of preferred stock:

Series	Shares
Preferred \$100 par value:	
3.40%	200,000
3.60%	350,000
3.90%	240,000
4.10%	210,000
4.85%	250,000
5.25%	200,000
6.10%	250,000
7.72%	400,000
7.45%	186,000
Preferred \$25 par value:	
7.85%	365,602
Adjustable Rate --	
Series A	1,200,000
Series B	1,650,000
Series C	2,000,000
Series D	3,000,000

- As part of collateral for the Loan and Security Agreement between Niagara Mohawk Energy Inc. and Niagara Mohawk Energy Marketing, Inc., and HSBC Bank USA, OPINAC Energy Corporation pledged 65% of its outstanding stock.

**SECTION 4.3(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Capitalization**

Refer to the attached table entitled, "1992 Stock Options Outstanding as of August 10, 2000."

1992 Stock Option Plan						
Stock Options Outstanding						
as of August 10, 2000						
Employee/Retiree	1992 Grant	1993 Grant	1994 Grant	1995 Grant	1995 Grant	
	Price: \$18.00	Price: \$19.625	Price: \$19.375	Price: \$14.75	Price: \$14.00	
Arrington, David J.	3,000	3,000	3,000	3,000		
Ash, Joseph T.	1,500	1,500	1,500	1,500		
Baron, Thomas H.	1,500	1,500	1,500	1,500		
Budney, Albert J.					10,000	
Davis, William E.	1,500	11,125	20,000	10,000		
Dienst, Edward J.				2,625		
Flaim, Theresa A.			2,625	1,500		
Kerr, Darlene D.	1,500	1,500	3,000	3,000		
Lavne, Gary J.	3,000	3,000	3,000	3,000		
Manno, Samuel F.	1,500	1,500	1,500	1,500		
McCormick, Martin J. *			1,500	1,500		
McCuen, Douglas R. *	1,500	1,500	1,500	1,500		
Nadeau, Clement E.	1,500	1,500	1,500	1,500		
Perry, James A. * P	1,500	1,500	1,500	1,500		
Powers, John W. *	3,000	3,000	3,000	3,000		
Ranalli, Michael P. * PP	3,000	3,000	3,000	3,000		
Rice, Kapua A.				2,000		
Roos, Arthur W.	1,500	1,500	1,500	1,500		
Ryczek, Richard H.	1,500	1,500	1,500	1,500		
Sylvia, Ralph B. *	3,000	5,000	5,000	5,000		
Synwoldt, William J.	1,500	1,500	1,500	1,500		
Tasker, Steven W.	1,500	1,500	1,500	1,500		
Terry, Carl D.	1,500	1,500	1,500	1,500		
Wilczek, Jr., Stanley W	1,500	1,500	1,500	1,500		
TOTAL:	36,000	47,625	62,125	55,625	10,000	

**SECTION 4.3(b) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Capitalization**

Refer to the attached table entitled, "1992 Stock Options Outstanding as of August 10, 2000."

1992 Stock Option Plan						
Stock Options Outstanding						
as of August 10, 2000						
Employee/Retiree	1992 Grant	1993 Grant	1994 Grant	1995 Grant	1995 Grant	
	Price: \$18.00	Price: \$19.625	Price: \$19.375	Price: \$14.75	Price: \$14.00	
Arrington, David J.	3,000	3,000	3,000	3,000		
Ash, Joseph T.	1,500	1,500	1,500	1,500		
Baron, Thomas H.	1,500	1,500	1,500	1,500		
Budney, Albert J.					10,000	
Davis, William E.	1,500	11,125	20,000	10,000		
Dienst, Edward J.				2,625		
Flaim, Theresa A.			2,625	1,500		
Kerr, Darlene D.	1,500	1,500	3,000	3,000		
Lavine, Gary J.	3,000	3,000	3,000	3,000		
Manno, Samuel F.	1,500	1,500	1,500	1,500		
McCormick, Martin J. *			1,500	1,500		
McCuen, Douglas R. *	1,500	1,500	1,500	1,500		
Nadeau, Clement E.	1,500	1,500	1,500	1,500		
Perry, James A. * P	1,500	1,500	1,500	1,500		
Powers, John W. *	3,000	3,000	3,000	3,000		
Ranalli, Michael P. * PP	3,000	3,000	3,000	3,000		
Rice, Kapua A.				2,000		
Roos, Arthur W.	1,500	1,500	1,500	1,500		
Ryczek, Richard H.	1,500	1,500	1,500	1,500		
Sylva, Ralph B. *	3,000	5,000	5,000	5,000		
Synwoldt, William J.	1,500	1,500	1,500	1,500		
Tasker, Steven W.	1,500	1,500	1,500	1,500		
Terry, Carl D.	1,500	1,500	1,500	1,500		
Wilczek, Jr., Stanley W.	1,500	1,500	1,500	1,500		
TOTAL:	36,000	47,625	62,125	55,625	10,000	

**SCHEDULE 4.4(b)  
Non-Contravention  
(Section 4.4(b))**

**No disclosure or exception.**

**SCHEDULE 4.4(b)(iii)**  
**Consents**  
**(Section 4.4(b)(iii))**

- **Senior Bank Facility (effective as of June 1, 2000):**
  - **Letters of Credit Agreements (\$424.4 Million in place, effective as of June 1, 2000). The Letters of Credit Agreements each contain a change of control provision.**
  - **364-Day Revolving Credit Agreement (\$280 Million, effective as of June 1, 2000). There are zero (0) funds drawn under this agreement.**
  - **5-Year Revolving Credit Agreement (\$100 Million, effective as of June 1, 2000). There are zero (0) funds drawn under this agreement.**

Among other provisions, the agreement provides that if any person or persons acting in concert have acquired by contract or otherwise, or have entered into a contract or arrangement that upon consummation will result in an acquisition of the power to exercise a controlling influence over the management or policies of Niagara Mohawk Power Corporation or Niagara Mohawk Holdings, then an event of default has occurred.

- **Senior Note Indenture (sometimes referred to as the MRA debt, dated June 30, 1998)**

Among other provisions, the agreement provides that upon the occurrence of a change of control triggering event, such as, consummation of any transaction whereby any person or group acquires more than 50% of the total voting power in aggregate of all classes of the Company's capital stock and a rating decline or an announcement of a consideration of such a downgrade occurs, each holder of senior notes has the right to require NMPC to repurchase all or any part of the notes at an offer price equal to 101%.



**SCHEDULE 4.4(c)  
Statutory Approvals  
(Section 4.4(c))**

The following are the Company's Required Statutory Approvals:

- New York State Public Service Commission
- Federal Energy Regulatory Commission
- Securities and Exchange Commission
- Nuclear Regulatory Commission (only if the nuclear sale is not completed)
- Hart-Scott-Rodino
- Telecommunications (FCC) (for transfer of licenses)

There may be additional permits and consents that are required from, among other agencies and persons, the EPA, DEC and the Army Corps of Engineers. None of these notices or applications are expected to be material or burdensome.

**SCHEDULE 4.4(d)**  
**Compliance**  
**(Section 4.4(d))**

- During the week of July 10, 2000, the Securities and Exchange Commission ("SEC") performed a review of the Company's Shareholder Services Department. The SEC met with a representative of the Company and discussed compliance issues under SEC rules and regulations, but as the date of the Company Disclosure Schedules, the SEC has not provided the Company with a written report of its findings. The Company has taken corrective action to remedy most of the SEC compliance issues discussed with the Company. The infractions that were noted are:
  - Not everyone in the Shareholder Services Department that handles securities has been fingerprinted
  - Securities aren't always held in a secure place
  - Certain forms were not available for review
  - Cancellation of lost or stolen certificates was not processed quickly enough
- Volney-Marcy Transmission Line - Trust Indenture and Security Agreement, by and among Meridian Trust Company, solely as Owner Trustee, Niagara Mohawk Power Corporation ("NMPC") a Company subsidiary and Citibank, N.A. as Indenture Trustee dated November 1, 1986 (the "Trust Agreement") Agreement.

The Trust Agreement contains affirmative covenants that require NMPC to maintain the necessary financing statements ("UCC-1s") on behalf of the Owner Trustee and Indenture Trustee and to furnish the Indenture Trustee on or before October 1, of each year with an Opinion of Counsel. NMPC, as of the date hereof, has not delivered an Opinion of Counsel, for the period ending October 1, 1999, the UCC-1 filings at the state level expired and the county filings needed to be amended to reflect the fact that First National Union Bank is a successor Owner Trustee by merger to Meridian Trust Company. NMPC, at the request of the Indenture Trustee and Owner Trustee, has refilled and amended the UCC-1's where appropriate.

As of the date of this Disclosure Schedule, NMPC has not received any written notice, as required under the Agreement, of an event of default for non-delivery of the Opinion of Counsel. NMPC has advised the successor Owner Trustee and Indenture Trustee that it has made the necessary corrective actions requested by the parties and that NMPC expects to deliver the Opinion of Counsel required under the Trust Agreement on or before October 1, 2000.

At July 1, 2000, the last semi-annual rent amount for the Volney-Marcy Transmission Line was \$5,521,200.87. The basic rent (as defined in the agreement) as a percent of the purchase price was 4.3134382%. Thus, the remaining obligation (including principal and interest) is \$128 million.

Also see Schedules 4.7, 4.10, 4.11 and 4.12.

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STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

Niagara Mohawk Holdings, Inc.; Niagara Mohawk Power Corporation; National Grid Group plc; National Grid USA)

Docket No. \_\_\_\_\_

**JOINT PROPOSAL**

This Joint Proposal is sponsored by [list sponsoring parties], and by Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation ("Niagara Mohawk"), National Grid Group plc, and National Grid USA ("National Grid") (all Petitioners together "the Companies"). This Joint Proposal is designed to resolve all issues presented by the merger of the Companies and to establish an Incentive Rate Plan for Niagara Mohawk (the "Rate Plan").

The Rate Plan reduces the present value of the revenues under Niagara Mohawk's Electricity Delivery Rates, including charges for transmission, distribution, and Niagara Mohawk's Competitive Transition Charges ("CTC"), but excluding the prices for commodity and the commodity-based Delivery Charge Adjustment ("DCA"), by approximately \$970 million over the Rate Plan Period from the rates that would have been experienced absent the merger. The revenue reductions, shown on Attachment 1, p.1, are subject to the adjustments set forth below. The lower Electricity Delivery Rates are achieved by realizing synergies and efficiency gains in Niagara Mohawk's transmission and distribution operations and by limiting and reprofiling Niagara Mohawk's recovery of its stranded costs during the Rate Plan Period. The Rate Plan resolves all outstanding issues associated with the future recovery of Niagara Mohawk's stranded costs after the Effective Date of the Rate Plan and all issues associated with the estimation or allocation of synergy savings and efficiency gains.

In addition, the Rate Plan provides an option for commodity sales to Niagara Mohawk's non-market price customers (those customers who currently do not receive a pass through of market prices) under which base commodity prices are levelized through December 31, 2004, and are hedged through the remainder of the Rate Plan Period by Niagara Mohawk's portfolio of electricity supply contracts. This option, which is subject to a commodity adjustment clause, is designed to provide Niagara Mohawk's smaller customers with an assured power supply at hedged prices for several years longer than was anticipated under Power Choice. Finally, the Rate Plan includes a comprehensive incentive program to encourage Niagara Mohawk to improve efficiency, enhance service to customers, and reduce transmission congestion within the Niagara Mohawk service territory.

With regard to the natural gas rates of Niagara Mohawk, this Proposal extends the current Natural Gas Rate and Restructuring Agreement for an additional year beyond its current expiration date.

The parties have agreed on the following:

## **1. RATE PLAN**

### **1.1 Effective Date and Term**

#### **1.1.1 Effective Date**

The Effective Date of the Rate Plan shall be the later of:

1.1.1.1 The first cycle of the billing month of September, 2001; or

1.1.1.2 The first cycle of the billing month following the closing of the merger of Niagara Mohawk Holdings and National Grid, provided, however, that (i) if this Commission has issued a final order on acceptable terms approving the Merger and the Rate



Plan by June 1, 2001 (allowing sufficient time to implement the new rates by September 1, 2001) and (ii) if the closing occurs after September 1, 2001 as the result of delays in the receipt of other regulatory approvals in acceptable form, then, once all regulatory approvals are received on acceptable terms and the merger has been closed, the economic benefits associated with the earlier implementation that would have been possible under the Commission's decision will be credited to customers by including \$13.7 million per month as an exogenous factor adjustment as outlined in Section 1.3.8.9.

1.1.2 Rate Plan Expiration Date

The Rate Plan shall continue until the earlier of December 31, 2011 or the expiration of the Competitive Transition Charge as set forth below ("Expiration Date"). Certain aspects of the Rate Plan specifically delineated below, such as the recovery of the Over-Market Variable Costs of certain IPP contracts and the incentive for efficiency gains, shall extend beyond the Expiration Date of the Rate Plan.

1.1.3 Rate Plan Period

The Rate Plan Period shall be the period between the Effective Date as determined under Paragraph 1.1.1 and the Expiration Date as determined under Paragraph 1.1.2.

1.2 Electricity Delivery Rates, Market-Priced Service, and Standard Offer Service

1.2.1 Electricity Delivery Rates. On the Effective Date, Niagara Mohawk shall implement new Base Electricity Delivery Rates included in Attachment 5 that recover (a) the costs of providing transmission and distribution service to Niagara Mohawk's retail customers (as determined in Section 1.3, below), and (b) the portion of Niagara Mohawk's total CTC (also determined in Section 1.3, below), including Over-Market Variable Costs and Fixed Costs, defined below, as shown on Attachment 1, p. 2. The estimated market value and the resulting Over-Market Variable Costs of the electricity produced from Niagara Mohawk's power supply portfolio are established in Attachment 2. The Over-Market Variable Costs shown on Attachment 2 shall be fixed for the Rate Plan Period. The Fixed Costs in the CTC include the amortization and return on sunk costs and payments to buy down IPP contract obligations. The Base Electricity Delivery Rates shall differ for each zone, service class, and voltage level served by Niagara Mohawk, and shall be established and adjusted pursuant to the provisions of Section 1.3, below.

1.2.2 Market Priced Service.

1.2.2.1 Current Customers

Niagara Mohawk currently offers Market Priced Service to customers served under (i) Special Contract Rates SC-11 and SC-12; (ii) EDZR qualifying load (as defined in the tariff); (iii) existing SC-3A customers served under Option 1; (iv) SC-4 customers (demands greater than 2 megawatts); and (v) select

SC-1, SC-2ND, SC-2D, SC-3 and SC-4 (less than 2 megawatts) customers pursuant to a limited annual Market Price Offering. Niagara Mohawk will continue to provide Market-Priced service to these customers according to the terms of their individual service agreements and the Tariff as amended in Attachment 3 to include all New York ISO ancillary services and New York Power Authority Transmission Adjustment Clause.

1.2.2.2 New Customers

During the Rate Plan Period, Niagara Mohawk shall provide Market Priced Service to (i) new SC-3, SC-4 and SC-3A customers commencing service after the Effective Date; (ii) any of the customers served under SC-1, SC-1C, SC-2ND, SC-2D, SC-3, and SC-4 (less than 2 megawatts), who have previously selected the Market Priced Service option; and (iii) any of its other customers who wish to purchase Market Priced Service.

1.2.2.3 Pricing and Service Terms

Market-Priced Service shall be priced in accordance with the methodology set forth in Attachment 3, pp. 4-5. Pricing for Market Priced Service shall vary by zone, service class, and voltage level within the Niagara Mohawk system. Customers shall be free to leave Market Priced Service and select an alternative electricity supplier at any time.

1.2.3 Standard Offer Service

Commencing on the Effective Date and continuing through the Rate Plan Period, Niagara Mohawk shall offer to supply customers served on SC-1, SC-1B, SC-1C,

SC-2ND, SC-2D, SC-3, small SC-4 (with demands less than 2 megawatts), SC-5 and PSC 214 Outdoor Lighting ("Eligible Tariffs") with Standard Offer Service on the terms and conditions set forth below and in Attachment 3.<sup>1</sup>

1.2.3.1 Transfer of Eligible Customers

Existing customers served under Eligible Tariffs will be shifted to Standard Offer Service on the Effective Date, unless the customers are then taking Market-Priced Service or service from an alternative supplier.

1.2.3.2 Option for Eligible Customers with Market Priced Service

Customers served under Eligible Tariffs taking Market Priced Service or service from an alternative supplier on the Effective Date shall have the option to switch to Standard Offer Service by notifying Niagara Mohawk within 90 days after the Effective Date. Niagara Mohawk shall notify these customers of this option in a letter that shall include a return form for customers to indicate affirmatively that they wish to accept the option.<sup>2</sup>

1.2.3.3 New Customers

New customers served under SC-1, SC-1C, SC-2ND, SC-2D, and PSC 214 Outdoor Lighting (but not new customers served under SC3 or SC4) shall have the option to take Standard Offer Service by selecting it at the time that the new customer applies for Electricity Delivery Service from Niagara Mohawk, provided that the new customer commits to taking

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<sup>1</sup> SC-3 and SC-4 customers shall be eligible for Standard Offer Service only to the extent that Niagara Mohawk has adequate supplies under the contracts summarized in Attachment 2, as adjusted by any additional contracts that have been executed by Niagara Mohawk and approved by the Commission to hedge prices in support of Standard Offer Service, and as adjusted for any terminations, buy-outs, or conversions of supply contracts to market rates.

<sup>2</sup> Large SC-4 and SC-3 will only be offered an option to return if adequate hedged power is forecast to be available.

Standard Offer Service for twelve months or the period of service, if shorter.

1.2.3.4 Departing Customers

Except as provided in Section 2.3.3, any customer taking Standard Offer Service shall have the right by following the procedures set forth in Niagara Mohawk's Retail Access Program to enter the market and purchase electricity from another supplier at any time or elect to take Market-Priced Service provided, however, that once the customer has selected an alternative supplier or Market-Priced Service, the customer shall thereafter be precluded from returning to Standard Offer Service.

1.2.3.5 Transfer to Market-Priced Service

At the beginning of each quarter, Niagara Mohawk shall compare the quantity of electricity that is to be supplied in the following quarter under the contracts listed in Attachment 2, as adjusted by any additional contracts that have been executed by Niagara Mohawk and approved by the Commission to hedge prices in support of Standard Offer Service and as adjusted for any terminations, buy-outs, or conversions of supply contracts to market rates, with the actual electricity that it expects to provide to its customers taking Standard Offer Service during the following quarter. In the event that the quantity of Standard Offer Service provided by Niagara Mohawk is forecast to exceed the quantity of electricity purchased under the contracts listed in Attachment 2, as adjusted, by more than 1,000 gigawatt hours annually, Niagara Mohawk

shall notify the customers served under the classes listed below with usage approximately equal to the excess kilowatt hours that Niagara Mohawk will, 90 days after the notice, convert those customers from Standard Offer Service to Market-Priced Service. The notice shall go to customers in the following classes and in the following order provided, however, that a single notice may include two or more groups: (1) to SC-4 (less than 2 megawatts) customers, and after those customers have been converted, (2) to SC-3 customers with Economic Development Power ("EDP"), and after those customers have been converted, (3) to SC-3 customers with Power for Jobs ("PFJ"), and after those customers have been converted, (4) to the remaining SC-3 customers in decreasing size as measured in terms of maximum annual peak demand, and after those customers have been converted, (5) to SC-2D customers in decreasing size as measured in terms of maximum annual peak demand, and after those customers have been converted, (6) to SC-2ND customers in decreasing size as measured in terms of annual kilowatt hours usage, and after those customers have been converted, (7) to PSC 214 customers in decreasing usage, as measured in terms of annual kilowatt hours, by municipality. A schedule showing the estimated timing for providing such notice under Niagara Mohawk's load forecast and its existing and currently proposed contracts is included in Attachment 4. SC-3 and SC-4 customers, who are shifted to Market Priced Service, shall have the commodity portion of their bills calculated using interval meters that Niagara Mohawk will install, if necessary and

consistent with Commission policy, during the 90 day notice period. Load shapes shall be used in the event of delays in meter installations and for customers served under SC-2ND, SC-2D, and PSC 214.

1.2.3.6 Base Commodity Charge

Niagara Mohawk shall display the price of Standard Offer Service separately on its bills to customers. The charges for Standard Offer Service shall include a Base Commodity Charge, which includes an allowance for Ancillary Services and New York Power Authority Transmission Adjustment Clause ("NTAC"), and a Commodity Adjustment Charge all as set forth in Attachment 3. The Base Commodity Charge varies by zone, service class, and voltage level on Niagara Mohawk's system. The Base Commodity Charge is levelized for the period from the Effective Date through December 31, 2004, and changes annually thereafter.

1.2.3.7 The Commodity Adjustment Charge

The Base Commodity Charge shall be adjusted each month through a Commodity Adjustment Charge for the difference during the month occurring two months prior to the adjustment between (1) Niagara Mohawk's actual purchased power costs, Ancillary Service Costs and NTAC charges, and (2) the actual revenues collected for these costs during the same month. The Commodity Adjustment Charge Provisions shall apply only to customers taking Standard Offer Service, provided, however, that if the total load of customers taking Standard Offer Service

is less than 50 percent of Niagara Mohawk's power supply portfolio included in Attachment 2 as adjusted by any contracts executed by Niagara Mohawk and approved by the Commission to hedge prices in support of Standard Offer Service, and as adjusted for any terminations, buy-outs, or conversions of supply contracts to market rates, then the Commodity Adjustment Charge Provisions shall apply to all customers served under SC-1, SC-1B, SC-1C, SC-2 ND, SC-2D, SC-3, SC-4 (less than 2 megawatts), SC-5, and PSC 214, even if those customers are not taking Standard Offer Service. Commodity Adjustment Charge Provisions incorporating the reconciliation methodology are included in Section 1.7 of Attachment 3.<sup>3</sup>

#### 1.2.4 Commodity Sales under Existing Programs.

##### 1.2.4.1 SC-3A, Option 2

Consistent with their contracts, customers served under SC-3A, Option 2 will be provided commodity at the rates set forth in PSC 207 through August 31, 2003 or such shorter term that the customer nominated. Afterwards, the commodity to such customer will be provided under the Market-Priced Service as described in Attachment 3 of this Joint Proposal.

##### 1.2.4.2 NYPA Commodity Sales Program

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<sup>3</sup> The Commodity Adjustment Charge Provisions include both the purchased power costs and the revenues associated with the provision of Market Priced Service. As set forth in Attachment 3, the costs and revenues of Market Priced Service should equal the day ahead market price in the New York ISO, and accordingly, their inclusion should not significantly affect the overall level of Commodity Adjustment Charges to Standard Offer Service customers. Their inclusion, however, does facilitate the balancing of Niagara Mohawk's hourly loads and supplies, and simplifies the accounting and reconciliation for purchased power costs and revenues.



Commodity costs for quantities of sales served under NYPA commodity sales program are not affected by this Joint Proposal.

1.2.4.3 EDZR Customers

A customer's qualifying load served under the Economic Development Zone Rider ("EDZR") will be supplied commodity under the Market-Priced Service as described in Attachment 3 of this Joint Proposal, or under retail access pursuant to the Rule 34 of PSC 207.

1.3 Reduction and Stabilization of Electricity Delivery Rates

1.3.1 Reduced Electricity Delivery Rates Implemented Over Rate Plan Period

On the Effective Date, Niagara Mohawk shall implement the Base Electricity Delivery Rates included in Attachment 5. Class average prices and overall impacts by rate class are included in Attachment 6. The Base Electricity Delivery Rates shall remain in effect during the period of the Rate Plan, subject to the following provisions. As shown in Attachment 1, p. 2, Niagara Mohawk's Base Electricity Delivery Rates shall recover Niagara Mohawk's CTC (excluding the market value of Niagara Mohawk's power supply portfolio as calculated in Attachment 2), and Guideline Transmission and Distribution Charges in the fashion and subject to the adjustments set forth below.

1.3.2 The Competitive Transition Charge(CTC)

1.3.2.1 Calculation of CTC Recoveries

The recoveries of Niagara Mohawk's Competitive Transition Charges during the Rate Plan Period have been adjusted to exclude the projected market value associated with Niagara Mohawk's power supply portfolio

as calculated in Attachment 2 and to reflect the expected proceeds from Niagara Mohawk's proposed sale of Nine Mile Point ("Nine Mile Point Sale") to Constellation Nuclear as announced on December 12, 2000. The expected proceeds from the Nine Mile Point Sale are shown in Attachment 7. The proceeds from the Nine Mile Point Sale as shown on that attachment are subject to adjustment to reflect the actual proceeds from the sale following the closing to Constellation Nuclear or to another purchaser in the event that the sale to Constellation Nuclear does not close. A reconciliation shall be completed 30 days after the closing of the Nine Mile Point Sale.

1.3.2.2 Resolution of Outstanding Issues

Subject to the adjustment for the Nine Mile Point Sale and for the recovery following the Rate Plan Period of the Over-Market Variable Costs of Independent Power Producer ("IPP") contracts that extend beyond the Rate Plan Period, Niagara Mohawk shall on the Effective Date reduce its recovery of stranded costs to the CTC amounts shown in Attachment 1, p. 2. The reduction in stranded cost recovery during the Rate Plan Period is designed to resolve (i) all issues associated with the recovery of Niagara Mohawk's stranded costs that remain outstanding as of the Effective Date, including the full recovery of all of Niagara Mohawk's remaining payments to IPPs under existing contracts through the remaining periods of those contracts even if those contracts extend beyond the Rate Plan Period; and (ii) all issues associated with the

estimation and allocation of synergy savings and efficiency gains following the merger, including the ratemaking treatment of those synergy savings during the Rate Plan Period as addressed in Sections 1.3.10, and 1.3.11 below and the recognition of efficiency gains through an adjustment to the return on equity for the ten years following the Rate Plan Period as set forth in Section 1.3.9.3.4 below.

1.3.2.3 Rights to Mitigate and Recover Remaining Stranded Costs

In consideration of the reduction in recovery of stranded costs, the Parties agree, and the Commission by approving this Joint Proposal expressly finds that:

1.3.2.3.1 Niagara Mohawk shall have the right to buy-down or buy-out IPP contracts and recover such buy-down or buy-out payments from customers with a return equal to that specified in Section 1.3.9.3.3, as long as the recovery of the buy-down or buy-out payment and return does not cause the recovery in any year to exceed the Over-Market Variable Costs for that contract in that year used to create Attachment 2;

1.3.2.3.2 Niagara Mohawk's unamortized Fixed Stranded Costs, which are intended to be recovered fully during the Rate Plan Period, and Niagara Mohawk's Over-Market Variable Costs associated with Niagara Mohawk's IPP contracts, including those IPP contracts that extend beyond the Rate Plan Period and are

recovered after the Expiration Date, are just and reasonable and prudent;

1.3.2.3.3 Niagara Mohawk shall be authorized to amortize the balance of Niagara Mohawk's Fixed Stranded Costs that remain after the adjustments set forth in Section 1.3.2.1 in accordance with the schedule set forth in Attachment 1, page 2; and

1.3.2.3.4 Niagara Mohawk shall recover these Fixed Stranded Costs and its Over-Market Variable Costs occurring during the Rate Plan Period through CTC Charges in accordance with the schedule that is also set forth in Attachment 1, page 2, and shall include the Over-Market Variable Costs occurring after the Rate Plan Period in its cost of service and recover them in Niagara Mohawk's Base Electricity Delivery Rates in the years after the Rate Plan Period.

### 1.3.3 Transmission and Distribution Guideline Charges

Niagara Mohawk's Electricity Delivery Rates include the Guideline Transmission and Distribution Charges shown on Attachment 1 that are frozen through December 31, 2002 and then increase by about 1.7 percent per year for each year, commencing on January 1, 2003 and continuing through the end of the Rate Plan Period.<sup>4</sup> These Guideline Transmission and Distribution Charges are used in the calculation of some of the exogenous factor adjustments to Electricity Delivery Rates during the Rate Plan Period as described in Section 1.3.8 and to calculate the efficiency

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<sup>4</sup> Niagara Mohawk's Guideline Transmission and Distribution Revenues also increase by load growth over the Rate Plan Period.

incentive that is reflected in the return on equity following the Rate Plan Period.

The Guideline Transmission and Distribution Charges are also subject to adjustments for the Transmission Revenue Adjustment Charge set forth in Section 1.3.5 and the Exogenous Factor Adjustments set forth in Section 1.3.8.

1.3.4 Adjustments to Base Electricity Delivery Rates During the Rate Plan Period

Niagara Mohawk's Base Electricity Delivery Rates are subject to the adjustments for the Transmission Revenue Adjustment Charge, the Systems Benefits Charge, the Gross Receipts Tax/State Income Tax Adjustments, New York Power Authority Reconciliation, and Exogenous Factor Adjustments set forth in the following sections.

1.3.5 Transmission Revenue Adjustment Charge

Using a methodology that is similar to that set forth in the New York ISO's Open Access Transmission Tariff, Niagara Mohawk shall adopt a Transmission Revenue Adjustment Charge, under which it will implement an annual reconciliation for such transmission charges under PSC 207 and PSC 214. A Base Transmission Revenue Credit of \$123,475,000 per year (calculated in Attachment 8, page 2) is reflected in Niagara Mohawk's Base Electricity Delivery Rates and Guideline Transmission and Distribution Charges and is associated with other transmission revenues on Niagara Mohawk's transmission system. For each year of the Rate Plan Period, Niagara Mohawk's Actual Transmission Revenue shall be reconciled to its Base Transmission Revenue Credit using the procedure set forth in Attachment 8. The difference whether positive or negative will be reflected in a Transmission Revenue Adjustment Charge, which is also set forth in Attachment 8.

1.3.6 Creation and Contributions to a Storm Fund and an Environmental Response Fund

On the Effective Date, Niagara Mohawk will create a Storm Fund that will be used to provide the resources for restoration of service after Major Storms, as defined in accordance with the Commission's definition in 16 NYCRR Part 97, and an Environmental Response Fund that will be used to fund environmental remediation programs. The regulations governing the accounting for and charges to the Storm Fund are set forth in Attachment 9 and to the Environmental Response Fund are set forth in Attachment 10. The initial contributions to the funds will be made by transferring the net Regulatory Deferrals accrued under Power Choice, including the interest savings realized through August 31, 2003 in the financing of the MRA, after which the interest savings accruals associated with the financing of the MRA shall cease. The estimate for accrued interest savings net of other Regulatory Deferrals as shown on Attachment 11 totals \$91 million as of August 31, 2003. The actual deferral balances as of August 31, 2001 will be transferred to the funds on the Effective Date and any further accruals net of withdrawals between August 31, 2001 and August 31, 2003 shall be deposited in the funds as they are accrued with the first deposit occurring on the Effective Date. Niagara Mohawk will deposit 50 percent of the above amounts to start the Storm Fund and 50 percent of the above amounts to start the Environmental Response Fund. In addition to the initial deposits, Niagara Mohawk shall credit the Storm Fund with \$6 million per year, consistent with the recent expenditures by Niagara Mohawk on restoration following Major Storms. Annual credits to the Environmental Response Fund will equal \$12.75 million per year, a level that also is consistent with Niagara

Mohawk's recent electric expenditures on these efforts.<sup>5</sup> Interest will accrue on the balances in the funds, whether positive or negative. The annual contributions will be subject to adjustment through the Exogenous Factors set forth in Section 1.3.8.5, below. Niagara Mohawk shall also have the ability to petition the Commission to reallocate balances between the Storm Fund and the Environmental Response Fund at any time that Niagara Mohawk believes that such reallocation is appropriate to maintain the adequacy of each fund for its purpose.

#### 1.3.7 Economic Development Fund

Niagara Mohawk shall fund all incremental economic development programs during the Rate Plan Period through the creation of Economic Development Fund. Each year, Niagara Mohawk shall add \$12.5 million to the Fund in equal monthly installments. The fund will be used to support rate discounts for new economic development projects, equalize rate discounts under existing economic development rates, retain contestable customers, or implement new economic development programs. Expenditures of greater than \$12.5 million per year shall be treated as an Exogenous Factor when there is no outstanding fund balance with the approval of the Commission. In the event that the accumulated balance in the fund exceeds \$50 million, annual accruals shall cease and be reflected in a reduction in rates as an Exogenous Factor. Interest shall accrue on the fund balance whether positive or negative.

#### 1.3.8 Exogenous Factors

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<sup>5</sup> At the effective date of Niagara Mohawk's next rate case involving natural gas deliveries, the allowance in the natural gas cost of service will be added to the Environmental Response Fund and the Fund will cover the Environmental Response Cost associated with both electric and natural gas operations.

At the end of each calendar year in the Rate Plan Period, the adjustments under the Exogenous Factors set forth below shall be summed, and the cumulative balance shall be refunded or charged to customers in the rate classes listed below when the cumulative balance totals more than plus or minus \$10 million. The surcharge or credit shall be calculated by dividing the cumulative balance to be recovered by the projected retail kilowatt hour deliveries under Niagara Mohawk rate classes SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-3A, SC-4, SC-5, and PSC 214 during the coming twelve-month period, and the adjustment shall be implemented on March 1 of the year following the reconciliation. In the event that the cumulative balance does not exceed plus or minus \$10 million, the cumulative balance shall be carried forward into the next year, with the return specified in Section 1.3.9.3.3 below.

1.3.8.1 Tax and Accounting Changes

Niagara Mohawk shall adjust its Electricity Delivery Rates and Transmission and Distribution Guideline Charges for all of the effects of any externally imposed accounting changes and for the effects associated with any changes in the federal, state or local rates, laws, regulations, or precedents governing income, revenue, sales, franchise, or property taxes, if the accounting or tax changes taken together increase or decrease Niagara Mohawk's transmission and distribution costs or revenues by more than \$1.0 million per year. This provision shall also cover refunds or payments (including interest and penalties and net of deferred taxes) made by Niagara Mohawk as the result of ongoing examinations by



federal and state tax authorities of Niagara Mohawk's tax returns filed prior to the Effective Date, provided, however, that the recovery or refunds under this sentence shall continue only until such payments or refunds have been recovered or returned. In addition, this provision shall cover any reduction in revenues associated with the Power for Jobs Program from the revenues that are now recovered as a credit against the tax imposed pursuant to §186-2 of the Tax Law, but which may not be recovered from that source in the future either because the tax liability pursuant to that section falls below zero or for any other reason.

1.3.8.2 Legislative or Regulatory Changes

Niagara Mohawk shall adjust its Electricity Delivery Rates and its Guideline Transmission and Distribution Charges for all of the effects of any legislative or regulatory changes, which impose new or modify existing obligations or duties and which taken together affect Niagara Mohawk's transmission and distribution revenues or costs by more than \$1.0 million per year.

1.3.8.3 Extraordinary Inflation over the Prior Year

Niagara Mohawk shall adjust its Electricity Delivery Rates and its Guideline Transmission and Distribution Charges by the amount that inflation as measured by Gross Domestic Product Price Index (GDPPI) exceeds four percent over the previous year for the first five years of the Rate Plan Period, and exceeds three percent over the previous year for the remainder of the Rate Plan Period. The adjustment to Electricity Delivery

Rates shall be applied to a base that equals the Guideline Transmission and Distribution Charge for that year, rather than the entire Electricity Delivery Rate. The adjustment shall be triggered when inflation exceeds the thresholds set forth above, but shall be offset to the extent that inflation in subsequent years is below the thresholds set forth above, provided, however, that the cumulative adjustment shall never be less than zero. The calculation for the adjustment is illustrated in the example set forth in Attachment 12.

#### 1.3.8.4 Reclassification of Costs

The Electricity Delivery Rates and Guideline Transmission and Distribution Rates of Niagara Mohawk are based on the current separation of costs among the generation, supply, transmission, and distribution functions of the electricity supply and delivery system, and between the electric operations and the natural gas operations of Niagara Mohawk. To the extent that Niagara Mohawk's service responsibilities change, including, without limitation, (i) through the introduction of competition in metering, billing, and information services, (ii) through a change in responsibilities between Niagara Mohawk and the NYISO (or any successors thereto), (iii) through a restructuring of Niagara Mohawk's transmission operations, (iv) through a change in Niagara Mohawk's franchise rights to provide distribution and transmission service within its service territory, (v) through municipalization of any part of transmission or distribution system, (vi) through a change in the allocation of costs and

revenues now allocated between Niagara Mohawk's natural gas and electric operations, or (vii) through any other change in the allocation of costs and revenues to or from Niagara Mohawk's transmission and distribution operations by the Commission, FERC, NYISO, or any other agency having authority over how such costs or revenues are allocated to or away from the distribution or transmission function,<sup>6</sup> Niagara Mohawk shall make appropriate adjustments to its Electricity Delivery Rates and to its Guideline Transmission and Distribution Charges. Any such reallocation of responsibilities shall not affect Niagara Mohawk's ability to recover all of the revenues allowed under their agreement, including without limitation, the CTC or earned incentives from retail customers, and to the extent that any reclassification or reallocation leads to an under- or over-recovery of such revenues, Niagara Mohawk shall include such under- or over-recovery in its Electricity Delivery Rates as an Exogenous Factor.

#### 1.3.8.5 Storm Fund and Environmental Response Fund

The Electricity Delivery Rates and the Guideline Transmission and Distribution Charges are based on annual contributions to the Storm Fund of \$6 million and annual contributions to the Environmental Response Fund of \$12.75 million. To the extent that the balance in the Storm Fund falls below zero, Niagara Mohawk shall recover over five years through a surcharge that will be recovered as an Exogenous Factor the deficiency

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<sup>6</sup> This provision would include, without limitation, any change that requires transmission owners to share in costs for transmission upgrades, modifications, or interconnections to accommodate generation interconnections which are

plus \$20 million adjusted for inflation at the GDPPI from the Effective Date of the Rate Plan. To the extent that the balance in the Environmental Response Fund is less than zero, Niagara Mohawk shall recover any deficiency over five years through a surcharge that will be recovered as an Exogenous Factor.

1.3.8.6 Economic Development Fund

Niagara Mohawk shall include as an Exogenous Factor any incremental funding for economic development in excess of \$12.5 million per year when the balance in the Economic Development Fund established pursuant to Section 1.3.7 is zero. Niagara Mohawk shall implement an Exogenous Factor reduction of up to \$12.5 million when the balance in the Economic Development Fund established pursuant to Section 1.3.7 exceeds \$50 million.

1.3.8.7 Incentives or Penalties

Any accumulated incentives or penalties established under the Incentive Programs set forth in Section 1.3.9.1. and 1.3.9.2. below, shall be reflected as an Exogenous Factor.

1.3.8.8 Major Transmission Investment

To the extent that Niagara Mohawk implements any transmission or substation project that involves an expenditure of more than \$20 million that is not recoverable from a generator or the ISO, Niagara Mohawk shall include its associated revenue requirements as an Exogenous Factor, provided, however, that Niagara Mohawk shall not recover any

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now supported by the generator.

Congestion Reduction Incentive (as defined below) on any project that is supported through an Exogenous Factor.

1.3.8.9 Delay in Effective Date

Niagara Mohawk shall credit as an exogenous factor any amounts to customers under Section 1.1.1.2. associated with a delayed effective date.

1.3.9 The Incentive Programs

The Incentives earned from the Incentive Programs listed in Paragraphs 1.3.9.1 and 1.3.9.2 of this section shall be recovered as an Exogenous Factor in the year after they are earned by Niagara Mohawk. The Incentive for Efficiency Gains set forth in Paragraph 1.3.9.3, below, shall be recovered after the end of the Rate Plan Period.

1.3.9.1 Service Quality Plan

Niagara Mohawk shall implement the Service Quality Plan set forth in Attachment 13. The Service Quality Plan provides for a system of rewards and penalties that shall be determined annually through the end of the Rate Plan Period, with a maximum net penalty or incentive in any one year not to exceed \$21.9 million of revenues.

1.3.9.2 Congestion Reduction Incentive

Niagara Mohawk shall implement the Congestion Reduction Incentive that is set forth in Attachment 14, commencing on the Effective Date and continuing through the Rate Plan Period.

1.3.9.3 Efficiency Gains

One year prior to the end of the Rate Plan Period, Niagara Mohawk shall file a complete revenue requirements analysis for its Electricity Delivery Rates to become effective at the end of the Rate Plan Period. The revenue requirements analysis shall include the following adjustments:

- 1.3.9.3.1 Niagara Mohawk shall exclude the recovery for the CTC shown in Attachment 1 provided, however, that recovery of the Over-Market Variable Costs for IPP contracts that extend beyond the Rate Plan Period shall be included in the analysis and shall continue to be included in Niagara Mohawk's rate recovery until Niagara Mohawk's obligations under the contract ends;
- 1.3.9.3.2 Niagara Mohawk shall exclude any recovery of any acquisition premium or transaction costs associated with the National Grid/Niagara Mohawk merger;
- 1.3.9.3.3 Niagara Mohawk shall use an overall return for ratemaking purposes that is equal to the average of the overall rate of return for investor-owned electric utilities as shown on lines 3, 4 and 5 of the calculation of allowance for funds used during construction on page 218 of the FERC Form 1 in the areas now included in the New York ISO, the New England ISO, and PJM power pool. This overall rate of return shall be adjusted for federal and state income taxes applicable in New York. The debt component of the average overall return applied to

Niagara Mohawk shall be multiplied by Niagara Mohawk's rate base to determine the interest deduction for the income tax calculation used for ratemaking purposes. A representative calculation for 1999 is shown in Attachment 15.

- 1.3.9.3.4 Following the Rate Plan period, Niagara Mohawk will share any efficiency gains in excess of those reflected in the Guideline Transmission and Distribution Charges (50% customer/50% company) by adjusting the return on equity as follows. Niagara Mohawk shall adjust the return on equity established in Section 1.3.9.3.3 by one basis point for every \$475,000 that Niagara Mohawk's revenue requirements as established under Sections 1.3.9.3.1 through 1.3.9.3.3 and 1.3.9.3.5 are less than the revenues that would have been produced under the Guideline Transmission and Distribution Rates adjusted for Exogenous Factors and the Transmission Revenue Adjustment Charge Provision. The \$475,000 is derived by calculating the pre-tax revenue that is associated with a one basis point increase in Niagara Mohawk's return on equity in 2011, and multiplying the result times 2. See Attachment 16 for the calculation. This adjustment, which shall not be negative, shall be reflected in all of Niagara Mohawk's revenue requirements analyses used to establish

transmission, distribution or Electricity Delivery Rates for the ten years following the Rate Plan Period.

1.3.9.3.5 Niagara Mohawk shall exclude any hold-back of synergy savings and costs to achieve those savings that are estimated in Appendix C.

1.3.9.3.6 Niagara Mohawk's Exogenous Factor adjustments that accrued during the Rate Plan Period shall carry forward into the post-Rate Plan Period until their recovery or refunding is completed.

1.3.10 Right to File a Complaint During the Rate Plan Period

At any time after the Effective Date, Niagara Mohawk's Electricity Delivery Rates may be reviewed upon a complaint brought pursuant to New York Public Service Law ("PSL"), Section 71(McKinney's 2000). In defending against such a complaint, Niagara Mohawk shall be authorized to add to its cost of providing service, \$87 million of annual synergy savings and efficiency gains, which are allocated to Niagara Mohawk's electric operations in this Joint Proposal, adjusted for inflation by the GDPPI from the Effective Date of the Rate Plan. In addition, Niagara Mohawk shall be authorized to include in its cost of service the cost to achieve these synergies (excluding any severance payments to Niagara Mohawk's senior executives) amortized over the Rate Plan Period. Niagara Mohawk shall also be authorized to include in its cost of service the recovery of its CTC pursuant to the schedule set forth in



Attachment 1, page 2 and the other adjustments as set forth in Section 1.3.9.3.2 (excludes recovery of any acquisition premium), 1.3.9.3.3 (determination of return), and 1.3.9.3.4 (addition of premium based on the difference between the revenues produced by the Guideline Transmission and Distribution Charges in effect for the rate year and the revenue requirements established by the Commission on the complaint).

1.3.11 Right to Make a General Rate Filing During the Rate Plan Period

At any time after the Effective Date, Niagara Mohawk may file to adjust its Base Electricity Delivery Rates above the levels set forth in Attachment 5 by making a general revenue requirements filing with the Commission. However, during any period that Niagara Mohawk's Base Electricity Delivery Rates are above the Base Electricity Delivery Rates set forth in Attachment 5, as adjusted for Exogenous Factors, Niagara Mohawk shall be precluded from holding back any synergy savings and efficiency gains in its Base Electricity Delivery Rates. Niagara Mohawk shall, however, be authorized to include the recovery of its CTC pursuant to the schedule set forth in Attachment 1, page 2 in its revenue requirements. The elements set forth in Section 1.3.9.3.2 (excluding the recovery of any acquisition premium or merger transaction costs) and 1.3.9.3.3 (determination of return) and 1.3.9.3.4 (exclusion of synergy savings and efficiency gains) shall govern the determination of the revenue requirements.

1.3.12 Low Income Program

During the Rate Plan Period, Niagara Mohawk shall continue its current Low Income Customer Assistance Program ("LICAP"), which is funded in part through Niagara Mohawk's System Benefits Charge.

1.3.13 Contract Customers

For ninety days after the Effective Date, Niagara Mohawk shall allow any customer who is now served under SC-11 or SC-12 to return to the rates for the otherwise applicable service class subject to the following provisions. Customers choosing this option will be required to sign a new contract for the remaining duration of the original agreement (including Form H Extensions through August 31, 2003) that will contain a minimum monthly electricity delivery bill based on the maximum demand defined below.<sup>7</sup> The minimum bill provision will be administered on a billing period basis and will be calculated net of any commodity services for the remaining term of the original contract agreement (including Form H Extensions through August 31, 2003). The calculation of the minimum bill (net of any commodity services) shall be computed as the product of (a) the sum of the otherwise applicable demand charges and (b) the peak kW service provided by Niagara Mohawk over the last 24 months prior to the Effective Date. The peak kW shall be determined on an individual basis and shall be adjusted to recognize the award of NYPA allocations (EDP, PFJ, NYPA Hydro).

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<sup>7</sup> The minimum monthly electricity delivery bill provision of the new contract represents service under a standard tariff offering subject to a demand ratchet. Therefore, the Commission's guidelines for flexible contracts do not apply.

Service under SC-12 shall remain open to customers subject to the terms and conditions of the tariff.

1.3.14 Transmission and Delivery Charges for Customers Taking New York Power Authority ("NYPA") Service under an Economic Development Program Rider ("EDPR")

Transmission and distribution rates for retail customers receiving an EDPR Allocation shall be frozen at their current levels for the Rate Plan Period.

1.3.15 Transmission and Delivery Charges for Customers Taking New York Power Authority ("NYPA") Hydro Service under SC-4

Transmission and distribution rates for customers who receive a NYPA Hydro Allocation shall be frozen at their current levels for the Rate Plan Period. Customers taking new allocations and served below transmission voltage will also be charged the applicable distribution rates as currently reflected in SC-3 and SC-3A of PSC 207.

1.3.16 Outdoor Lighting Service

Rate design revisions for Electricity Delivery Charges for PSC 214 are incorporated in Attachment 5. Niagara Mohawk is also reviewing new rate designs and tariff proposals to streamline the administration of its outdoor lighting offerings pursuant to the Commission's Case number 00-E-0935. Niagara Mohawk shall have the right under this Settlement to file tariff changes for its outdoor lighting services that are revenue neutral for

existing facilities, and to file non-revenue neutral cost based tariff changes for new facilities.

1.3.17 Terms and Conditions for Suppliers to Facilitate Retail Access

Within 90 days after the Effective Date, Niagara Mohawk shall file a proposal to implement consistent terms, conditions, and protocols for suppliers of electricity and natural gas across the National Grid /Niagara Mohawk combined systems. The objective will be to standardize as much as possible, consistent with the regulatory policies in New York, Massachusetts, Rhode Island, and New Hampshire, the methodologies for switching customers to marketers and suppliers, and the data requirements for the customers served on the Niagara Mohawk/National Grid systems. The goal will be to reduce costs for and improve service to all marketers and suppliers serving retail customers on the combined systems.

1.3.18 Reservation of Rights to File Revenue Neutral Rate Designs

Nothing in this Joint Proposal shall preclude or limit Niagara Mohawk from filing changes in rate designs during the period of the Rate Plan, provided that such changes are revenue neutral to Niagara Mohawk.

1.3.19 Modifications to Prices Unrelated to Electricity Delivery Rates;

Introduction of New Services

1.3.19.1 The Rate Plan set forth in this Joint Proposal shall govern the prices for regulated delivery service under Niagara Mohawk's Electricity Delivery Rates and its sales of Standard Offer Service and Market-Priced Service. Nothing in this Rate Plan

shall limit in any way Niagara Mohawk's rights to modify, increase or otherwise adjust: (i) fees or charges for services now provided pursuant to Niagara Mohawk's terms and conditions; (ii) fees or charges for new services introduced by Niagara Mohawk during the period of the Rate Plan; (iii) the pole attachment fees or fees for space in underground ducts; or (iv) fees or charges for any other contract for service between Niagara Mohawk and its customers or marketers.

1.3.19.2 To the extent that a filing with the Commission is otherwise required, Niagara Mohawk shall have the right to modify (i), (ii), and (iv) in Section 1.3.19.1, above, by providing the Commission with 60 days advance written notice. Such modifications or new services shall become effective after 60 days unless otherwise ordered by the Commission.

1.3.19.3 During the Rate Plan Period, Niagara Mohawk shall have the ability to introduce new services that are either optional for the customer or may be provided by alternative suppliers using procedures set forth in Sections 2.4 of Attachment 17. Revenues and revenue increases realized from such new services and from any other services provided under this section shall be excluded from the revenues governed by this Rate Plan and shall be retained by Niagara Mohawk during the Rate Plan Period.

#### 1.4 Extension of Natural Gas Rate and Restructuring Agreement

In its Opinion No. 00-9, issued July 27, 2000 in Case 99-G-0336 - Niagara Mohawk Power Corporation - Gas Rates and Restructuring, the Commission approved Niagara Mohawk's Gas Rate and Restructuring Settlement Agreement ("Gas Settlement"). Among other things, the Gas Settlement provides for a revenue requirement freeze for the period from November 1, 1999 through August 31, 2003<sup>8</sup> and comprehensively addresses the goals set forth by the Commission in its Policy Statement Concerning the Future of the Natural Gas Industry in New York State (issued November 3, 1998 in Cases 93-G-0932 et al.). The Gas Settlement also makes provision for an extension beyond August 31, 2003 in the event rate or other changes to its terms are not sought or made for the post-August 31, 2003 period. See, e.g., Gas Settlement, § III (definitions of "Stay out" and "Settlement Period"). To reflect the synergies and efficiency gains associated with the merger that are allocable to natural gas customers, Niagara Mohawk shall extend the Gas Settlement by one year through August 31, 2004, and shall commit not to file for any rate or other changes to its terms that would take effect during this period.<sup>9</sup> Thus, Niagara Mohawk's gas revenue requirement shall remain frozen at current levels through August 31, 2004. Although the Gas Settlement is structured to continue according to its terms in the event of a stay out, several numerical figures

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<sup>8</sup> The almost four-year requirement freeze established in the Gas Settlement follows the Commission's 1996 adoption of a three-year settlement agreement that provided for annualized \$10 million rate decrease for Niagara Mohawk's gas customers. See, Cases 95-G-1095 et al., Opinion No. 96-32, issued December 19, 1996.

<sup>9</sup> However, the Gas Settlement and this proposal recognize the possibility of certain changes to its terms being made that would not affect the validity of a stayout. See, e.g., Gas Settlement, § VII.C.5.

to be applicable during the year ending August 31, 2004 must be specified.<sup>10</sup> They are as follows:

For the year ending August 31, 2004: (1) the daily balancing tolerance band shall be set at plus or minus 5 percent; (2) the daily balancing fee shall be set at a maximum of \$0.244326 per maximum peak day quantity per month using the same adjustment mechanisms specified in steps 6 and 7 of Appendix E to the Natural Gas Settlement, Schedule 1, p. 2; (3) the “pipeline capacity upstream of CNG” figure shall be set at the same level as the preceding “year four”; and (4) the Niagara Mohawk Suburban rate differential shall be reduced by another one sixth as in each of the preceding years.

## **2. MERGER APPROVAL AND CORPORATE AUTHORIZATIONS**

### **2.1 Closing of the Merger a Condition to the Settlement**

On September 5, 2000, National Grid and Niagara Mohawk announced their intention to merge. The closing of this transaction is a condition to the effectiveness of this Joint Proposal. In the event that the merger does not close, Niagara Mohawk shall be free to withdraw the Rate Plan in all respects and shall be free to implement any rate changes authorized under its Power Choice Settlement or as otherwise authorized by law.

### **2.2 Support before All Regulatory Agencies**

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<sup>10</sup> Specifically, the Gas Settlement is silent concerning the daily balancing tolerance band and daily balancing fee to be applicable during any stayout period (*id.*, Appendix E, Schedule 1, pp. 1-2) as well as the “pipeline capacity upstream of CNG” figure to be utilized in the Capacity Incentive Program during such time (*id.*, Appendix D, Schedule 1, p.3) and the continued phased reduction of the rate differential between customers in the Niagara Mohawk Suburban Territory and Niagara Mohawk’s other customers (*id.*, §VI.B.3).

To assure that the condition in the prior paragraph is achieved, the Parties to this Joint Proposal shall not oppose the approval of the merger before any state or federal agency whose approval is required to close the merger.

2.3 Approval of the Merger, Financings, Corporate Structure, and Affiliate Rules

The Parties agree and the Commission by approving this Joint Proposal expressly finds: (1) that the merger of the Petitioners is in the public interest and is approved; (2) that the approvals and requested authorizations set forth in the accompanying Petition are granted; (3) that the proposed corporate structure, affiliate rules, and contracts, accounting treatment and dividend limitations, standards of competitive conduct, and other provisions set forth in Attachment 17 are authorized and approved; and (4) that no other approvals or authorizations from the Commission are necessary to consummate the merger and implement the proposed Scheme of Arrangement.

**3. ADDITIONAL PROVISIONS**

- 3.1 The making of this Joint Proposal shall not be construed, interpreted or otherwise deemed in any respect to constitute an admission by any party regarding any allegation or contention in this proceeding or any other proceeding.
- 3.2 The discussions which have produced this Joint Proposal 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 position of any party or participant presenting such offer or participating in any such discussions, and are not to be used in any manner in connection with these or any other proceedings.



- 3.3 This Joint Proposal is expressly conditioned upon the Commission's acceptance of all provisions hereof without change or condition. In the event the Commission does not by order accept it in its entirety, this Joint Proposal shall be deemed withdrawn, it shall not constitute any part of the record in this proceeding or be used for any other purpose and each of its provisions shall be deemed to be null and void.
- 3.4 The terms, conditions and provisions of Niagara Mohawk Settlements in Power Choice ("PSC") Case Nos. 94-E-0098 and 94-E-0099 and of its natural gas delivery rates in the Case 99-G-0336 shall remain in effect unless modified by the terms of this Joint Proposal.

Respectfully submitted,

THE PETITIONERS

Niagara Mohawk Holdings, Inc.  
Niagara Mohawk Power Corporation  
National Grid Group plc  
National Grid USA

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Dated: January 17, 2001

**SCHEDULE 4.5**  
**Reports and Financial Statements**  
**(Section 4.5)**

On July 13, 2000, the SEC sent the Company a letter of Comment regarding the Company's fiscal year ending December 31, 1999, Form 10-K filing. The Company responded to the SEC letter of Comments by letter dated August 24, 2000, and is awaiting a reply. This may result in the filing of an amendment to the SEC reports.

The Company filed its Form 10-Q for the quarter ended June 30, 2000 approximately 15 minutes after the filing deadline because of problems with the SEC's EDGAR system (high volume). The Company has requested in writing that the filing be treated as timely and is awaiting a response from the SEC.

**SECTION 4.6 OF THE COMPANY DISCLOSURE SCHEDULE**  
**Absence of Certain Changes or Events**

- The Company transferred approximately \$4.8 million from the Niagara Mohawk Pension Plan to a corresponding pension plan established by the purchaser of the Company's Albany Steam Station facilities, in accordance with the terms of the applicable Asset Sales Agreement.
- The Company contributed \$24.3 million to the rabbi trust for the Company's Supplemental Executive Retirement Plan ("SERP") to help fund the benefit obligations of the SERP as specified by the terms of the SERP and certain employment agreements.
- The Company's Board of Directors agreed to amend employment agreements between the Company and all senior officers, which amendments will provide that, for purposes of calculating each such officer's SERP benefit, the officer's "Earnings" will be based on the officer's current annualized rate of pay.
- An employment agreement was entered into with J. Phillip Frazier.
- Change in control agreements were entered into with Joseph M. Russo and Annette M. Durnack.
- Stephen F. Sawa, formerly Manager Work Control/Outage at Nine Mile Point – Unit #1, was involuntarily terminated by the Company on July 28, 2000 and offered severance benefits. Mr. Sawa is currently considering whether he will accept the severance agreement.
- Raymond Meiner, formerly Director Business Development at Niagara Mohawk Energy, Inc., was involuntarily terminated by Niagara Mohawk Energy, Inc. on August 14, 2000 and offered severance benefits. Mr. Meiner is currently considering whether he will accept the severance agreement.
- With respect to Sections 4.6(d) and (e) of the Agreement, the Company has entered into agreements to resolve various employment related claims and disputes identified in Section 4.11(a) of the Company Disclosure Schedule. These agreements, individually or in the aggregate, are not material and do not involve payments, individually or in the aggregate, in excess of three million dollars.

**SCHEDULE 4.6**  
**Absence of Certain Changes or Events**  
**(Section 4.6)**

- On February 23, 2000, the Company and NME entered into a grid note in the amount \$10.0 million for the purpose of providing working capital for its day to day operations. This is part of the \$20 million Board resolution on March 23, 2000 (see Schedule 4.2(a)).
- Preferred Stock dividends on NMPC preferred stock
- See Schedule 4.5

**SCHEDULE 4.7**  
**Legal Proceedings**  
**(Section 4.7)**

1. Fourth Branch Associates Mechanicville (FBAM) v. Niagara Mohawk Power Corporation
2. Public Utility Law Project of New York, Inc. (PULP) Litigation
3. FERC Proceedings:
  - a. ISO New England, Inc., EL00-12-001 and ER00-2052-002
  - b. NYSEG v. New York Independent System Operator et. al..
  - c. New York Independent System Operator
  - d. Morgan Stanley Capital Group, Inc. v. NYISO

**SCHEDULE 4.9**  
**Tax Matters**  
**(Section 4.9)**

**(d) Extensions of Time for Filing Tax Returns.**

The Company and the Company Subsidiaries regularly request extensions of time within which to file most of their material Tax Returns. Notwithstanding the previous sentence, the Company and the Company Subsidiaries filed their 1998 consolidated Federal income tax return, Form 1120, in January 1999 (obviously no extension within which to file was requested).

**(e) Waivers of Statute of Limitations.**

The Company and the Company Subsidiaries have executed waivers of the statute of limitations with respect to the following Taxes and years:

Federal Income Tax	1991-1996
New York State Gross Earnings Tax	1995 and 1996
New York State Gross Income Tax	1995 and 1996
New York State Gas Importation Tax	1995 and 1996
New York State Truck Mileage Tax	6/1996 - 5/2000
New York State Local Sales and Use Tax	12/1992 - 12/1997

**(f) Expiration of Statute of Limitations.**

The Company and the Company Subsidiaries' statute of limitations for the assessment of Federal income taxes has not expired for the tax years 1991 through 1999.

**(g) Audit, Administrative and Court Proceedings.**

The Company and the Company Subsidiaries are currently under Federal income tax audits for the taxable years 1991 through 1996. Those issues which have been raised in writing by the Internal Revenue Service are set forth in revenue agent reports which have been made available pursuant to section 4.9(h).

**SCHEDULE 4.9****Tax Matters  
(Section 4.9)****(j) Code Section 481 Adjustments.**

The Internal Revenue Service has proposed a Code section 481 adjustment with respect to the deductions taken for cost of removal expenses; such proposed adjustment is set forth in revenue agent reports made available pursuant to section 4.9(h).

**(k) Indebtedness.**

The Company and the Company Subsidiaries have exempt facility bonds outstanding.

Below is a schedule of the NYSERDA promissory notes:

Due	Series	--In thousand of dollars	
		1999	1998
Promissory notes:			
Adjustable Rate Series due			
2015		100,000	100,000
2023		69,800	69,800
2025		75,000	75,000
2026		50,000	50,000
2027		25,760	25,760
2027		93,200	93,200
Fixed Rate Series Due			
2013	6.625%	45,600	45,600
2025	5.150%	75,000	75,000
2029	7.200%	115,705	115,705



**SECTION 4.10(a) OF THE COMPANY DISCLOSURE SCHEDULE\***  
**Company Employee Benefit Plans**

**General Plans and Benefits For Employees**

- Niagara Mohawk Pension Plan
- Niagara Mohawk Power Corporation Represented Employees' Savings Fund Plan
- Niagara Mohawk Non-Represented Employees' Savings Fund Plan
- Disability Retirement and Separation Allowance Plan
- Niagara Mohawk First Week and Supplementary Occupational and Non-Occupational Sick Pay Benefits Plan
- Niagara Mohawk Long-Term Disability Income Insurance Plan
- Niagara Mohawk Involuntary Severance Plan
- Niagara Mohawk Sickness and Accident Plan
- Workers' Compensation Law Benefits
- Niagara Mohawk Supplementary Group Term Life Insurance Plan
- Niagara Mohawk Basic Group Term Life Insurance Plan
- Niagara Mohawk Management Health Plan
- Niagara Mohawk Medical Care Plan
- Niagara Mohawk Prescription Drug Plan
- Niagara Mohawk Dental Plan
- Power of Choice Flexible Benefits Plan for Non-Represented Employees of Niagara Mohawk
- Niagara Mohawk Power Corporation Select Plan for Represented Employees
- Niagara Mohawk Employee Assistance Plan
- Niagara Mohawk Business Travel Accident Plan
- Niagara Mohawk Aid to Education Plan
- Niagara Mohawk Scholarship Program
- Niagara Mohawk Management Incentive Compensation Plan
- Niagara Mohawk Exceptional Service Award
- Niagara Mohawk Time-Off Programs
- Niagara Mohawk Holdings, Inc. Child Adoption Benefit Program For Non-Represented Employees
- Niagara Mohawk Power Corporation Child Adoption Benefit Pilot Program For Represented Employees
- Niagara Mohawk Management New Hire Relocation Plan

\*With respect to the issue of "material compliance" with applicable law, the "material compliance" standard shall be satisfied provided that any undisclosed areas of non-compliance do not, individually or in the aggregate, result in liabilities, penalties or remedial costs and expenses exceeding ten million dollars.

SECTION 4.10(a) OF THE COMPANY DISCLOSURE SCHEDULE  
Company Employee Benefit Plans

- Niagara Mohawk Matching Gift Program
- Niagara Mohawk Employee Innovation Policy
- Niagara Mohawk Management Employee Transfer and Relocation Plan
- Chairman's Service Recognition Award
- Niagara Mohawk Deceased Employee Payments Policy
- 25 Years Service Awards
- Transition benefits for eligible management employees whose jobs are abolished as a direct result of the Company's restructuring efforts (as described in the Company's "Transition Benefits" summary)
- Any other benefits that might be specified in applicable collective bargaining agreements

Officer Plans and Benefits

- Niagara Mohawk Long Term Incentive Plan
- Niagara Mohawk Officers Deferred Compensation Plan
- Niagara Mohawk Officers Annual Incentive Compensation Plan
- Niagara Mohawk Supplemental Executive Retirement Plan
- Niagara Mohawk Excess Benefit Plan
- Niagara Mohawk 1992 Stock Option Plan
- Niagara Mohawk CEO Special Award Plan
- Niagara Mohawk Senior Officers Death Benefit Program
- Niagara Mohawk Executive Retirement Medical Care Program
- Niagara Mohawk Executive Retirement Dental Care Program
- Niagara Mohawk Energy, Inc. Long Term Incentive Plan
- Niagara Mohawk Energy, Inc. Annual Incentive Compensation Plan

Employment Agreements With Senior Officers of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation and Niagara Mohawk Energy, Inc.

- William E. Davis, Albert J. Budney, Jr., Darlene D. Kerr, John H. Mueller, William F. Edwards, David J. Arrington, Gary J. Lavine, Thomas H. Baron, Edward J. Dienst, and J. Phillip Frazier

Change In Control Agreements With Officers of Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation

- Richard B. Abbott, Joseph T. Ash, Richard R. Borsellino, John T. Conway, Theresa A. Flaim, Michael J. Kelleher, Peter H. Lebro, Leslie E. Lo Baugh, Jr., Samuel F. Manno, Clement E. Nadeau, Kapua A. Rice, Arthur W. Roos, Joseph M. Russo, Richard H. Ryczek, William J. Synwoldt, Steven W. Tasker, Carl D. Terry, David J. Walsh and Stanley W. Wilczek

**SECTION 4.10(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Company Employee Benefit Plans**

**Change In Control Agreements With the Following Officers of Niagara Mohawk Energy, Inc. and Niagara Mohawk Energy Marketing, Inc.**

- Philip R. VanHorne, Raymond C. Tasch, Frank R. Duesel, Richard J. Pluchino, Matthew J. Picardi, Marcus A. Overdyk, James J. Cifaratta, Richard J. Cohen, and Annette M. Durnack

**Special Severance Benefit Arrangements**

- Joseph M. Russo, Kim A. Dahlberg, Robert G. Smith, James G. Reid, Keith D. Ward, Norman A. Redemacher, Stephen F. Sawa, and Raymond W. Meiner

**Special Termination Agreements With Certain Officers and Former Officers In the Nuclear Facilities Relating To the Divestiture of Nuclear Assets**

- John H. Mueller, John Conway, Richard Abbott, Carl D. Terry, and Kim A. Dahlberg

**Key Employee Retention Program For Certain Nuclear Employees**

- John H. Mueller, John Conway, Richard Abbott, Carl D. Terry, Michael Peckham, David Topley, Donald Bosnic, Stephen Doty, Louis Pisano, Robert Randall, Raymond Dean, Peter Mazzaferro, Mark Schimmel, Carl Senska, Carey Merritt, Vincent Schuman, David Barcomb, William Yaeger, Joseph Sullivan, Denise Wolniak, James Burton, Gregg Pitts, Brian Booth, and Stephen Geier

**Former Employee Plans and Benefits**

- Niagara Mohawk Basic Group Term Life Insurance Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Supplementary Group Term Life Insurance Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Weekly Supplementary Group Term Life Insurance Plan
- Niagara Mohawk Basic Group Term Life Insurance Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Supplementary Group Term Life Insurance Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Medical Care Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Prescription Drug Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Medical Care Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Prescription Drug Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Medical and Prescription Drug Plan For Eligible Participants In the Involuntary Severance Plan
- Niagara Mohawk Special Severance Allowance and Retirement Plan

**SECTION 4.10(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Company Employee Benefit Plans**

- Special Early Age Retirement Plan
- Niagara Mohawk Power Corporation Non-Represented Medical Care VEBA Trust
- Niagara Mohawk Power Corporation Non-Represented Life Insurance VEBA Trust
- Niagara Mohawk Power Corporation Represented Health VEBA Trust
- Niagara Mohawk Power Corporation Medical Care Plan For Vasil Atanasov

**Director Plans and Benefits**

- Niagara Mohawk Holdings, Inc. Active Director Deferred Stock Unit Plan
- Niagara Mohawk Holdings, Inc. Active Director Compensation Program (includes annual retainer, meeting fees, and expenses)
- Niagara Mohawk Holdings, Inc. Active Directors Medical Program
- Niagara Mohawk Holdings, Inc. Active Directors Dental Program
- Niagara Mohawk Holdings, Inc. Active Directors Life Insurance Program
- Niagara Mohawk Holdings, Inc. Retired Directors Medical Program
- Niagara Mohawk Holdings, Inc. Retired Directors Life Insurance Program
- Niagara Mohawk Directors Nonqualified Pension Program
- Niagara Mohawk Business Travel Accident Plan

**SECTION 4.10(c) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Health or Welfare Benefits To Retirees Or Other**  
**Terminated Employees, Other Than Benefit**  
**Continuations Pursuant To Section 601 of ERISA**

- Niagara Mohawk Basic Group Term Life Insurance Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Supplementary Group Term Life Insurance Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Basic Group Term Life Insurance Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Supplementary Group Term Life Insurance Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Weekly Supplementary Group Term Life Insurance Plan
- Niagara Mohawk Medical Care Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Prescription Drug Plan For Employees Retired Prior To May 1, 1996
- Niagara Mohawk Medical Care Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Prescription Drug Plan For Employees Retired After April 30, 1996
- Niagara Mohawk Medical and Prescription Drug Plan For Eligible Participants In the Involuntary Severance Plan
- Niagara Mohawk Power Corporation Non-Represented Medical Care VEBA Trust
- Niagara Mohawk Power Corporation Non-Represented Life Insurance VEBA Trust
- Niagara Mohawk Power Corporation Represented Health VEBA Trust
- Niagara Mohawk Power Corporation Medical Care Plan For Vasil Atanasov
- Disability Retirement and Separation Allowance Plan
- Niagara Mohawk Involuntary Severance Plan
- Niagara Mohawk Employee Assistance Plan
- Niagara Mohawk Senior Officers Death Benefit Program
- Niagara Mohawk Deceased Employee Payments Policy
- Niagara Mohawk Executive Retirement Medical Care Program
- Niagara Mohawk Executive Retirement Dental Care Program
- The change in control agreements with senior officers of Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation described in Section 4.10(a) of the Company Disclosure Schedule have provisions providing for the continuation of health benefits and/or certain welfare benefits for specified periods of time
- The employment agreements with certain senior officers described in Section 4.10(a) of the Company Disclosure Schedule have provisions providing for the coverage of health benefits and/or certain welfare benefits for specified periods of time
- The severance arrangements for certain individuals described in Section 4.10(a) of the Company Disclosure Schedule have provisions providing for the coverage of health benefits and/or certain welfare benefits for specified periods of time

**SECTION 4.10(d) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Coverage In the Company Employee Benefit Plans**  
**Of Persons Other Than Employees Who Are Employed**  
**By the Company or a Company Subsidiary**  
**(or Former Employees or Beneficiaries of Former Employees)**

Certain active and/or retired directors of the Company and/or its Subsidiaries are covered under the following plans and programs:

- Niagara Mohawk Holdings, Inc. Active Director Deferred Stock Unit Plan
- Niagara Mohawk Holdings, Inc. Active Director Compensation Program (includes annual retainer, meeting fees, and expenses)
- Niagara Mohawk Holdings, Inc. Active Directors Medical Program
- Niagara Mohawk Holdings, Inc. Active Directors Dental Program
- Niagara Mohawk Holdings, Inc. Active Directors Life Insurance Program
- Niagara Mohawk Holdings, Inc. Retired Directors Medical Program
- Niagara Mohawk Holdings, Inc. Retired Directors Life Insurance Program
- Niagara Mohawk Directors Nonqualified Pension Program
- Niagara Mohawk Business Travel Accident Plan

**SECTION 4.10(e) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Multiemployer Plan/Withdrawal Liability**

None

**SECTION 4.10(h) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Employer Securities, Employer Real Property, or Other Employer Property**  
**Included In the Assets of Any Company Employee Benefit Plan**

- Matching contributions to the Niagara Mohawk Non-Represented Employees' Savings Fund Plan and the Niagara Mohawk Represented Employees' Savings Fund Plan (collectively, "Savings Fund Plans") automatically are invested in Company stock. Participants in the Savings Fund Plans then have the option to exchange their matching contributions to any other investment alternative available under the applicable plan.
- Other investment alternatives available under the Savings Fund Plans could, depending upon the investment choices made by the applicable investment manager, have some Company stock, preferred stock, or bonds as part of a diversified investment portfolio for certain periods of time.
- Investments made with respect to the Niagara Mohawk Pension Plan could, depending upon the investment choices made by the applicable investment manager, have some Company stock, preferred stock, or bonds as part of a diversified investment portfolio for certain periods of time.



**SECTION 4.10(j) OF THE COMPANY DISCLOSURE SCHEDULE**

**Payments under the following plans or agreements may fail to be deductible under Section 280G or Section 162(m) of the Code**

**Employment Agreements listed in Section 4.10(a) of the Company Disclosure Schedule**

**Niagara Mohawk Supplemental Executive Retirement Plan**

**Niagara Mohawk Long Term Incentive Plan**

**Niagara Mohawk CEO Special Award Plan**

**Niagara Mohawk Officers Annual Incentive Compensation Plan**

**Niagara Mohawk Energy Long Term Incentive Plan**

# **I. COLLECTIVE BARGAINING AGREEMENTS**

## **A. NIAGARA MOHAWK POWER CORPORATION**

### **1. The IBEW Local 97 Collective Bargaining Agreement**

Niagara Mohawk Power Corporation is a party to a collective bargaining agreement with Local 97 of the International Brotherhood of Electrical Workers, AFL-CIO (the "IBEW Local 97 Collective Bargaining Agreement").

### **2. Other Documents Relevant to the IBEW Local 97 Collective Bargaining Agreement**

The agreement and understandings between Niagara Mohawk Power Corporation and IBEW Local 97 are reflected in a number of documents in addition to the main labor contract. These documents include the following:

- a) the Memorandums of Understanding referenced in Appendix D, paragraph 54 of the labor contract;
- b) special agreements entered into pursuant to the Nuclear Addendum set forth on page 120 of Appendix B of the labor contract;
- c) miscellaneous arbitration awards and grievance settlements issued or reached pursuant to Article XXII of the labor contract if they were intended to resolve particular issues prospectively; and
- d) the Memorandums of Agreement reached regarding the transition, or non-transition, of certain employees associated with Niagara Mohawk Power Corporation's former fossil and hydroelectric operating assets to employment with the purchasers of those assets.

## **B. OTHER COLLECTIVE BARGAINING AGREEMENTS APPLICABLE TO NIAGARA MOHAWK POWER CORPORATION OPERATIONS**

The Project Agreement between Utility Resources, Inc. and the Oswego County Building Trades relating to repair and construction work at the Nine Mile Point Nuclear Generating Stations.

The Memorandum of Understanding between Utility Resources, Inc. and the Oswego County Building Trades relating to maintenance activities at the Nine Mile Point Nuclear Generating Stations.

\*With respect to the issue of "material compliance" with any and all laws in any relevant jurisdiction, including common law, all applicable federal, state and local laws with respect to employment practices, labor relations, safety and health regulations and mass layoffs and plant closings, the "material compliance" standard shall be satisfied provided that any undisclosed areas of non-compliance do not, individually or in the aggregate, result in liability, penalties, or remedial costs and expenses exceeding ten million dollars.

## II. EMPLOYMENT AND LABOR-RELATED LITIGATION

The following is a listing of various pending employment and labor-related disputes in which a claim of an alleged violation has been made. These allegations have been denied and affirmative defenses have been asserted in many cases.

## Judicial Litigation

Case	Description
Peter Bailey v. Niagara Mohawk Power Corporation (Docket No. 00-CV- )	A threatened retaliation complaint filed by a former nuclear security guard alleging that he was laid off because of his alleged disability and participation in an internal sexual harassment complaint.
Earl V. Belcher, Jr. v. Niagara Mohawk Power Corporation (Docket No. 98-CV-1531 (DNH/GJD))	A race, color and sex discrimination complaint filed on September 28, 1998, by an African-American Training Specialist who was not awarded a Collections or Customer Service Center Team Leader position.
Patricia A. Buono v. Niagara Mohawk Power Corporation (Docket No. 98-CV-953 (FJS/GJD))	A sex and retaliation complaint filed June 16, 1998, by a Consumer Representative, alleging she has been discriminated against with respect to the assignment of certain territories and accounts.
Patricia A. Buono v. Niagara Mohawk Power Corporation (Docket No. 99-CV-2190)	A discrimination and retaliation complaint filed on December 17, 1999 alleging discrimination and retaliation with respect to a November 7, 1997 disciplinary action and other related events.
Norman J. Coddington v. Niagara Mohawk Power Corporation (Docket No. 98-CV-0660(SC))	A disability discrimination and retaliation complaint filed October 13, 1998, by a former Western Division Shift Control Operator, who alleges that he was denied reasonable accommodations with respect to work reassignments.
Gail M. Grosjean v. Niagara Mohawk Power Corporation (Docket No. 95-CV-139A(M))	A sex discrimination and sexual harassment complaint filed on February 23, 1995, by an employee in the Western Division who alleges that she was discriminated against in her conditions of employment (discipline, job assignment) and was subjected to harassment in a former position.
John W. Fahey, et al. v. Niagara Mohawk Power Corporation; Barry G. Manning, Sr., et al. v. Niagara Mohawk Power Corporation (Docket No. 95-CV-172; Docket No. 95-CV-1149)	An ERISA action brought by a group of retirees who retired before the Voluntary Employee Reduction Program's effective date. These cases have both recently been settled and the settlement payments will be issued shortly.
IBEW, Local 97 v. Niagara Mohawk Power Corporation (Docket No. 96-CV-728; 98-7138)	A proceeding to confirm/vacate an arbitration award involving reinstatement of a nuclear armed guard. The case was settled by accepting the employee's resignation and paying a lump sum settlement.
Roger L. Harris v. Niagara Mohawk Power Corporation (Docket No. 95-CV-788)	A race and retaliation complaint filed by a former employee who did not receive a Team Leader position after consolidation of the Company's customer service and collections functions and was laid off as part of a RIF.
Sharon Lyons v. Niagara Mohawk Power Corporation (Docket No. 00-CV-375)	A disability discrimination and retaliation charge filed by a current employee regarding an alleged delay in returning her to work following an extended absence.
Deborah Y. Richerson v. Niagara Mohawk Power Corporation (Docket No. 99-CV-0643)	A sex discrimination, sexual harassment and retaliation complaint filed on September 10, 1999 by a clerical employee in Buffalo, NY.
Teresa Roberts v. Niagara Mohawk Power Corporation (Docket No. 00-CV-0253A(SC); Prior EEOC: 165990271)	A discrimination complaint filed on March 21, 2000 by an employee who alleges she was improperly denied promotion to a Relay Tester A position.
Mary Ellen Valliere v. Niagara Mohawk Power Corporation (Docket No. 99-CV-1612 (FJS/GLS))	A sex and disability discrimination complaint filed October 1, 1999, by a former nuclear plant operator, alleging improper refusal to assign her to alternate work assignments.
Allen M. Devereux v. Niagara Mohawk Power Corporation (Index No. 93-02526)	An age discrimination complaint filed by a former Mohawk Region supervisor. The complaint was settled by discontinuing the employee's workers' compensation and court claims and paying a lump sum settlement.
George S. Mehallow v. Niagara Mohawk Power Corporation and Susan Wilder (Index No. 99-4329; RJ1 No. 33-00-1076)	A defamation complaint filed on July 14, 2000, by a former Tax Analyst, regarding a performance evaluation.

**SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Labor and Employee Relations**

George S. Mehallow v. Niagara Mohawk Power Corporation (Index No. 2000-1788; RJ No. 33-00-1885)	A defamation and discrimination complaint filed on March 29, 2000, by a former Tax Analyst, who alleges that he was improperly evaluated and terminated.
Dennis W. Stone v. Niagara Mohawk Power Corporation (Index No. 93-3349)	A breach of contract and defamation complaint filed June 4, 1994, by a former Nuclear Division Management employee, alleging he was improperly discharged and provided with unfavorable recommendations.
Edward Stoner v. Niagara Mohawk Power Corporation, General Physics, Virgil Perry, Mark McCrobie and Randy Fromm (Index No. 98-2711)	A retaliation complaint filed on April 30, 1998, under the NY Whistleblower Law by a General Physics employee, who alleges he was subjected to various forms of discrimination and retaliation after raising concerns at the Nuclear Learning Center.
Edward Stoner v. Niagara Mohawk Power Corporation, General Physics, Virgil Perry, Mark McCrobie, Randy Fromm and Mark Carpenter (Index No. 98-7568)	A state court complaint filed on December 21, 1998, by a former General Physics employee, asserting several tort claims based upon allegations that he was subjected to a hostile work environment due to various personal comments made to him over a three-year period at the Nuclear Learning Center ( <u>see also</u> Index No. 98-2711).
Jeffrey G. Stuckey v. Niagara Mohawk Power Corporation (Index No. 97-3764)	A disability discrimination complaint filed on April 30, 1997, by a former Huntley Steam Plant Utility Operator, who challenges a delay in his reinstatement after an extended disability leave.
Daniel Smith v. Niagara Mohawk Energy, Inc. (Docket No. 00-3600)	A former Marketing employee in Pennsylvania filed a Writ of Summons to preserve his right to bring an action against the Company at a later date. No basis for a claim has been stated.

**Federal and State Administrative Proceedings or Claims**

**EEOC**

Tracy D. Andrews v. Niagara Mohawk Power Corporation (EEOC Charge No. 165A00346)	A disability and retaliation complaint filed on March 6, 2000, by a Collections Services Associate C, alleging failure to promote her to a Management position. The Complainant also alleges retaliation based on her requests for a reasonable accommodation.
Donald J. Benson v. Niagara Mohawk Power Corporation (EEOC Charge No. 165950289)	Disability discrimination charge filed by an employee on long-term disability leave because of back problems, who requested re-employment as a Service Representative after his personal physician gave medical clearance to return to work.
Ronald Shurr v. Niagara Mohawk Power Corporation (EEOC Charge No. 165A00430)	A disability discrimination complaint filed by a Utility Mechanic who alleges he was denied a promotion to a vacant Garage Mechanic position because of his disability.
Anita Strollo-DiCenso v. Niagara Mohawk Power Corporation (EEOC Charge No. 165A00159)	A sex and disability discrimination and retaliation complaint filed by a Collections Service representative in Buffalo, NY, who alleges that her reinstatement after a return from disability leave was delayed and that she was retaliated against following that return.
William D. Ryan v. Niagara Mohawk Power Corporation (EEOC Charge No. 165990485)	An age discrimination complaint filed by a former management employee in the Information Technology Department. The complaint was settled by accepting the employee's resignation and paying a single lump sum payment.
Bruce D. Williams v. Niagara Mohawk Power Corporation (EEOC Charge No. 165A00573)	A disability complaint filed by a Nuclear Auxiliary Operator E, alleging ADA violation for denial of interviews for the positions of Garage Mechanic A and Tree Trimmer, and subsequently not selecting him for these positions.

# Labor and Employee Relations

## New York State Division of Human Rights

Case Name	Description
Tawisha L. Buckingham v. Niagara Mohawk Power Corporation (SDHR No. 5-E-R-00-5752672-E)	A race discrimination complaint filed by a former part-time employee regarding her discharge from employment.
Kermit Byrd, Jr. v. Niagara Mohawk Power Corporation (SDHR: 5-E-R-94-5750190-E)	A discrimination complaint filed by a Niagara Mohawk Gas employee who tested positive for cocaine and failed to follow EAP treatment.
Theresa M. Bowen v. Niagara Mohawk Power Corporation (SDHR: 4-E-D-00-5752494-D)	An age and disability discrimination complaint filed by a former Consumer Relations Representative, who alleges she was denied placement in an alternate position to allow her to return to work following her disability leave.
Edward A. Carey v. Niagara Mohawk Power Corporation (SDHR No. 4-E-D-00-1203756-D)	A disability discrimination complaint filed by a Distribution Inspector regarding the calculation of his pension benefits following his return from disability retirement.
Kenneth Hayes v. Niagara Mohawk Power Corporation (SDHR: 7-E-R-96-7901648)	A race discrimination complaint filed by a former employee alleging discrimination during a RIF.
William Kennedy v. Niagara Mohawk Power Corporation (SDHR: 4-E-OR-92-1200850-E; EEOC Charge No. 16G927278)	A race discrimination and retaliation complaint concerning demotion from a Dispatcher C position in the Eastern Division after a prior complaint.
Joyce M. Lewis v. Niagara Mohawk Power Corporation & Mat Waldecker (SDHR: 9-S-E-RS-97-1202572)	A sexual and racial harassment complaint filed by an employee who worked as a Seasonal Collector and Janitor.
Kevin D. Long v. Niagara Mohawk Power Corporation (SDHR: 7-E-R-99-7902820-E; EEOC Charge No. 16G998330)	A race/color discrimination complaint filed by a former temporary Meter Reader, who alleges he was laid off due to race/color and not because of a lack of available work.
Eustace A. Mendez v. Niagara Mohawk Power Corporation (SDHR: 7-E-R-95-7901447-E; EEOC Charge No. 16G958476)	A national origin discrimination complaint filed by a non-represented employee, who alleges he was improperly laid off from the Huntley Steam Station during a downsizing.
Aundry Ogden v. Niagara Mohawk Power Corporation (SDHR: 7-E-R-99-7902819-E; EEOC Charge No. 16G998327)	A race/color discrimination complaint filed by a former Meter Reader who alleges she was laid off and replaced by a white employee with less seniority.
Zachary Paris v. Niagara Mohawk Power Corporation (SDHR: 7-E-R-99-7903079-E; EEOC Charge No. 16G998121)	A race and color discrimination complaint filed by a former Facilities Department Janitor, who alleges he was denied upgrading and forced to resign from his job on June 10, 1999 due to differential treatment received by Supervisors.
Bonnie Sue Pokojski v. Niagara Mohawk Power Corporation (SDHR: 7-E-S-99-7903022-E; EEOC Charge No. 16G998573)	A sex discrimination complaint filed by a former Dunkirk Station employee, who alleges she was not offered the same employment opportunities as her male co-workers.

## SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE

## Labor and Employee Relations

Jerome Reid v. Niagara Mohawk Power Corporation (SDHR: 5-E-O-90-140455E)	A race/disability discrimination and retaliation complaint filed by an Accounts Receivable Clerk, who alleges various retaliation following the filing of a prior discrimination complaint.
Isabel C. Terrero v. Niagara Mohawk Power Corporation (SDHR: 6-E-S-93-4701379-E; EEOC Charge No. 16G937877)	A sex discrimination complaint filed by a Clerk B employee, who alleges her reassignment from a Stock Handler C position was discriminatory.
Joseph A. Wagner v. Niagara Mohawk Power Corporation (SDHR: 6-E-AD-00-4702985-D)	An age and disability discrimination complaint by a former Line Department Laborer, who alleges he was denied a return to work in an alternate position following his neck and right elbow surgery.
Patricia A. Wright v. Niagara Mohawk Power Corporation (SDHR: 6-E-A-92-4700593-A; EEOC Charge No. 16G937242)	An age discrimination complaint filed on November 4, 1992, by an Office Administration Supervisor, who alleges she was denied Secretary I or Executive Secretary vacancy positions.

## U.S. Department of Labor - OFCCP

Case	Description
Tanya J. Burke v. Niagara Mohawk Power Corporation (OFCCP: B990065)	A race/disability discrimination complaint filed by a former Meter Shop employee, who alleges she was improperly placed on limited disability retirement status following a return from her disability leave.
Christopher H. Gilbert v. Niagara Mohawk Power Corporation (OFCCP: B950048)	A race, disability and retaliation complaint filed by an employee alleging discrimination in work assignments and promotional opportunities in the Facilities Department.
Jerome Reid v. Niagara Mohawk Power Corporation (OFCCP: B990006)	A disability discrimination/retaliation complaint filed alleging discrimination regarding failure to provide a sit/stand unit to accommodate a back injury, and refusal to upgrade from Drafting Tech C to Recorder A and various other alleged harassment/retaliation.

## U.S. Department of Labor - Wage &amp; Hour Division/OSHA

Case	Description
Jerome Reid v. Niagara Mohawk Power Corporation (Charge: 2000-ERA-23)	A retaliation complaint filed by a non-nuclear employee concerning an alleged demotion from a Paygrade 18 position to a Paygrade 11 position.

**SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Labor and Employee Relations**

**ERISA - Administrative Claims**

Case	Description
Edward Carey v. Niagara Mohawk Power Corporation Pension Plan	A threatened action for denial of additional pension benefits under the Niagara Mohawk Pension Plan.
William Hotaling v. Niagara Mohawk Power Corporation Pension Plan	A threatened action for denial of additional pension credits under the Niagara Mohawk Pension Plan.

**National Labor Relations Board \***

Case	Description
IBEW Local 97 v. Niagara Mohawk Power Corporation (Charge: 3-CA-22196)	A ULP charge filed on February 22, 2000, by IBEW Local 97, alleging that Niagara Mohawk Power Corporation refused to furnish certain information pertaining to the Telergy Joint Venture, Niagara Mohawk Holdings, Inc., and several of its unregulated subsidiaries.
IBEW Local 97 v. Niagara Mohawk Power Corporation and alleged affiliated entities (Charge: 3-CA-22469)	A ULP charge filed on April 11, 2000 alleging that Niagara Mohawk Power Corporation violated the labor contract by not applying its terms to Niagara Mohawk Holdings, Inc., Opinac North America, Inc., Niagara Mohawk Energy, Inc., Niagara Mohawk Energy Marketing, Inc., Opinac Energy Corp., NM Properties, NM Uranium, Inc., NM Receivables Corp., NM Receivables Corp. II, NM Receivables, LLC, Telergy Joint Venture, and other alleged affiliated or related entities, and by transferring alleged bargaining unit work to Niagara Mohawk Energy, Inc., Niagara Mohawk Energy Marketing, Inc. and the Telergy Joint Venture.
IBEW Local 97 v. Niagara Mohawk Power Corporation (Charge: 3-CA-22592)	A ULP charge filed on June 30, 2000, alleging improper refusal to comply with the Union's request for information concerning the filling of job vacancies in Line Mechanic positions in the Eastern Division and the use of contractors to perform unspecified work.
IBEW Local 97/Theresa Bowen v. Niagara Mohawk Power Corporation (Charge: 3-CA-22560)	A ULP charge alleging improper refusal to furnish information pertaining to an employee's disability retirement.
IBEW Local 97 v. Niagara Mohawk Power Corporation (Charge: 3-CA-22647-1)	A ULP charge filed on August 10, 2000, alleging improper refusal to bargain collectively by failure to accept and process a grievance concerning Edward Carey.

**Arbitration Cases**

Case	Description
15 E 89 Relay Testers Using Computers	Grievance over computer work on the SEARS Program being inputted by Relay Testers instead of an Operations Clerk B.
18 W 91 Machine Shop	Grievance over contractor issue regarding tool repair work.

\* National Labor Relations Board charges that have pending conditional dismissals pursuant to the Board's deferral doctrines have not been included.

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23 E 91 Maintenance Mechanics (Steel Construction)	Grievance claiming that Maintenance Mechanics worked out of job classification by erecting steel for new construction.
23 DC 94 Layoff-Bump Rights M. Rivers	Grievance by an employee who was not offered a temporary position.
7 DC 95 Working out of Job Class:Engineering Clerks	Grievance concerning Steno-Clerks performing filing work after Engineering Clerk C positions were abolished.
17 CC 94 3 CC 95 Management Performing Bargaining Unit Work - Law Trac	Grievance over duties allegedly performed by Management employees after a represented position was abolished.
6 CC 95 8 CC 96 Discrimination: C. Gilbert Upgrade: C. Gilbert	Grievance alleging that an employee was improperly denied an upgrade and assigned work beyond his physical abilities/limitations.
115 SC 95 Bumping - R. Scheu	Bumping Grievance claiming that the affected employee should have been sustained at higher pay level.
13 CC 95 Abolishment of Maintenance Evaluator	Grievance over the abolishment of a Maintenance Evaluator position in the Facilities Department.
1 S 96 Competitive Opportunities/Successor Clause	Grievance challenging failure of bargaining unit employees to perform fiber optic work performed by the Telergy Joint Venture or its contractors within Niagara Mohawk Power Corporation's transmission right-of-way.
25 EW 96 26 EW 96 35 EW 96 Hour to Eat Meal: End of Day	Grievance concerning an hour to eat meals when working end of day overtime in a non-emergency situation.
148 N 95 7 N 96 Steno-Clerk Upgrade	Grievance over Steno-Clerks not being upgraded to Plant Operator Clerk C, Paygrade 16, for time entry work.
11 CC 96 Discipline: M. Muldoon	Disciplinary Grievance filed on behalf of employee who received a 5-day Code 62 for repeated abuse of cell phone.



## Labor and Employee Relations

9 EC 96 Lyons: Disability Retirement	Grievance regarding delay in returning an employee who did not provide acceptable medical documentation required under Article XI, 9.
5 N 96 Contractors	Contracting Grievance relating to the Engineering Department.
12 DC 95 Construction Instrument Operators	Grievance over the abolishment of a Construction Instrument Operator position where it is claimed Management was doing bargaining unit work.
22 EC 96 K. Joseph: Upgrade	Upgrade Grievance by a Typist Clerk seeking to upgrade to Steno-Clerk position.
33 GC 96 Service Department: Job Specifications	Grievance over use of Meter Readers within Service Department.
2 SC 95 Crane Operator License	Grievance over denial of a position requiring a crane license.
43 GC 96 Discipline: Renfro	Discipline Grievance over sleeping on the job.
22 CE 96 Security Clause: Temporary Job	Grievance over placement of a Security Clause employee into a temporary position.
18 CE 96 Return to Work: Dederick	Grievance over failure to return an employee to work who did not provide acceptable medical evidence and failed an independent medical exam.
17 CE 96 Discipline: Schaefer	Disciplinary Grievance relating to letter to personnel file for poor attitude and job performance.
10 CS 96 Job Abolishment: Information Services	Job Abolishment Grievance concerning the EDP Console Operator job and a claim that Management was doing bargaining unit work.
23 SW 95 33 SW 95 35 SW 95 Storm Restoration: Staffing	Grievance in which Union seeks to require negotiation of the number of crews sent from garage during a storm.

## Labor and Employee Relations

8 EC 97 9 EC 97 Work Hours: Lunch Period	Work Hours Grievance on behalf of employees seeking overtime pay for work without prior authorization.
3 GC 97 Upgrade: Ekstrand & Griffin	Upgrade Grievance by Steno-Clerks seeking an upgrade to Paygrade 16 for payroll duties.
5 CE 97 Work Force Reduction: M. Loudon	Grievance over requiring an employee to bump into a lower job because no medical evidence was provided to substantiate claim re: ability to perform other duties.
35 GC 96 Upgrade: Designer B	Grievance seeking upgrade for Designer work.
45 CE 95 5 CE 96 Discipline: J. Lewis	Disciplinary Grievances relating to multiple suspensions.
26 GC 97 Discharge: N. Ekstrand	Grievance over the discharge of an employee who failed to return to work.
9 S 97 Shared Metering	Grievance over job duties associated with Shared Metering Work.
40 N 96 Non-Emergency: Paid Meal Period	Grievance over overtime meals.
6 CE 97 Green Sheet Posting	Grievance regarding post & bid issues associated with Seasonal positions – Green Sheets.
6 FW 97 Upgrading Dunkirk Steam	Upgrading Grievance at the Dunkirk Steam Plant.
14 CS 97 25-Year Letter Administration	Grievance over the administration of the 25-year Letter placement by Management.
19 GE 97 Welding: Gas Mechanic	Job Grievance regarding Welding in the Garage Mechanic job classification.

## Labor and Employee Relations

4 FW 97 Disability Discrimination: N. Coddington	Grievance over failure to return employee to work following a disciplinary leave.
90 EE 97 Storm Restoration: Staff(Garage Mechanic)	Grievance over emergency storm response issues.
34 GC 97 Hour to Eat Meal: End of Day	Grievance over whether Gas Mechanics are paid an hour to eat overtime meals.
41 GC 98 Safety Violation Discipline	Disciplinary Grievance over employee given 3-week suspension for alleged safety violation.
85 EE 97 Upgrade	Grievance over employee denied upgrade to Chief position.
28 GE 97 Service Representative Zone Assignments	Grievance over assignment of Service Representatives.
4 DE 94 5 DE 94 6 DE 94 Upgrading: Relay Tester B	Grievance over upgrading for Relay M&T work.
2 CC 98 Layoff of C-status	Grievance over layoff of C-status employees.
34 EE 97 Article XVI	Grievance of Article XVI issues associated with letters of reprimand.
25 EC 98 Discipline: Clark	Disciplinary Grievance.
26 EC 98 Discipline:Sacco	Disciplinary Grievance.
29 GE 97 Welding Certifications	Grievance over training of Gas Mechanic to perform ARC Welding.

SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE  
Labor and Employee Relations

24 GC 98 Discipline: J. O'Dell	Disciplinary Grievance.
4 N 98 Paid Time to Eat	Overtime Grievance for extension of work day in non-emergency situations.
10 GC 98 Upgrading: Service Representative	Grievance over Meter Readers upgraded to Service Representative Helper.
30 EW 98 Job Award	Non-senior award grievance.
14 EE 98 Lunch Period: Eastern Division	Grievance over the extension of work days because of a 1-hour lunch period vs. a ½-hour lunch period.
32 EC 97 Safety Violation: D. Ciciarelli	Grievance over Chief Line Mechanic disciplined for APR violation.
33 EC 97 Safety Violation: M. Snyder	Grievance over Line Mechanic disciplined for APR violation.
6 EC 98 Overtime Eligibility	Overtime Grievance regarding equalization of Saturday overtime.
4 FE 97 Unqualified Bidder: R. Guay	Non-Senior award grievance.
72 EE 97 On-site Reporting	Grievance over onsite reporting.
35 GE 97 Hour to Eat: Schenectady Gas	Grievance over overtime work during lunch period.
36 GE 96 Upgrading: Jurusik	Grievance over denial of upgrade to employee who claims work was of a higher job classification.

SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE  
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8 S 97 1 S 98 Appliance Repair/Service Policy	Union Grievance claiming contractors doing bargaining unit work.
12 CC 98 E. Smith: Extended Disability	Grievance over requiring employee to take Functional Capacity Test.
6 CC 98 Harassment Discipline	Grievance over discipline issue for sexual harassment.
9 CE 98 Temporary Relocation	Grievance over transfers in the Saratoga area.
4 EE 98 Management Rights: K. Campbell	Grievance over staffing levels at the ERCC.
36 GC 98 72 GC 98 73 GC 98 75 GC 98 84 GC 98 23 GC 99 24 GC 99 Discharge: Hogan	Grievance relating to discipline and discharge of a Union Steward.
13 EC 97 Upgrading: T. Knickerbocker	Grievance claiming employee worked at a higher job classification.
10 EC 98 Upgrading: D. Sokolowski	Grievance over need to upgrade to Chief for plowing snow.
47 EC 98 Disability Retirement: T. McSweeney	Grievance challenging disability retirement and adjustment of seniority date.
1 EE 98 Overtime: Agostino	Overtime grievance relating to claim of Management performing bargaining unit work.
57 EE 98 Overtime	Overtime grievance relating to Job Flex -- Maintenance Mechanics performing switching.

**SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Labor and Employee Relations**

50 EE 98 Discharge: R. Layton	Grievance over discharge of a Meter Reader.
38 GE 97 43 GE 97 Job Performance: B. Monk	Grievance over demotion of a Chief Gas Mechanic due to job performance.
25 N 98 20 N 99 Part-time Seniority: K. Joseph	Grievance over adjusted seniority date while part-time employee.
23 EE 98 Call-out: J. Mooney	Grievance over overtime equalization for an employee unavailable for call-out.
59 EE 98 Job Flexibility: Switching	Grievance over Maintenance Mechanics switching (Job Flex).
86 GE 98 Service Representative B Work	Grievance over Service Representatives using "squeeze off" tool.
34 N 98 Safety Violation: T. Gardner	Grievance over demotion of employee for a safety violation.
49 N 98 Non-emergency: Paid Time for Overtime Meal	Grievance over an hour to eat the overtime meal.
3 S 97 Mutual Gains: Planner/Representative Article XXIII	Union Grievance claiming Company withdrawal from Mutual Gains Negotiations was in violation of the contract.
1 S 99 Flame Retardant Program	Union Grievance claiming Company failed to provide required clothing.
5 EC 98 Overtime Opportunity: Relay Tester	Grievance over overtime equalization on Saturdays.
65 GC 98 66 GC 98 67 GC 98 68 GC 98 69 GC 98 70 GC 98 Transfer Issue: Dispatchers	Grievance over transfer of Mohawk Valley Dispatchers to Syracuse, NY.

# Labor and Employee Relations

43 EE 97 44 EE 97 45 EE 97 Staffing Issue: Storms Emergency	Grievance over Management not providing employees to overtime work during storm emergency.
46 EE 97 47 EE 97 Storm Emergency at Gloversville	Grievance over Management not providing employees to overtime work during storm emergency.
36 GE 97 11 GE 98 27 GE 98 Post & Bid: Divisional Responsibilities	Grievance over failure to notify Union when posting Service Representative positions.
2 S 99 Union Business and Rest Time	Grievance over Union claim that employees who were on rest time were on Union Business.
55 EW 99 56 EW 99 57 EW 99 58 EW 99 Safety Violations: Corrective Actions	Disciplinary Grievance for APR violations.
20 EE 98 Discipline: L. Holland	Disciplinary Grievance for excessive skips by a Meter Reader.
22 EE 97 Worker's Compensation: Code 14	Grievance over code applied for time-off.
44 EE 98 Discipline: Unauthorized Release	Disciplinary Grievance for unauthorized release from work.
2 CC 99 Overtime Issue: Medical Treatment	Overtime Grievance for filling out paperwork that Supervisor actually filled out.
42 EW 99 Discipline: Adulterated Drug Test	Disciplinary Grievance for drug test adulteration.

SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE  
Labor and Employee Relations

43 EC 98 44 EC 98 68 EC 98 Qualifications: M. Kennedy	Grievance over non-senior award because employee was unqualified due to medical reasons.
85 GE 98 Arbitrability & Disability Retirement	Grievance over disability retirement.
36 EW 98 37 EW 98 Paid Time To Eat	Overtime Grievance regarding an hour to eat meals in a non-emergency situation.
51 EC 97 21 EC 98 84 EC 98 86 EC 98 41 EC 99 69 EC 99 Seasonal Posting	Union Grievance disputing Company's right to post Seasonal Jobs.
6 EW 98 Shift Work & Rate of Pay	Grievance over double time pay issue.
20 GE 98 Mid Day Meal	Grievance over a ½-hour vs. 1-hour lunch period.
25 EE 98 Equalization of Overtime	Grievance relating to call-out procedure.
26 GE 98 Rescheduled Day Workers	Grievance regarding rescheduling from 7:00-3:30.
51 EW 98 52 EW 98 53 EW 98 54 EW 98 55 EW 98 56 EW 98 Paid Time To Eat	Grievance seeking paid hour to eat overtime meal for end of day work extension.



# Labor and Employee Relations

83 EW 98 84 EW 98 85 EW 98 86 EW 98 87 EW 98 88 EW 98 89 EW 98 90 EW 98 91 EW 98 92 EW 98 93 EW 98 94 EW 98 Paid Time To Eat	Union Grievance seeking paid hour to eat overtime meal for end of day work extension.
46 EC 98 Seasonal Posting: Subway	Union Grievance disputing Management's right to post Seasonal jobs.
128 EC 99 Discipline: P. Bush	Disciplinary Grievance for insubordination.
131 EC 99 Discipline: C. Collins	Disciplinary Grievance for insubordination.
132 EC 99 Discipline: G. Coon	Disciplinary Grievance for insubordination.
137 EC 99 Discipline: C. Hill	Disciplinary Grievance for insubordination.
147 EC 99 Discipline: D. Moreau	Disciplinary Grievance for insubordination.
153 EC 99 Discipline: M. Roberts	Disciplinary Grievance for insubordination.
156 EC 99 Discipline: R. Schmidt	Disciplinary Grievance for insubordination.
158 EC 99 Discipline: G. Simchik	Disciplinary Grievance for insubordination.

## Labor and Employee Relations

160 EC 99 Discipline: D. Taskey	Disciplinary Grievance for insubordination.
6 N 99 Work Schedule: Nuclear Outage	Union Grievance claiming past practice violation regarding work schedule changes.
1 GC 99 20 GC 99 Upgrading: Gas Department	Union Grievance seeking upgrade to Chief when two persons given assignment without a Chief present.
21 EE 98 Work Hours: Meter Reading	Union Grievance seeking 20-minute lunch for Meter Readers.
92 GC 98 Joint Locating	Union Grievance claiming violation of Flex Agreement.
41 N 97 Management Position: Nuclear	Union Grievance claiming Management was doing bargaining unit work.
56 EE 98 URD Work	Union Grievance claiming job required more than two persons.
14 EE 99 Vacation Approval	Grievance over Gloversville Meter Reading Department.
24 EE 99 Code 14: Gigliotti	Grievance over employee denied Code 14.
163 EC 99 Dismissal – Article XI, 10(b)	Grievance regarding dismissal of Meter Reader under Article XI, 10(b).
35 GE 98 71 GE 98 89 GE 98 90 GE 98 Upgrading: Service Representative Helper	Grievance over upgrade of Service Representative Helpers to Service Representative B.
91 EC 98 Burke: 25-Year Letter	Grievance over disability retirement of employee.

**SECTION 4.11(a) OF THE COMPANY DISCLOSURE SCHEDULE**  
**Labor and Employee Relations**

50 EC 98 Overtime: Forestry Department	Grievance over use of contractors during storm.
52 EC 98 Unauthorized Absence: K. Goode	Grievance over unexcused absence - Code 61 issues.
17 EC 99 Misconduct: S. Lehigh	Disciplinary Grievance relating to obscene and inappropriate language toward Supervisor.
25 GC 99 Recall Agreement: M. Gregway	Seniority date adjustment grievance.
19 EE 98 Return to Former Position: R. Miller	Grievance over removal of employee from Chief Line Mechanic position.
8 EW 99 11 EW 99 12 EW 99 25 EW 99 27 EW 99 27 EW 99 Hour to Eat: G. Papp	Overtime Grievances relating to extension of work day.
79-EC-99 Discharge: J. Bartlett/Graves	Grievance over discharge for former Garage Mechanics. The grievance was settled by accepting the employees' resignation and paying a small lump sum settlement.

**Active System Grievances not yet Approved to Arbitration\***

Grievance#	Issue
1-S-98	Grievance over implementation of re-engineering initiatives regarding job abolishments.
2-S-98	Grievance over implementation of re-engineering initiatives regarding job assignments.
4-S-99	Grievance challenging Company institution of a code of conduct and ethics policy without discussion with IBEW Local 97.
5-S-99	Grievance alleging that changes in training courses and qualifying scores require discussion with IBEW Local 97. Additionally, when employees are unable to meet the requirements of automatic progression, their contractual obligation is to bid out or be placed by the Company.
6-S-99	Grievance alleging Management changed prescription drug provider without negotiation with IBEW Local 97.
7-S-99	Grievance alleging Management not paying hour to eat overtime meal.

## Labor and Employee Relations

3-S-98	Grievance over Company's use of contractor in Line Department.
1-S-99	Grievance alleging Company failed to provide required flame retardant clothing.
2-CC-98	Grievance over layoff of C-status employees.
008-XS-99	Grievance over automatic deduction pursuant to plan language of the amount of an employee's deemed unemployment insurance benefit from the separation benefits payable under the plan, regardless of whether the employee receives those benefits. This grievance has recently been settled and the settlement payments will be issued shortly.
2-S-99	Grievance alleging Company failed to provide paid rest time to employees released on Union business.

\* Active non-system grievances that have not yet been approved to arbitration have not been listed.

## SECTION 4.11(c) OF THE COMPANY DISCLOSURE SCHEDULE

### Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation Directors and Officers With Indemnification Agreements

- Salvatore H. Alfiero; William F. Allyn; Albert J. Budney, Jr.; Lawrence Burkhardt, III; Robert L. Culver; John H. Dalton; William E. Davis; William J. Donlon; Anthony H. Gioia; Bonnie G. Hill; Clark A. Johnson; Henry A. Panasci, Jr.; Patti McGill Peterson; Stephen B. Schwartz; Richard B. Abbott; David J. Arrington; Joseph T. Ash; Thomas H. Baron; Richard R. Borsellino; John T. Conway; Edward J. Dienst; William F. Edwards; Theresa A. Flaim; Michael J. Kelleher; Darlene D. Kerr; Gary J. Lavine; Peter H. Lebro; Leslie E. LoBaugh, Jr.; Samuel F. Manno; John H. Mueller; Clement E. Nadeau; Kapua A. Rice; Arthur W. Roos; Joseph M. Russo; Richard H. Ryczek; William J. Synwoldt; Steven W. Tasker; Carl D. Terry; David J. Walsh; and Stanley W. Wilczek, Jr.

### Niagara Mohawk Energy, Inc. and Niagara Mohawk Energy Marketing, Inc. Officers With Indemnification Agreements

- J. Phillip Frazier; Philip R. VanHorne; Raymond C. Tasch; Frank R. Duesel; Matthew J. Picardi; Richard J. Pluchino; and Dennis V. Goldmann

**SCHEDULE 4.12**  
**Environmental Compliance and Permits**  
**(Section 4.12(a))**

1. On May 25, 2000, the New York State Department of Environmental Conservation ("DEC") issued an air pollution notice of violation to Niagara Mohawk Power Corporation ("Niagara Mohawk") regarding the operation of its two formerly owned coal-fired generation plants (Huntley and Dunkirk). The notice of violation was also issued to NRG Energy Inc. ("NRG"), the current owner and operator of both plants. The notice alleges violations of the federal Clean Air Act and the New York State Environmental Conservation Law resulting from the alleged failure of the companies to obtain permits for plant modifications and the alleged failure to install air pollution control equipment. Niagara Mohawk and NRG have met with the DEC on several occasions to discuss the NOV. The DEC has indicated that they are seeking substantial fines against Niagara Mohawk and NRG, and it is Niagara Mohawk's position that the cost of pollution controls (BACT) should be borne by NRG to resolve this enforcement action. Niagara Mohawk is unable to predict whether or not the outcome of this enforcement action will have an adverse material effect on its financial position and results of operation.

The DEC stated orally in a meeting with Niagara Mohawk and NRG, that, on an overall state-wide enforcement basis, it would seek penalties within the range of \$15 million to \$50 million against all parties.

**SCHEDULE 4.12**  
**Environmental Claims**  
**(Section 4.12(a)(iii))**

1. The Attorney General of the State of New York instituted a lawsuit on February 19, 1985, against NMPC and a scrap dealer, M. Wallace & Son, in the United States District Court for the Northern District of New York relating to alleged toxic contamination at a junkyard in Cobleskill, New York. The suit alleges that the site is contaminated with PCBs and other toxic chemicals and seeks an order compelling NMPC to investigate the extent of contamination at the site and to clean it up, as well as damages for harm to the environment.

In October 1987, Niagara Mohawk, Wallace and the State entered into an interim consent order to address the presence of PCB's at the site in the form of an initial site investigation. Niagara Mohawk prepared a work plan to undertake certain interim remedial measures ("IRM's") to address the presence of PCB's at the site. Based on the IRM's conducted in 1991, Niagara Mohawk implemented additional IRM's at the site and Niagara Mohawk has conducted a comprehensive Remedial Investigation/Feasibility Study at the site.

Niagara Mohawk submitted its final Remedial Investigation to the State in July 1995, and Niagara Mohawk has prepared a Site Feasibility Study, which was submitted to the State. On January 4, 1999, the State issued a Proposed Remedial Action Plan.

On April 23, 1999, Niagara Mohawk received the State's Record of Decision, dated March 1999. NMPC requested that the State reconsider certain aspects of the Record of Decision. The State reviewed supplemental information provided by Niagara Mohawk at the State's request concerning relevant aspects of the Record of Decision.

In May 2000, the State issued an Explanation of Significant Difference ("ESD") addressing the issues Niagara Mohawk raised concerning the Record of Decision. The 30-day public comment period on the ESD has expired; the State did not receive any comments. Thus, the ESD is now part of the ROD.

The Company estimates the future cost of the implementation of the ROD to be approximately \$7 million. The Company intends to pursue contribution from third parties to recover some or all of the costs associated with the site.

**SCHEDULE 4.12**  
**Releases**  
**(Section 4.12(a)(iv)&(v))**

Please refer to the environmental sites listed on the attached 11-page spreadsheet. Note that, for purposes of this Schedule, where reference is made to "owned sites," this refers to sites owned by Niagara Mohawk Power Corporation, a Company Subsidiary.



**SIR PROGRAM - LIST OF SITES : "OWNED SITES"**

Code	SITE	STREET	CITY	COUNTY	NMPC Operations	Regulatory Program	STATUS
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**Owned Sites: Manufactured Gas Plant (MGP) Sites - NMPC - Lead Responsibility**

0005	Saratoga Springs	Broadway	Saratoga	Saratoga	Elec./Gas	EPA Order	active
0006	Harbor Point	Washington	Utica	Oneida	Elec./Gas	DEC Order on Consent	active
0014	Gloversville	Hill	Gloversville	Fulton	Elec./Gas	DEC Order on Consent	active
0015	Troy (Smith Ave)	Smith Ave	Troy	Rensselaer	Elec./Gas	DEC Order on Consent	active
0016	Glens Falls	Mohican	Glens Falls	Warren	Elec./Gas	DEC Order on Consent	active
0017	North Albany	Broadway	Albany	Albany	Elec./Gas	DEC Order on Consent	active
0018	Schenectady (Seneca St.)	Seneca Street	Schenectady	Schenectady	Elec.Substation	DEC Order on Consent	active
0019	Schenectady (Broadway)	Broadway	Schenectady	Schenectady	Elec./Gas	DEC Order on Consent	active
0020	Troy (Water St.)	Water Street	Troy	Rensselaer	Gas (GRS)	DEC Order on Consent	active
0021	Rome (Jay & Madison)	Jay & Madison	Rome	Oneida	Gas (GRS)	DEC Order on Consent	active
0023	Rome (Kingsley Ave.)	Kingsley Ave	Rome	Oneida	Elec./Gas	DEC Order on Consent	active
0024	Oneida	Sconondoa	Oneida	Madison	Elec./Gas	DEC Order on Consent	active
0025	Syracuse (Hiawatha Blvd.)	Hiawatha Blvd	Syracuse	Onondaga	Gas	DEC Order on Consent	active
0026	Syracuse (Erie Blvd.)	Erie Blvd	Syracuse	Onondaga	Elec./Gas	DEC Order on Consent	active
0027	Fulton	Union	Fulton	Oswego	Gas (Retired GRS)	DEC Order on Consent	active
0029	Watertown	Engine Street	Watertown	Jefferson	Gas (Valve)	DEC Order on Consent	active
0030	Ilion	State & East	Ilion	Herkimer	Elec./Gas	DEC Order on Consent	active
0031	Albion	E. Bank St.	Albion	Orleans	Elec.Substation	DEC Order on Consent	active
0042	Johnstown	Market	Johnstown	Fulton	Gas	DEC Order on Consent	active
0043	Fort Plain	Hancock	Fort Plain	Montgomery	Gas (GRS)	DEC Order on Consent	active
0203	Albany MGP	Arch & Grand	Albany	Albany	Elec.Substation	Currently negotiating DEC Voluntary Cleanup Agreement	active
0222	Whitehall MGP	Bellamy	Whitehall	Washington	None	Currently negotiating DEC Voluntary Cleanup Agreement	active

**Owned Sites: Other Operating Sites or Properties - NMPC - Lead Responsibility**

0008	Gratwick Park	River Road	North Tonawanda	Niagara		DEC Order on Consent	active
0077	Texaco Tank Farm	Rt. 144	Bethlehem	Albany		DEC MOST Permit	active

## (Section 4.12(a)(iv)&amp;(v))

**SIR PROGRAM - LIST OF SITES : "OWNED SITES"**

Code	SITE	STREET	CITY	COUNTY	NMPC Operations	Regulatory Program	STATUS
0091	Batavia Service Center	5100 E.Main St.	Batavia	Genesee	Elec.Service Center	DEC Oil Spill	active
0131	Rome - Whitesboro Street	Whitesboro	Rome	Oneida		DEC Oil Spill	active
0134	Gouverneur Service Center	359 W. Main St.	Gouverneur	St. Lawrence	Service Center	DEC Oil Spill	active
0177	Emerson Ave.Service Center	Emerson Avenue	Syracuse	Onondaga	Service Center	DEC Oil Spill	active
0194	Seventh North Service Ctr. TSDF	Henry Clay		Onondaga			active
0233	Scriba C&D Landfill	Nine Mile ROW	Scriba	Oswego	Elec. R/W	DEC C&D	active
0234	North Albany TSD Closure	Broadway	Albany	Albany			active

**Owned Sites: Electric Substations - NMPC - Lead Responsibility**

0129	Solvay Substation	Bridge Street	Solvay	Onondaga	Elec.Substation	DEC RCRA	active
0136	Spler Falls Substation	Spler Falls Rd.	Glens Falls	Saratoga	Hydro Substa.	DEC Oil Spill	active
0137	Rotterdam Substation	Schmerhorn Rd	Rotterdam	Schenectady	Elec.Substation	DEC Oil Spill	active
0138	Free Street Substation	Hlawatha Blvd.	Syracuse	Onondaga	Elec.Substation	DEC Oil Spill	active
0139	Teall Avenue Substation	Factory Ave.	Syracuse	Onondaga	Elec.Substation	DEC Oil Spill	active
0141	Harper Substation	Royal Ave	Niagara Falls	Niagara	Elec.Substation	DEC Oil Spill	active
0143	Old Gardenville Substation	Indian Church	West Seneca	Erie	Elec.Substation	DEC Oil Spill	active
0144	Station 78	Fassett St.	Tonawanda	Niagara	Elec.Substation	DEC Oil Spill	active
0145	Packard Substation	Packard & New	Niagara Falls	Niagara	Elec.Substation	DEC Oil Spill	active
0146	Golah Substation	Golah Road	Rush	Genesee	Elec.Substation	DEC Oil Spill	active
0147	Inghams Substation	Inghams Mill	Manheim	Herkimer	Hydro Substa.	DEC Oil Spill	active
0148	Coffeen Street Substation	Coffeen Street	Watertown	Jefferson	Elec.Substation	DEC Oil Spill	active
0149	Brighton Ave Substation	Brighton Ave.	Syracuse	Onondaga	Elec.Substation	DEC Oil Spill	active
0151	Little Falls Substation	Mill Street	Little Falls	Herkimer	Elec.Substation	DEC Oil Spill	active
0152	Terminal Station C	3500 River Road	Tonawanda	Erie	Elec.Substation	DEC Oil Spill	active
0153	Mortimer Substation	1450 Brighton-H	Brighton	Genesee	Elec.Substation	DEC Oil Spill	active
0154	Batavia #01 Substation	53 Franklin St.	Batavia	Genesee	Elec.Substation	DEC Oil Spill	active
0155	Westville Substation		Westville Center	Franklin	Elec.Substation	DEC Oil Spill	active
0156	Huntley Steam Sta. North Yard	3500 River Road	Tonawanda	Erie	Elec.Substation	DEC Oil Spill	not active
0157	Elm Street Substation	100 Elm Street	Buffalo	Erie	Elec.Substation	DEC Oil Spill	not active

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Releases  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "OWNED SITES"**

Code	SITE	STREET	CITY	COUNTY	NMPC Operations	Regulatory Program	STATUS
0158	Trenton Falls Substation	Trenton Fls. Rd	Trenton	Onelda	Hydro Substa.	DEC Oil Spill	active
0159	Mill Street Substation	Mill St.	Watertown	Jefferson	Elec.Substation	DEC Oil Spill	not active
0163	Beardslee Substation	E. Canada Creek	Manheim	Montgomery	Hydro Substa.	DEC Oil Spill	active
0165	Comstock Substation	Route 22	Fort Ann	Washington	Elec.Substation	DEC Oil Spill	not active
0166	Crown Point Substation	Co. Rte 22.	Crown Point	Essex	Elec.Substation	DEC Oil Spill	not active
0167	Ticonderoga Substation	Baldwin Road	Ticonderoga	Essex	Elec.Substation	DEC Oil Spill	not active
0168	New Scotland Substation	Co. Rte. 306	New Scotland	Albany	Elec.Substation	DEC Oil Spill	not active
0169	Labrador Substation	Route 91	Truxton	Cortland	Elec.Substation	DEC Oil Spill	not active
0171	Ogdensburg Substation	Mill Street	Ogdensburg	St. Lawrence	Elec.Substation	DEC Oil Spill	not active
0172	St. Regis Substation	Route 37 C	Hogansburg	Franklin	Elec.Substation	DEC Oil Spill	not active
0183	Raymondville Substation	NYS Route 56	Raymondville	St.Lawrence	Hydro Substa.	DEC Oil Spill	active

**Owned Sites: Other Operating Sites or Properties - Non-NMPC Lead Responsibility**

0007	Old Erie Canal	Turner Street	Utica	Onelda	Elec. R/W	Pending	not active
0033	Acid Swamp R/W	Sawyer Ave.	Tonawanda	Erie	Elec. R/W	DEC/PRP	not active
0034	Airco Carbon / Vanadium R/W	Wiltmer Road	Niagara Falls	Niagara	Elec. R/W	DEC/PRP	active
0103	Ley Creek R/W	Factory Ave.	Salina	Onondaga	Elec. R/W	DEC/PRP	active
0181	Town of Tonawanda Landfill	Two Mile Creek	Tonawanda	Erie	Elec. R/W	DEC/PRP	active
0195	Ciba/Hercules - Hudson Falls		Glens Falls	Warren	NMPC Property	DEC/PRP	active

Releases  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "NON-OWNED SITES"**

Code SITE	STREET	CITY	COUNTY	ST	Regulatory Program	STATUS
<b><u>Non-Owned Sites: NMPC Lead Responsibility - MGP Sites</u></b>						
0074 Hudson MGP	Water & Broad	Hudson	Columbia	NY	EPA Removal Action - Subject to Order on Consent with U.S.EPA.	active
0078 NY Tar Emulsions Plant	Washington	Utica	Oneida	NY	DEC Order - In connection with the Harbor Point MGP site; cost recovery lawsuit filed in 1995.	active
0079 Mohawk Valley Fuels	Washington	Utica	Oneida	NY	"	active
0080 Utica Harbor / Dredge Spoils		Utica	Oneida	NY	"	active
0121 Troy King Fuels (Area #2)	Water Street	Troy	Rensselaer	NY	DEC Order - In connection with the multi-MGP Site Order; cost recovery lawsuit filed in 1998.	active
0122 Troy Tar Landfill (Area #4)	Water Street	Troy	Rensselaer	NY	"	active
0123 Troy Breaker Island(Area#1)	NYS Rt. 787	Troy	Rensselaer	NY	"	active (cost recovery)
0184 Amsterdam (Front St.) MGP	Front Street	Amsterdam	Montgomery	NY	DEC Voluntary Cleanup Agreement	active
0186 Oneida (Cedar St.) MGP	Cedar St.	Oneida	Madison	NY	DEC Voluntary Cleanup Agreement	active
0196 Troy Water St. Hudson River Sediments	Water Street	Troy	Rensselaer	NY		active
0201 Cohoes Non-Owned MGP		Cohoes		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0202 Malone Non-Owned MGP		Malone		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0204 Little Falls Non-Owned MGP		Little Falls		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0205 Herkimer Non-Owned MGP		Herkimer		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0206 Fort Edward Non-Owned MGP		Fort Edward		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0207 Watertown Non-Owned MGP		Watertown		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0208 Schenectady Non-Owned MGP	Broadway	Schenectady		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0209 Saratoga Springs Non-Owned MGP		Saratoga Springs		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active

**SIR PROGRAM - LIST OF SITES : "NON-OWNED SITES"**

Code	SITE	STREET	CITY	COUNTY	ST	Regulatory Program	STATUS
0211	Gloversville Non-Owned MGP		Gloversville		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0212	Canastota Non-Owned MGP		Canastota		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0213	Altamont Non-Owned MGP		Altamont		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0214	Ogdensburg Non-Owned MGP		Ogdensburg		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0215	Mohawk Non-Owned MGP		Mohawk		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0216	Oswego Non-Owned MGP		Oswego		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0217	Troy Liberty St. Non-Owned MGP	Liberty St.	Troy	Rensselaer	NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0218	Troy Jefferson St. Non-Owned MGP	Jefferson St.	Troy	Rensselaer	NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0219	Fulton Non-Owned MGP		Fulton		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0221	Watervliet Non-Owned MGP		Watervliet		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0223	Cherry Valley Non-Owned MGP				NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0224	Ballston Spa Non-Owned MGP		Ballston Spa		NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0225	Rensselaer Non-Owned MGP		Rensselaer	Rensselaer	NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0235	Attica Non-owned MGP		Attica	Wyoming	NY	Currently negotiating DEC Voluntary Cleanup Agreement	active
0237	Troy Chevron (Area #3)	Water St.	Troy	Rensselaer	NY	DEC Order - In connection with the multi-MGP Site Order; cost recovery lawsuit filed in 1998.	active

**Non-Owned Sites: NMPC Lead Responsibility - PRP Sites**

0002	Wallace & Son	NYS Rt 10	Cobleskill	Schoharie	NY	DEC #448003/DOL	active
0094	School St. Fire Training Site	N.Mohawk Street	Cohoes	Albany	NY	DEC Oil Spill; with Orton	active

RELEASES  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "NON-OWNED SITES"**

Code SITE	STREET	CITY	COUNTY	ST	Regulatory Program	STATUS
0189 Stuyvesant Falls Hydro	East bank	Stuyvesant	Columbia	NY	DEC Oil Spill; with Orton	active
0192 South Edwards Generating St	Power Plant Rd.	South Edwards	St.Lawrence	NY	DEC Oil Spill; with Orton	active
0193 Norwood Generating Station	Elm St.	Norwood	St.Lawrence	NY	DEC Oil Spill; with Orton	active
0231 Town of Colonie Fire School	Wade Road	Colonie	Albany	NY	DEC Oil Spill	active
<b><u>Non-Owned Sites: Non-NMPC Lead Responsibility - PRP Sites</u></b>						
0003 Fort Edward Dam	Hudson River	Fort Edward	Washington	NY	EPA	not currently active
0036 Sealand Restoration	Pray Road	Lisbon	St.Lawrence	NY	DEC #645014;EPANPL	active
0038 Pfohl Brothers Landfill	Aero Drive	Cheektowaga	Erie	NY	DEC #915043;EPANPL	active
0045 Schreck's Scrap Yard	Schenck St.	North Tonawanda	Niagara	NY	DEC #932099	active
0046 City of Syracuse Fire School	State Fair Blvd	Syracuse	Onondaga	NY	DEC #734039	not active
0050 Rosen Brothers	Pendleton St.	Cortland	Cortland	NY	DEC #712004;EPANPL	active
0051 York Oil		Molra	Franklin	NY	DEC #517002;EPA;NPL	active
0052 Lockport City Landfill	Oakhurst St.	Lockport	Niagara	NY	DEC #932010	settled 1995; reopened 5/2000
0054 Roth Brothers	Erie Blvd.	Syracuse	Onondaga	NY	EPA	active
0061 Quanta Resources	2802 Lodi St.	Syracuse	Onondaga	NY	EPA	not active
0070 Waste-Stream Inc.	145 Outer Maple	Potsdam	St.Lawrence	NY	Pending	not active
0076 Maxey Flats		Morehead		KY	EPA NPL	active
0081 Bakers Falls		Hudson Falls	Washington	NY	EPA	active
0084 Booth Oil	76 Robinson St.	North Tonawanda	Niagara	NY	EPA	active
0098 Monarch Chemical	Harbor Point	Utica	Oneida	NY	DEC	active
0106 Ogdensburg MGP	10 King Street	Ogdensburg	St.Lawrence	NY	Pending	future
0107 Benson Landfill	Richmond Hills	Livonia	Livingston	NY	EPA	active
0108 Former Bridge St. Property	5795 Bridge St.	DeWitt	Onondaga	NY	DEC Oil Spill	active
0109 Batavia Landfill	Pratt Road	Batavia	Genesee	NY	EPA NPL	active
0126 Northeast Oil	Route 9	Castleton Hudson	Albany	NY	DEC	not active
0127 Alltiff Landfill	Tift Street	Buffalo	Erie	NY	DEC	active

**SIR PROGRAM - LIST OF SITES : "NON-OWNED SITES"**

Code SITE	STREET	CITY	COUNTY	ST	Regulatory Program	STATUS
0173 Ley Creek PCB Dredging Site	S. of Ley Creek	Salina	Onondaga	NY	EPA	active
0174 Salina Town Landfill	Wolf St. Rt11	Salina	Onondaga	NY	EPA	active
0175 St. Lawrence Fire School			St. Lawrence	NY	Pending	active
0179 Fields Brook (Acme Scrap)		Ashtabula		OH	EPA	active
0185 Ashland 1 & 2 Disposal Site		West Adams		MA	EPA	active
0187 Ward Products Corp.	61 Edison St.	Amsterdam	Montgomery	NY	DEC	active
0188 O'Connor Residential Well		Pamella	Jefferson	NY	DEC	active
0236 Old Ticonderoga Scrapyard	Site #5-16-0002	Ticonderoga	Essex	NY	DEC	active
0238 A.Shapiro & Sons, Inc	521 Ashland St	North Adams		MA	Mass. DEP	active
4441 PAS - Main Site	Mitchell St.	Oswego	Oswego	NY	DEC #738001-EPANPL	active

Releases  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "REMEDIATED, SETTLED OR CLOSED SITES - OWNED"**

Code SITE	STREET	CITY	COUNTY	NMPC Ops	Regulatory Program	Costs: \$ 1000	STATUS
<b><u>Remediated, Settled or Closed Sites - Remediated Sites (Owned)</u></b>							
0009	Cherry Farm	River Road	Tonawanda	Erie	DEC Order on Consent	\$3,241.4	remediated 1998 / O&M
0013	South Glens Falls	Bluebird Road	Town of	Saratoga	Electric DEC	\$3,135.5	remediated 1991 / Monitoring
0028	Oswego (Former Gas Holder)	W. First	Oswego	Oswego	Elec./Gas ROW DEC Order on Consent	\$97.1	closed 1999
0047	NMPC Fire Training School	East Seneca St.	Oswego	Oswego	Elec./Gas DEC Order - Delisted 6/98	\$4,063.2	remediated 1996
0053	Corinth Road	Corinth Road	Queensbury	Warren	DEC Order on Consent	\$3,222.9	OU1 remediated; OU1 active
0060	Dewey Ave	Kensington	Buffalo	Erie	Elec. R/W DEC Part 373	\$400.7	remediated 1999 / Monitoring
0069	Easton	Co.Rt. 113	Easton	Washington	For Nuclear DEC Oil Spill	\$51.6	delisted
0072	Porter Substation	Edic Road	Marcy	Onelda	Electric DEC Oil Spill	\$1,015.9	remediated 1995; cell opened
0087	Seneca Terminal Station	Archer Avenue	Buffalo		Electric DEC Oil Spill	\$98.6	completed 1995
0088	Hudson Substation	Route 9	Hudson		Electric DEC Oil Spill	\$2,666.1	remediated 1998 / O&M
0090	Falconer		Falconer	Chautauqua	Electric DEC Oil Spill	\$194.0	closed
0092	Terminal D FTS & Elec Sub	953 Bailey Ave.	Buffalo	Erie	DEC Oil Spill	\$1,321.3	remediated 1997 / Monitoring
0097	Seventh North Ser. Ctr. TSD	Henry Clay Blvd	Liverpool	Onondaga	Electric DEC Part 373	\$5,404.7	remediated 1997 / Monitoring
0105	Deerfield Substation	Mulaney Rd.	Deerfield	Onelda	Elec.Substation DEC Oil Spill	\$1,199.7	remediated 1997 / Monitoring
0132	Former Westmere Substation	Brooks Road	Guilderland	Albany	Elec.Substation DEC Part 375	\$88.5	remediated 1998
0178	Carthage Service Center		Carthage		Service Center DEC Oil Spill	\$342.5	remediated 1999 / Monitoring
0182	Amsterdam Service Center	Verbraska/Rt. 5	Amsterdam	Montgomery	Service Center DEC Oil Spill/PCBs	\$229.7	remediated 99 -Final rept 5/00
0197	Sawyer Avenue	Sawyer Ave.	Tonowanda	Erie	Elec.Substation DEC Solid Waste	\$145.1	remediated 1999
0232	Albany ROW Tire Removal				DEC Solid Waste	\$79.2	remediated 1999
<b>Subtotal:</b>						<b>\$26,997.8</b>	

**Remediated, Settled or Closed Sites - Closed Sites (Owned)**

0022	Herkimer Gas Holder	S. Washington	Herkimer	Herkimer		\$134.1	delisted
0044	Canajoharie	Erie Blvd	Canajoharie	Montgomery		\$4.9	delisted
0049	Procknal & Katra Landfill	Lake Avenue	Blasdell	Erie		\$3.5	closed
0058	Sterling Drug	Riverside Ave.	East	Rensselaer		\$1.6	closed
0065	New Road Landfill	Porter Road	Niagara Falls	Niagara		\$1.7	delisted



SCHEDULE 4.12  
Releases  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "REMEDIATED, SETTLED OR CLOSED SITES - OWNED"**

Code SITE	STREET	CITY	COUNTY	NMPC Ops	Regulatory Program	Costs: \$ 1000	STATUS
0086 Sewer Debris - 1	Kensington	Buffalo	Erie			\$9.4	closed
0067 Sewer Debris - 2	Seneca Term.	Buffalo	Erie			\$0.8	closed
0068 Sewer Debris - 3	Sawyer Ave.	Tonawanda	Erie			\$9.7	closed
0073 Huntley Landfill	River Road	Tonawanda	Erie			\$24.8	delisted
0093 Gibson Substation Fire Sch	Lockport Road	Niagara Falls	Niagara			\$88.4	closed
0095 Colton Fire Training Site	Browns Bridge R	Colton	Lawrence			\$66.3	closed
0096 Hannawa Falls FTS & ElecSub	West Hannawa Rd		Hannawa	FallsLawrence		\$54.6	closed
0099 Sewer Debris - 4	Jennings Road	Seneca	Erie				closed
0133 Kensington Substation	Scajaquada St.	Buffalo	Erie			\$77.3	closed
0142 Lockport Substation	Hinman Road	Lockport	Niagara	Elec.Substation	DEC Oil Spill	\$57.7	closed June 2000
0161 Mechanicville Substation	Route 4	Halfmoon	Schenectady			\$38.5	closed
0164 Ephratah Substation	Route 10	Ephrata	Fulton			\$48.6	closed - 1999 3Q
0191 Dunkirk Steam Station		Dunkirk	Chautauqua		DEC Oil Spill; with NRG	\$13.9	closed -1999 4Q/ Final report
					<b>Subtotal:</b>	<b>\$635.7</b>	
					<b>Grand Total:</b>	<b>\$27,633.5</b>	

Releases  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "REMEDIATED, SETTLED OR CLOSED SITES - NON-OWNED"**

Code SITE	STREET	CITY	COUNTY	ST	Regulatory Program	Costs: \$ 1000	STATUS	
<b><u>Remediated, Settled or Closed Sites - Remediated Sites (Non-Owned)</u></b>								
0125	Russell Residential Well	Vance Shores	Hounsfield	Jefferson	NY	DEC Spill Response- Penta Pole	\$118.8	closed 1998
						<b><u>Subtotal:</u></b>	<b><u>\$118.8</u></b>	
<b><u>Remediated, Settled or Closed Sites - Settled or Closed Sites (Non-Owned PRP sites)</u></b>								
0040	SED, Inc.		Hillsboro	OH	EPA		\$11.7	settled 1994
0062	Volney Landfill	Silk Road	Volney	Oswego	NY	EPA NPL	\$174.5	settled 1999
4442	PAS - Irwin Site	Byer Road	Oswego	Oswego	NY	DEC #738010		no NM Involvement
4443	PAS - Clothier	S.Granby Road	Granby	Oswego	NY	DEC #738014;EPANPL		closed
0176	PCB Treatment, Inc. Site		Kansas City	MO	EPA			settled 1997
4445	PAS - Lyboul	Sherman-Lacy Rd	Pulaski	Oswego	NY	DEC #738009		no NM Involvement
4446	PAS - Holbrook	Bengali Road	Parish	Oswego	NY	DEC #738011		no NM Involvement
4447	PAS - Fulton Term.	First Street	Fulton	Oswego	NY	DEC #738023;EPA;NPL	\$0.6	settled 1999
4448	PAS - Powerline	Route 38	Parish	Oswego	NY	DEC #738007		no NM Involvement
4449	PAS - Ab. Milk Plt		Mexico	Oswego	NY	DEC #738002		no NM Involvement
0063	Bern Metals	22 Bender Ave.	Buffalo	Erle	NY	EPA	\$195.6	settled 1999
0064	Onondaga Drum Site	Reservation	Nedrow	Onondaga	NY	EPA	\$2.8	settled 1992
0001	Waite Road	Waite Road	Clifton Park	Saratoga	NY	DEC #546023	\$54.9	settled 1989
0102	Abe Cooper Surplus Co.	Factory St.	Watertown	Jefferson	NY	DEC		settled 1998
0048	Bengart & Memel Scrap	Clinton St.	Buffalo	Erle	NY	DEC #915115	\$5.1	settled 1995
0041	Ludlow Landfill	Holman City Rd	Utica	Oneida	NY	DEC#633014 EPA: NPL	\$7.7	settled 1992
0085	Frontier Chemical - Royal A	4626 Royal Ave.	Niagara Falls	Niagara	NY	EPA	\$93.6	closed 1995
0083	Spencer Transformer	Roane Cty. Rd13	Grandeerville	Roane	WV	EPA	\$45.3	settled 1993
0075	Barzuk	3604 Pearl	Batavia	Genesee	NY	Pending		settled 1999
0057	Wide Beach		Brant	Erle	NY	EPA (Deleted from NPL)	\$282.0	settled 1992
0101	Frontier Chemical-Pendleton	Townline Rd.	Pendleton	Niagara	NY	DEC	\$431.7	closed 1996
0032	Brooklyn Landfill	Pennsylvania	Brooklyn	Brooklyn	NY	DEC #224002	\$165.1	settled 1992

RELEASES  
(Section 4.12(a)(iv)&(v))

**SIR PROGRAM - LIST OF SITES : "REMEDIATED, SETTLED OR CLOSED SITES - NON-OWNED"**

Code SITE	STREET	CITY	COUNTY	ST	Regulatory Program	Costs: \$ 1000	STATUS
0104 Butler Tunnel	Fort Jenkins Br	Pittston	Luzerne	PA	EPA NPL	\$200.1	closed 1999
0124 Adams Generating Plant		Niagara Falls	Niagara	NY	None Required		settled 1995
0128 Marjol		Throop		PA	EPA	\$3.8	settled 1997
0071 Rose Chemical		Holden		MO	EPA; Final Settlement	\$92.1	settled 1994
0039 Johnstown Landfill	W.Fulton St.	Johnstown	Fulton	NY	DEC #518007;EPA;NPL	\$0.2	settled 1995
0055 Chem-Trol		Blasdell	Erie	NY	DEC #915015	\$7.3	settled 1995
4444 PAS - Volney	Silk Road	Volney	Oswego	NY	DEC #738003	\$0.1	settled 1998
					<b><u>Subtotal:</u></b>	<b><u>\$1,774.3</u></b>	
					<b><u>Grand Total:</u></b>	<b><u>\$1,893.1</u></b>	

**SCHEDULE 4.13**  
**Regulation as a Utility**  
**(Section 4.13)**

Subsidiaries that are Public Utility Companies within the meaning of Section 2(a)(5) of PUCHA are listed below:

- Niagara Mohawk Power Corporation
- Canadian Niagara Power may be regulated in Canada

**SCHEDULE 4.17**  
**Insurance**  
**(Section 4.17)**

No disclosure or exception.

**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

**FINANCIAL RISK ANALYSIS**

**1) Electric Supply Portfolio**

Excluding the Company's Power Purchase Agreements and IPP Contracts Niagara Mohawk has minimal mark-to-market exposure resulting from changes in electricity market prices. The Company's has purchased 994,000 MWH to cover its short electricity position during September through November of 2000. The purchases occurred during the past week and since current prices are marginally different from the contract purchase prices the mark-to-market is currently insignificant.

**2) Gas Supply Portfolio**

Niagara Mohawk estimates that its natural gas sales to customers will be about 50Bcf for the November 2000 through September 2001 season. About 20 Bcf will be met by gas in storage, 5 Bcf will be hedged through NYMEX contracts, and the remaining 25Bcf will be purchased at market. Approximately 15.6 Bcf of gas has already been placed in storage. The average cost of the gas in storage is \$3.58/Dt. The forward cost of gas has risen and the market to market is about \$14.4 million above the purchase price. The mark to market of the NYMEX hedges is \$1.3 million. All benefits (and losses) of the physical and financial hedges are passed on to customers through the Gas Adjustment Clause.

**3) Gas Supply Capacity Costs**

FERC has allocated various pipeline capacity to Niagara Mohawk at predetermined rates. Based upon current capacity market prices, the FERC allocated costs are estimated to be \$14.1 million above market. The negative mark to market is passed on to customers through the Gas Adjustment Clause.

**4) Credit Exposure**

Credit exposure is calculated based upon a combination of the mark-to-market and an analysis of the potential for future price changes which when combined is an estimate of the potential credit exposure. Niagara Mohawk's credit exposure results from the electric supply purchases described in section 1 above and transactions occurring to hedge the basis risk of the natural gas costs of the MRA Swap agreements. The total potential counterparty credit risk for Niagara Mohawk is \$31.7 million. The estimation by counterparty is as follows:

**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

<u>Company</u>	<u>Total Amount</u>	<u>MRA Swaps</u>	<u>Electric Supply</u>	<u>Rating</u>
AEP Services	3,107,007	-	3,107,007	A
Constellation	239,391	-	239,391	A
El Paso	7,715,458	7,715,458	-	BBB
Enron	4,020,130	3,998,562	21,568	BBB
NRG	514,271	-	514,271	BBB
PSE&G	234,637	-	234,637	BBB
PGET	241,686	-	241,686	-
Southern	10,782,288	10,782,288	-	BBB+
Trans Canada	4,849,042	4,849,042	-	-
<b>TOTAL</b>	<b>\$31,703,909</b>	<b>27,345,350</b>	<b>4,358,559</b>	

The \$31.7 million figure does not include the risk mitigation of having margin requirements with the counterparties. The margin requirements if the above figures are reached would be between \$2 and \$4 million.

**5) Niagara Mohawk Energy**

As illustrated below, the realized and unrealized gain/(loss) for Niagara Mohawk Energy through December 31, 2001 is \$17.3 million.

Realized MTM	\$5,104,154	\$5,104,154
Unrealized MTM	\$180,802	\$12,227,441
<b>TOTAL P&amp;L</b>	<b>\$5,284,956</b>	<b>\$17,331,595</b>

The Credit at Risk for Niagara Mohawk Energy is \$5.2 million.

**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

The following is a list of active Purchase Power Contracts with Independent Power Producers:

Station Name	Contract Number
<b>Indexed Swap/Power Put Contracts (MRA)</b>	
GPUI - PROJECT ORANGE	449
INDECK-YERKES ENERGY SVCS., INC	485
GPUI - ONONDAGA COGEN	507
CET - FORT ORANGE	509
FULTON CO-GEN ASSOCIATES	523
J.M.C. SELKIRK INC. - PHASE I	524
RENSSELAER COGEN, BASF, ULTRACOG	540
INDECK - OSWEGO	547

**Transition Power Purchase Agreements**  
**(from the sale of NMPC generation)**

NRG POWER MARKETING, INC. (Huntley/Dunkirk)	
PSEG ENERGY RESOURCES & TRADE, LLC (Albany)	
ERIE BOULEVARD HYDROPOWER, LP (Hydros)	
OSWEGO HARBOR POWER, LLC (Oswego Steam)	

**Other Independent Power Producer Contracts**

MM ALBANY ENERGY	1001
SYRACUSE POWER COMPANY	1008
RICHARD P. WEBER	1039
ADIRONDACK HYDRO - SCHROON RVR	1298
ADIRONDACK HYDRO - SISSONVILLE	1299
ADIRONDACK HYDRO - N.Y.S. DAM	1300
ADIRONDACK HYDRO - OTTER CREEK	1301
C.H.I. (FOWLER)	196
LYONS FALLS PULP & PAPER INC.	202
DANIEL GREEN	218
BEGENT, H.A.	225
VAN STRANDER, J.M.	226
VILLAGE OF GOUVERNEUR	236
DIBBLE, C.	237



**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

HIGGINS, W.J.	239
HARDEN FURNITURE CO.	242
CARTHAGE PAPER MAKER	250
DD CORP - DOLGEVILLE	262
DD CORP - DIANA	263
BERGAN, W.C.	264
ADIRONDACK RESOURCE MGMT	277
CELLU-TISSUE CORPORATION-NATURAL DAM	294
DEVINE, W.T.	296
LYONSDALE ASSOCIATES	297
MT. IDA ASSOCIATES	299
WOODIN, D.	300
LITTLE FALLS HYDRO ELEC. CORP.	307
HAMOND, E.	310
RYAN, ROBERT	314
EMPIRE HYDRO PARTNERS	315
HURD, DR. R.W.	318
ONONDAGA COUNTY, OCRRA	320
FITZPATRICK, RANDY	332
GLEN PARK ASSOCIATES	337
CURTIS/PALMER HYDRO ELECTRIC	338
BLACK RIVER HYDRO #1-ROCK ISL.	341
BLACK RIVER HYDRO #2- DENLEY	342
BLACK RIVER HYDRO #3-PT.LEYDEN	343
BLLENHEIM WIND POWER, INC.	350
BANNERTOWN POWER AND LIGHT	356
OSWEGO COUNTY	358
BEAVER FALLS #1	360
BEAVER FALLS #2	361
PYRITES ASSOCIATES	362
STAPLES, GARY D.	363
ALGONQUIN - ADAMS	365
ALGONQUIN - KAYUTA	366
FORT MILLER ASSOC.	367
VALLEY FALLS ASSOC.	368
STILLWATER ASSOC.	369
PHILADELPHIA HYDRO	370 (1209)
MOOSE RIVER HYDRO	373 (1210)
ALGONQUIN - CHRISTINE FLS	374

**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

WEST END DAM ASSOCIATES	377
SENECA LTD.	379
TANNERY ISLAND	380
SANDY HOLLOW HYDRO ASSOCIATES	383
CITY OF WATERVLIET HYDRO	393
VILLAGE OF POTSDAM	395
BELLOWS TOWER	396
INDIAN FALLS HYDRO, INC.	399
STELLONE, GERALD	401
MODULAR HYDRO - MILL CREEK	403
HESS, JOSEPH AND KATHERINE	409
SYNERGICS - UPPER GREENWICH	410
SYNERGICS - MIDDLE GREENWICH	411
C.H.I. - LA CHUTE UPPER STA	420
C.H.I. - LA CHUTE LOWER STA.	421
RIVERRAT GLASS & ELECTRIC	425
HAMPSHIRE PAPER	428
SYNERGICS - UNION FALLS	429
ALBANY HYDRO ASSOC.	434
ALGONQUIN - HOLLOW DAM	435
ADIRONDACK RESOURCE RECOVERY	445
CHI ENERGY, INC - VICTORY	453
TOWN OF WELLS	458
ALGONQUIN - BURT DAM	460
COTTRELL PAPER CO	477
STEVENS & THOMPSON PAPER CO.	483
NEWPORT HYDRO ASSOCIATES	484
GENERAL MILLS INC.	487
KINGS FALLS	492 (1292)
ALGONQUIN -HERKIMER	494
ALGONQUIN -CRANBERRY LAKE	495
ALGONQUIN - FORRESTPORT	496
MOHAWK PAPER	497 (1293)
OXBOW POWER OF N TONAWANDA	498
ALGONQUIN -OGDENSBURG	506
ENERGY TACTICS INC.	511
HOOSICK FALLS	516
ELLCOTTVILLE ENERGY INC.	519
ADIRONDACK HYDRO- MIDDLE FALLS	548
NOTTINGHAM HIGH SCHOOL	554

**SCHEDULE 4.22**  
**Commodity Derivatives and Credit Exposure Matters**  
**(Section 4.22)**

LAQUIDARA - LONG FALLS	575
STILLWATER HYDRO PARTNERS L.P.	617
OSWEGO HYDRO PARTNERS LP	618
WASTE MANAGEMENT OF N.Y. INC.	642
CITY OF WATERTOWN	662
CITY OF UTICA - TRENTON FALLS	669
CITY OF UTICA - SAND RD.	670
CHAMPLAIN SPINNERS PR. CO. INC	672
FRANKLIN HYDRO	675
VALATIE FALLS	679
HYDROCARBON - ALLEGANY	681
AZURE MOUNTAIN POWER COMPANY	717
SITHE - INDEPENDENCE 2	729
GLOVER'S MILL ENERGY CENTER	754
AMERICAN REF-FUEL COMPANY	795
HOLLINGSWORTH & VOSE - UPPER	797
FINCH PRUYN AND COMPANY	798
BERETZ, FRANK	8003
ELETTO, THOMAS	8005
VAN HEERTUM III, JOHN	8038
CITY OF OSWEGO (HIGH DAM)	805
COPENHAGEN ASSOCIATES	845A
C.H.I. (#3 MILL)	845B
C.H.I. (DEXTER)	845C
C.H.I. (HAILSBORO #6)	845D
C.H.I. (THERESA)	845E
C.H.I. (DIAMOND IS)	845F
C.H.I.(HAILSBORO #4)	845G
HOLLINGSWORTH & VOSE - LOWER	857
HOLLINGSWORTH & VOSE - CENTER	858
ADIRONDACK HYD.- S.GLENS FALLS	862
ADIRONDACK HYD.- HUDSON FALLS	863
MARSDEN, RUSSEL	872
SCHIEFER, M.	912
CAL BAN POWER CORP.	9126
WILLIAM ALLEN	9127
VILLAGE OF SARANAC LAKE	913
CHITTENDEN FALLS	9136

**SCHEDULE 6.1**  
**Conduct of Business Pending the Merger**  
**(Section 6.1)**

- The Company is currently in the process of selling its nuclear generating assets provided that the Company will confer and consult with Parent prior to incurring any ongoing obligations in connection with such sale.
- Diana - Dolgeville Hydroelectric plant - part of a buyout of a power purchase agreement. NMPC is acquiring a right to purchase the plant and is currently negotiating with a buyer. The right to purchase will subsequently be assigned to the buyer without NMPC assuming title.
- Roseton Generating Station - resulting from the auction of the assets by the co-owners: Niagara Mohawk Power Corp., a Company subsidiary, Consolidated Edison Co. of New York, Inc. and Central Hudson Gas & Electric Corp. Niagara Mohawk owns a 25% share of the two-unit, 1,200 megawatt Roseton electric generating station on the Hudson River in the town of Newburgh, Orange County.
- Opinac North America, Inc. may exercise its rights under warrants on its investments in Telergy, Inc. and EVonyx, Inc. in accordance with the terms of the agreements governing these investments.
- Opinac North America, Inc. may convert ownership in Telergy Central to Telergy, Inc. in accordance with the terms of the agreement governing this investment.
- The Company periodically hold auctions to sell obsolete equipment (i.e.: vehicles, construction equipment) and excess property in the ordinary course of business in accordance with past practice.
- The following represents the 2000 Capital Budget adjusted for a full year of nuclear operation:

➤ Energy Delivery Business Group	\$210,075,000
➤ Nuclear Business Group	21,284,000
Total Expected Capital Expenditures	<u>\$231,359,000</u>

**NOTE:**

1. Capital expenditures for Niagara Mohawk Energy, Inc. and Opinac North America, Inc. are negligible.
  2. The above 2000 Capital Budget figures exclude purchases of nuclear fuel and contributions to the nuclear decommissioning trust funds.
  3. If the Nuclear Sale is completed prior to the Merger Effective Time, the budget amount for the Nuclear Business Group shall be eliminated on a going forward basis.
- The Company may make investments in subsidiaries of up to \$50 million, of which no more than \$10 million may be invested in Niagara Mohawk Energy ("NME").
  - The Company may make additional parental guarantees of up to \$25 million per year.

**SCHEDULE 6.1**  
**Conduct of Business Pending the Merger**  
**(Section 6.1)**

The following represents potential indebtedness for the Company and Company Subsidiaries:

- **NM Receivables, including:**
  - **Trade Receivables Purchase and Sale Agreement Dated as of August 30, 1996 and as amended as of June 18, 1998, among NM Receivables, LLC as the Seller and Corporate Receivables Corporation as the Investor and CitiBank, N.A. and CitiCorp North America, Inc. and Niagara Mohawk Power Corporation (a Company Subsidiary) as the Collection Agent and the Originator.**
  - **Purchase and Contribution Agreement, Dated as of August 30, 1996 and as amended as of June 18, 1998, between Niagara Mohawk Power Corporation (a Company Subsidiary) as Seller and Collection Agent and NM Receivables, LLC as Purchaser.**

The Trade Receivables Purchase and Sale Agreement together with the Purchase and Contribution Agreement provide a vehicle for Niagara Mohawk Power Corporation to sell receivables in exchange for cash. The agreements are a financial arrangement, not indebtedness. Thus, there is no outstanding principal obligation.
- **Senior Bank Facility (effective June 1, 2000), including:**
  - **Letters of Credit Agreements (up to \$424.4 Million);**
  - **364-day Revolving Credit Agreement (\$280 Million);**
  - **5-Year Revolving Credit Agreement (\$100 Million).**
- **Preferred stock refinancing on superior terms**
- **Borrowing for the purpose of purchasing nuclear fuel.**

(HR matters are being reviewed by Bond Schoeneck and King and NMPC HR Dept.)

## **SECTION 6.1 OF THE COMPANY DISCLOSURE SCHEDULE**

### **Exceptions To Company Covenants Regarding Compensation and Benefits**

1. If the nuclear facilities are sold, the applicable asset purchase agreement will have employee benefit provisions that will have to be negotiated by the Company. The Company also will have to negotiate certain issues with respect to such a sale with Local 97 of the International Brotherhood of Electrical Workers, AFL-CIO ("IBEW Local 97"), and such negotiations could involve compensation and employee benefit issues. Negotiations with respect to represented employees shall be handled in accordance with normal bargaining practices. Compensation and benefits for non-represented employees that are negotiated with the purchaser of nuclear assets will be reasonable. If there are any other divestitures of Company assets, similar issues could arise in those divestitures.
2. Negotiations have begun with respect to a possible modification of the collective bargaining agreement with IBEW Local 97 ("IBEW Local 97 Collective Bargaining Agreement"), and this could result in an increase in labor costs for employees covered by the IBEW Local 97 Collective Bargaining Agreement. Negotiations with the IBEW Local 97 pursuant to Section 6.1(m) of the Agreement could result in compensation and employee benefit modifications. If negotiations result in a modification of the IBEW Local 97 Collective Bargaining Agreement, the Company will review whether it should make any corresponding changes for non-represented employees. Any such changes for non-represented employees would only be made to the extent agreed to by the parties.
3. The Company intends to modify the change in control and/or change of control definitions in any applicable Company change in control agreement, employment agreement, benefit plan, benefit trust, or other Company documents (such modifications would require the Merger to occur for payments to be due under the agreements, will have such amounts payable no sooner than the closing of the Merger, will have the applicable time periods under the severance arrangements run from the Closing Date of the Merger rather than the date of shareholder approval, and will value stock based appreciation on the Per Share Amount, rather than a trading range).
4. The Company currently is reviewing the overall competitiveness of the Niagara Mohawk Holdings, Inc. Active Director Compensation Program (includes annual retainer, meeting fees and expenses). Any changes would be made in order to maintain the competitiveness of this program relative to industry standards. These changes would not have a cost in excess of \$120,000 annually.
5. The Company intends to modify the Niagara Mohawk Holdings, Inc. Active Director Deferred Stock Unit Plan ("Company Director DSU Plan") to permit Directors to elect to defer payment of their deferred stock units in the event of a change in control. This modification would involve no substantial additional costs.
6. The Company intends on funding some of the post-retirement benefit liabilities arising from contractual obligations with senior officers as well as benefit obligations for outside directors. These obligations could, depending upon the senior officer or director involved, include retiree medical, life insurance and/or dental coverages, and coverages for eligible beneficiaries. This funding would not exceed five million dollars on a one-time basis.
7. The Company is reviewing whether to adopt a key employee retention program, for certain non-represented employees who are not listed by name on Section 4.10(a) of the Company Disclosure Schedule, that would help retain such employees during the transition period. Such a program would include retention payments and/or supplemental severance payments. The cost of such a program would not exceed eight million dollars.

## **PARENT DISCLOSURE SCHEDULE**

**4 September 2000**

**This Parent Disclosure Schedule is delivered by National Grid Group plc ("Parent") to Niagara Mohawk Holdings, Inc. (the "Company") pursuant to the Agreement and Plan of Merger and Scheme of Arrangement (the "Agreement"), dated as of today's date by and between Parent, the Company, New National Grid Limited ("Newco") and Grid Delaware, Inc. Unless the context otherwise requires, terms used in this Disclosure Schedule have the meanings given to the same terms in the Agreement.**

**Disclosure of an item in one section of this Parent Disclosure Schedule shall be deemed to be disclosure of that item on all relevant sections of this Parent Disclosure Schedule.**

**The inclusion of any matter in this Parent Disclosure Schedule shall not be deemed to be an admission by Parent as to the materiality of any matter disclosed in this Parent Disclosure Schedule.**

**This Parent Disclosure Schedule confirms the disclosure by Parent of information as follows:**

## **Section 5.1    Organization and Qualification**

**No disclosures.**



## **Section 5.2 Capitalization**

- (a) A schedule is annexed to this Disclosure Letter detailing share savings contracts held by employees of the Parent Group. On the maturity date of each share save scheme, the participant is entitled to purchase shares of Parent at the price shown in the schedule.

A schedule is annexed to this Disclosure Letter detailing the outstanding approved and unapproved options over shares in Parent which have been granted by the trustee under the Parent Executive Share Option Scheme.

The 14,700,000 6% EPIC bonds due 2003 are mandatorily exchangeable into ordinary shares in Energis. Full details relating to these bonds are given in the offering circular issued by Parent on 29 January 1999.

The 4.25% exchangeable bonds 2008 issued by [Parent Utility] are exchangeable into ordinary shares in Parent, subject to the rights of Parent in certain circumstances to exchange such bonds for cash. Full details relating to these bonds are given in the prospectus issued by [Parent Utility] on 14 January 1998.

- (b) No disclosures.

The National Grid Group plc 1996 Employee Share Ownership Trust  
 Details of Movements of Options Granted by Trustee Under The National Grid Executive Share Option Scheme (ESOS)

ESOS

Scheme Name	Date of Grant	Date of Maturity	Option Price £	Options Granted	Options Exercised	Options Lapsed	Total Outstanding Options @ 31.08.00
ESOS - Approved	12.12.90	12.12.93 to 12.12.00	0.623	3,458,760	3,458,760	0	0
ESOS - Approved	17.06.91	17.06.94 to 17.06.01	0.715	152,503	152,503	0	0
ESOS - Approved	20.12.91	20.12.94 to 20.12.01	0.646	2,300,047	2,150,047	0	150,000
ESOS - Approved	17.12.92	17.12.95 to 17.12.02	0.902	583,431	544,822	0	38,609
ESOS - Approved	22.07.93	22.07.96 to 22.07.03	0.931	141,668	141,668	0	0
ESOS - Approved	17.12.93	17.12.96 to 17.12.03	1.189	447,441	399,840	0	47,601
ESOS - Approved	05.01.94	05.01.97 to 05.01.04	1.352	398,969	398,969	0	0
ESOS - Approved	06.09.94	06.09.97 to 06.09.04	1.546	41,974	41,974	0	0
ESOS - Approved	28.11.96	28.11.99 to 28.11.08	1.945	107,968	0	15,424	92,544
ESOS - Approved	10.02.97	10.02.00 to 10.02.07	2.055	1,104,582	690,106	24,330	390,146
ESOS - Unapproved	04.08.97	04.08.00 to 04.08.07	2.58	494,009	201,404	0	292,605
ESOS - Approved	29.09.97	29.09.00 to 29.09.07	2.805	64,170	0	0	64,170
ESOS - Unapproved	29.09.97	29.09.00 to 29.09.07	2.805	957,712	0	0	957,712
ESOS - Approved	16.06.98	16.06.01 to 16.06.08	3.7575	244,146	0	0	244,146
ESOS - Unapproved	16.06.98	16.06.01 to 16.06.08	3.7575	1,180,851	28,489	10,214	1,142,148
ESOS - Approved	21.12.98	21.12.01 to 21.12.08	4.9	12,244	0	6,122	6,122
ESOS - Unapproved	21.12.98	21.12.01 to 21.12.08	4.9	53,200	0	44,833	8,367
ESOS - Approved	15.06.99	15.06.02 to 15.06.09	4.5525	13,178	0	0	13,178
ESOS - Unapproved	15.06.99	15.06.02 to 15.06.09	4.5525	325,125	0	33,458	291,667
ESOS - Approved	06.07.99	06.07.02 to 06.07.09	4.3575	181,795	0	6,884	154,911
ESOS - Unapproved	06.07.99	06.07.02 to 06.07.09	4.3575	205,075	0	1,488	203,607
ESOS - Unapproved	09.07.99	09.07.02 to 09.07.09	4.3575	5,553	0	0	5,553
ESOS - Approved	27.09.99	27.09.02 to 27.09.09	4.24	7,075	0	0	7,075
ESOS - Unapproved	27.09.99	27.09.02 to 27.09.09	4.24	49,528	0	0	49,528
ESOS - Unapproved	31.03.00	31.03.03 to 31.03.10	5.666	1,524,628	0	0	1,524,628
ESOS - Approved	05.06.00	05.06.03 to 05.06.10	5.315	43,459	0	0	43,459
ESOS - Unapproved	05.06.00	05.06.03 to 05.06.10	5.315	442,773	0	0	442,773
ESOS - Approved	05.07.00	05.07.03 to 05.07.10	5.28	211,860	0	0	211,860
ESOS - Unapproved	05.07.00	05.07.03 to 05.07.10	5.28	796,950	0	0	796,950
				15,530,674	8,208,382	142,733	7,179,559

To:

From:

For: CHS CAMERON HOUSE

Tel: 01-459-2000-18:21 Fax: 01-459-2000-18:21

9-4-00: 1:43PM: 17TH FLOOR FAX ROOM

1212 424 8500

**To:**

**From:**

**File: DTS CINEBUN MEXICO**

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# SHARESAVE SCHEME INFORMATION

Scheme	Date of Grant	Date of Commencement	Length of Contract	Date of Maturity	Option Price	Bonus (on maturity)
One	11 Dec 1990	1 Mar 1991	5 Years	1 Mar 1996	97.8p	15 months
Two	16 Dec 1991	2 Mar 1992	5 Years	2 Mar 1997	91.7p	15 months
Three	16 Dec 1992	1 Mar 1993	5 Years	1 Mar 1998	72.1p	12.5 months
Four	16 Dec 1993	24 Feb 1994	5 Years	24 Feb 1999	95.1p	9 months
Five	19 Jan 1996	23 Feb 1996	5 Years	23 Feb 2001	162p	9 months
96 (s/s 6)	5 Jul 1996	23 Aug 1996	3 Years	23 Aug 1999	146p	3 months
96 (s/s 6)	5 Jul 1996	23 Aug 1996	5 Years	23 Aug 2001	146p	9 months
Seven	15 Jul 1997	22 Aug 1997	3 Years	22 Aug 2000	171p	3 months
Seven	15 Jul 1997	22 Aug 1997	5 Years	22 Aug 2002	171p	9 months
Eight	3 Jul 1998	1 Sept 1998	3 Years	1 Sept 2001	312p	3 months
Eight	3 Jul 1998	1 Sept 1998	5 Years	1 Sept 2003	312p	9 months
Nine	2 Jul 1999	1 Sept 1999	3 Years	1 Sept 2002	337p	2.75 months
Nine	2 Jul 1999	1 Sept 1999	5 Years	1 Sept 2004	337p	7.5 months
Ten	23 Jun 2000	1 Sept 2000	3 Years	1 Sept 2003	416p	2.75 months
Ten	23 Jun 2000	1 Sept 2000	5 Years	1 Sept 2005	416p	7.5 months

Received Time Sep. 1. 1:20PM

To:

From:

For: DB CREDIT ROOM

To: Call at: 01-82-2000-18:21 Doc: 623 Page: 904

9-4-00: 11:43PM: 17th FLOOR FAX ROOM

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### **Section 5.3(b) Non-Contravention**

- (a) No disclosures.
- (b) No disclosures.
- (c) The consent of the Trustee of the 4.25% exchangeable bonds 2008 (exchangeable into ordinary shares of Parent) issued by The National Grid Company plc. in 1998 will be required to the substitution of Newco for Parent pursuant to the Scheme. The Trustee will need to be satisfied that the interests of the bondholders will not be materially prejudiced by the substitution. Newco and Parent will be required to enter into a deed of adherence with the Trustee and the other parties in respect of the various agreements governing the bonds.

The National Grid Company plc. will need to obtain from the European Investment Bank a waiver of the change of control provision in The National Grid Company plc.'s £200m facility agreement with EIB, under which the obligations of The National Grid Company plc. are guaranteed by Parent. In the absence of such a waiver, the change of control provision would be triggered by the implementation of the Scheme.

The NEES acquisition facility agreement dated 5 March 1999 between Parent, The National Grid Company plc., ABN Amro Bank N.V., Barclays Capital, Chase Manhattan plc, Deutsche Bank A.G. London, Dresdner Kleinwort Benson, HSBC and various Banks contains a change of control provision which will be triggered by the implementation of the Scheme. Parent will therefore need to obtain a waiver of such provision from the banks party to the facility agreement.

### **Section 5.3(c) Statutory Approvals**

The following are the Parent Required Statutory Approvals:

- Approval of the Securities and Exchange Commission ("SEC") under the 1935 Act
- Approval of the Federal Energy Regulatory Commission
- Approval of the New York Public Service Commission
- Approval of the Federal Communications Commission
- Clearance under the Hart-Scott-Rodino Antitrust Improvements Act
- Clearance of the Proxy/Registration Statement by the SEC
- To the extent required, approval of the Connecticut Department of Public Utility Control and the Ontario Power Board
- In the event the Nuclear Sale is not completed, approval of the Nuclear Regulatory Commission and the Committee on Foreign Investments in the United States under Exon-Florio may be required
- Formal clearance will be obtained from the Office of Fair Trading in the UK that the Secretary of State for Trade and Industry does not intend to refer the Merger to the Competition Commission under the provisions of the Fair Trading Act 1973.
- Inland Revenue clearance in respect of section 136 TCGA 1992 and section 703 ICTA 1988 will be required to consummate the transactions contemplated by the Agreement.
- Consent of HM Treasury for the purposes of section 765 ICTA 1988 may be required, depending on the exact structure which is used to implement the acquisition
- The sanction of the High Court in London will be required to implement the Scheme.
- The approval of the UK Listing Authority will be required for the new shares in Newco to be issued pursuant to the Merger and Scheme to be listed on the Official List of the UK Listing Authority.
- The consent of the holder of the Parent Special Share will be required to the implementation of the Scheme or alternatively to the redemption by Parent of the Parent Special Share prior to the implementation of the Scheme.

**Section 5.3(d) Compliance**

No disclosures.

### **Section 5.5 Absence of Certain Changes or Events**

On 20 June 2000 The National Grid Company plc. repurchased 49,999 of its ordinary shares from NGG Telecoms Limited. These shares were then cancelled.

Ofgem has proposed the introduction of the new British Electricity Trading and Transmission Arrangements ("BETTA"). If BETTA were to be introduced in its proposed form, the Scottish interconnector owned by The National Grid Company plc would be treated as part of the regulated asset base of The National Grid Company plc, and would become subject to regulated rates of charge. In addition, Ofgem has indicated that it considers the charges currently levied by The National Grid Company plc. for the use of the Scottish interconnector in excess of a 'reasonable rate of return' specified by the regulator and that, as an interim measure pending implementation of BETTA, such charges should be reduced. The National Grid Company plc. does not share the views of Ofgem in this regard. Full details of these matters are contained in the consultation paper published by Ofgem in August 2000 entitled 'Interim Proposals for the reform of the Scottish Trading Arrangements: British Electricity Trading and Transmission Arrangements', a copy of which is available from Ofgem's website.



## **Section 5.6    Legal Proceedings**

The discussions regarding employees' future pay which have recently been taking place between The National Grid Company plc and the trade union representatives for the employees of Parent group have not concluded on July 1, 2000 as scheduled. Despite the union's endorsement of the pay package proposed by The National Grid Company plc, it has not been accepted by employees. The discussion are now expected to conclude later this year.

**Section 5.8(a) Tax Matters**

No disclosures.

**Section 5.9(a) Environmental Protection**

No disclosures.

## **Section 5.12 Insurance**

One of the insurers used by the Parent group, CGNU plc, notified Parent in August 2000 of its decision to cease providing insurance to businesses over £100 million in size (which includes the Parent group). The CGNU insurance policies held by Parent (on behalf of itself and its UK Subsidiaries) expire on 30 September 2000. Parent is currently negotiating the provision of alternative insurance on comparable or improved terms with other insurers, which will commence from 1 October 2000.

## **Section 6.2 Covenants of the Parent**

**No disclosures.**

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

**NATIONAL GRID USA  
AND  
NIAGARA MOHAWK**

**VOLUME TWO  
JOINT PROPOSAL**

**January 17, 2001**







Electricity Delivery Revenues Under Rate Plan  
(Thousand Dollars)

	09/01/01 Year 1	01/01/02 Year 2	01/01/03 Year 3	01/01/04 Year 4	01/01/05 Year 5	01/01/06 Year 6	01/01/07 Year 7	01/01/08 Year 8	01/01/09 Year 9	01/01/10 Year 10	01/01/11 Year 11
1 Total Electricity Delivery (Base Case)	548,468	1,791,922	1,926,750	2,055,388	2,068,609	2,064,719	2,063,644	1,954,733	1,641,860	1,352,963	1,356,006
Forecast Adjustments											
2 System Benefits Charge	5,030	15,616	15,704	15,777	15,831	15,839	15,884	15,952	16,003	16,074	16,210
3 GRT and State Income Tax	18,223	57,757	55,072	59,055	51,618	50,112	49,741	41,494	43,953	36,516	36,000
4 Adjusted Electricity Delivery Revenue (Base Case)	571,722	1,865,295	1,997,526	2,130,219	2,136,059	2,130,671	2,129,269	2,012,178	1,701,816	1,405,553	1,408,216
5 Adjusted Electricity Delivery Revenue (Merger Case)	550,241	1,733,686	1,747,819	1,757,462	1,763,821	1,767,356	1,774,143	1,785,554	1,787,770	1,788,486	1,806,234
6 Difference	21,481	131,609	249,707	372,757	372,238	363,314	355,126	226,624	(85,954)	(382,933)	(398,018)
7 NPV of Differences	10.75%	968,127									

1 Financial Forecast excluding GRT and SIT  
2 Page 2, Line 11  
3 Financial Forecast  
4 Line 1 + Line 2 + Line 3

5 Page 2, Line 14  
6 Line 4 - Line 5  
7 Net Present Value as of September 1, 2001 of Line 5 assuming a mid-year convention

Electricity Delivery Revenues Under Rate Plan  
(Thousand Dollars)

	09/01/01 Year 1	01/01/02 Year 2	01/01/03 Year 3	01/01/04 Year 4	01/01/05 Year 5	01/01/06 Year 6	01/01/07 Year 7	01/01/08 Year 8	01/01/09 Year 9	01/01/10 Year 10	01/01/11 Year 11
Contract Termination Charge											
1 Over Market Variable Costs	68,634	213,952	200,098	180,015	163,299	174,745	164,333	97,304	32,861	38,171	36,608
Fixed Costs											
2 Total Return of Stranded Costs	101,148	308,823	297,730	273,329	279,629	270,777	278,846	285,880	364,217	464,541	481,813
3 Total Return on Stranded Costs	76,424	220,210	199,018	179,067	159,748	140,518	121,316	101,585	78,873	49,918	16,855
4 MRA Zero Coupon Bond	(10,578)	(34,488)	(3,834)	45,287	60,014	61,698	62,823	111,765	94,033	-	-
5 MRA Cash for Cont	(9,344)	(28,404)	(28,899)	(29,402)	(30,038)	(30,526)	(25,337)	(9,997)	-	-	-
6 MRA Cash for Cont CC	4,202	11,367	9,992	8,456	6,746	4,832	2,710	799	-	-	-
7 Total CTC Revenue	230,486	691,459	674,105	656,752	639,398	622,044	604,691	587,337	569,983	552,630	535,276
8 Distribution and Transmission Revenue	321,750	1,010,339	1,037,724	1,063,164	1,086,403	1,106,927	1,129,195	1,154,359	1,177,160	1,202,363	1,235,930
9 Total Base Electricity Delivery Revenue	552,236	1,701,798	1,711,830	1,719,916	1,725,801	1,728,971	1,733,886	1,741,696	1,747,143	1,754,993	1,771,206
Forecast Adjustments											
10 Transmission Revenue Adjustment	-	20,696	27,576	40,152	48,488	52,716	54,313	60,668	61,225	61,628	63,208
11 System Benefits Charge	5,030	15,616	15,704	15,777	15,831	15,839	15,884	15,952	16,003	16,074	16,210
12 NYPA	(25,337)	(69,800)	(65,500)	(70,500)	(72,500)	(75,900)	(75,700)	(79,200)	(82,000)	(87,400)	(88,400)
13 GRT and State Income Tax	18,311	65,376	58,209	52,118	46,201	45,730	45,761	46,438	45,399	43,191	44,009
14 Adjusted Electricity Delivery Revenue	550,241	1,733,686	1,747,819	1,757,462	1,763,821	1,767,356	1,774,143	1,785,554	1,787,770	1,788,486	1,806,234

- 1 See Attachment 2 - Note recovery of over-market variable costs will continue past 2011
- 2 Assumed
- 3 Attachment 1, Page 3, Line 4
- 4 See Financial Forecast
- 5 See Financial Forecast
- 6 See Financial Forecast
- 7 Sum Line 1 through Line 6

- 8 Line 9 less Line 7
- 9 September 2001 Delivery Rates times billing units for respective periods
- 10 See Financial Forecast
- 11 See Financial Forecast
- 12 See Financial Forecast
- 13 See Financial Forecast
- 14 Sum Line 9 through Line 13 or Attachment 6

Calculation of Return on Regulatory Asset  
(Thousand Dollars)

		09/01/01 Year 1	01/01/02 Year 2	01/01/03 Year 3	01/01/04 Year 4	01/01/05 Year 5	01/01/06 Year 6	01/01/07 Year 7	01/01/08 Year 8	01/01/09 Year 9	01/01/10 Year 10	01/01/11 Year 11
1	Beginning Regulatory Asset Balance	3,406,733	3,305,585	2,996,763	2,699,032	2,425,704	2,146,075	1,875,297	1,596,451	1,310,571	946,354	481,813
2	Average Regulatory Asset Balance	3,356,159	3,151,174	2,847,897	2,562,368	2,285,889	2,010,686	1,735,874	1,453,511	1,128,462	714,084	240,907
3	After Tax Percent Return	2.28%	6.99%	6.99%	6.99%	6.99%	6.99%	6.99%	6.99%	6.99%	6.99%	7.00%
4	Total Return on Stranded Costs	76,424	220,210	199,018	179,067	159,748	140,518	121,316	101,585	78,873	49,918	16,855
1	Assumed			3	Assumed							
2	Line 1 less (Page 2, Line 2 divided by 2)			4	Line 2 * Line 3							



## Derivation of Over-Market Variable Costs Associated with Niagara Mohawk's Power Supply Portfolio

(Thousand Dollars)

<b>POWER SUPPLY CONTRACTS</b>	Sept-Dec 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b><u>Nine Mile 1 PPA</u></b>											
PPA Cost	43,112.2	145,896.9	126,899.8	139,565.5	123,997.8	139,840.9	128,192.8	145,474.2	88,726.6		
Market Value	46,593.2	142,580.9	127,614.1	143,277.9	133,547.5	152,196.4	139,108.8	158,812.3	94,291.2		
Over-Market Variable Cost	-3,481.0	3,316.0	-714.3	-3,712.5	-9,549.7	-12,355.5	-10,916.0	-13,338.1	-5,564.6		
<b><u>Nine Mile 2 PPA</u></b>											
PPA Cost	34,232.1	102,248.0	109,549.1	97,827.0	106,770.8	96,136.9	107,051.2	99,211.2	111,500.5	103,338.3	41,689.6
Market Value	36,853.4	98,650.3	110,217.5	99,152.4	114,115.7	105,880.7	119,135.0	110,272.3	126,359.8	118,323.3	57,925.1
Over-Market Variable Cost	-2,621.3	3,597.6	-668.4	-1,325.4	-7,344.9	-9,743.8	-12,083.8	-11,061.1	-14,859.3	-14,985.0	-16,235.6
<b><u>Fossil &amp; Hydro PPA</u></b>											
Dunkirk PPA Cost	17,393.8	67,418.0	42,449.9								
Dunkirk Market Value	10,407.8	51,599.6	30,800.6								
Dunkirk Over-Market Variable Cost	6,986.0	15,818.4	11,649.4								
Huntley PPA Cost	14,320.0	57,536.9	30,727.5								
Huntley Market Value	8,407.8	46,079.0	22,170.3								
Huntley Over-Market Variable Cost	5,912.2	11,457.9	8,557.2								
Albany PPA Cost	8,895.7	37,701.2	31,779.4								
Albany Market Value	5,228.4	22,407.7	16,356.6								
Albany Over-Market Variable Cost	3,667.3	15,293.4	15,422.8								
Oswego PPA Cost	11,000.0	33,000.0	19,749.8								
Oswego Market Value	7,958.8	33,708.0	25,281.0								
Oswego Over-Market Variable Cost	3,041.2	-708.0	-5,531.3								
Hydro PPA Cost	0.0										
Hydro Market Value	0.0										
Hydro Over-Market Variable Cost	0.0										
<b><u>MRA SIPPS</u></b>											
SIPPS Contract Costs	73,281.5	227,904.8	236,953.6	245,225.3	255,814.3	265,728.4	276,591.3	138,770.0			
SIPPS Market Value	47,737.1	143,894.9	144,394.2	144,293.2	148,832.1	152,938.4	156,620.3	80,449.8			
Over-Market Variable Cost	25,544.4	84,009.9	92,559.4	100,932.2	106,982.3	112,790.0	119,971.0	58,320.3			
<b><u>Non - SIPPS 1/</u></b>											
IPP Contract Costs	60,356.6	171,995.4	169,070.7	165,455.5	154,554.0	168,369.2	152,464.6	151,203.2	143,692.3	148,073.9	149,218.1
IPP Market Value	30,771.7	90,829.1	90,247.6	81,334.5	81,342.7	84,315.0	85,102.9	87,820.2	90,407.5	94,917.9	96,374.7
Over-Market Variable Cost	29,585.0	81,166.3	78,823.2	84,121.0	73,211.4	84,054.2	67,361.7	63,383.0	53,284.8	53,156.0	52,843.5
<b>Total Over-Market Variable Costs</b>	<b>68,633.7</b>	<b>213,951.7</b>	<b>200,097.8</b>	<b>180,015.3</b>	<b>163,299.1</b>	<b>174,744.9</b>	<b>164,333.0</b>	<b>97,304.1</b>	<b>32,860.8</b>	<b>38,171.0</b>	<b>36,607.9</b>

1/ These contracts continue through 2035 and per Section 1.3.2.3.2 of the Joint Proposal are recoverable after the Rate Plan Period



## Standard Offer Service and Market-Price Service

### 1.0 STANDARD OFFER SERVICE ("SOS")

1.1. **Definition:** Standard Offer Service is a hedged commodity service<sup>1</sup> subject to limited adjustment through the Commodity Adjustment Clause ("CAC"), which is explained below.

1.2. **Eligibility<sup>2</sup>:**

1.2.1. Existing customers on PSC 207 service classifications SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, small SC-4 (SC-3 as the parent class)<sup>3</sup>, SC-5, and all PSC 214 service classifications who are currently taking commodity service from Niagara Mohawk.

1.2.2. New<sup>4</sup> customers on PSC 207 service classifications SC-1<sup>5</sup>, SC-1C, SC-2ND, SC-2D, and all PSC 214 service classification customers who commit to a term that is the lessor of one year or until termination of service.

1.2.3. Customers on PSC 207 service classifications SC-1, SC-2ND, SC-2D, SC-3, and small SC-4 (SC-3 as parent class) who are (a) currently taking Market-Price Service ("MPS") commodity pursuant to the annual offering from the Company through the Power Choice Settlement<sup>6</sup>, or (b) service from an energy service company (ESCO)<sup>7</sup> will have a one-time opportunity to elect SOS commodity by notifying the Company within 90 days from the effective date of this provision; each subject to the availability to eligible SOS service pursuant to

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<sup>1</sup> Fixed price or hedged commodity service may be fully hedged, or partially hedged. Standard Offer Service is subject to adjustment through the CAC for ISO charges, ancillary services, limited quantities of unhedged purchases or sales for those periods when hedged supplies do not equal demands, and other variances.

<sup>2</sup> SC-3A customers who elected quantities in the NMPC Power Choice Settlement dated October 10, 1997 under SC-3A Option 2 fixed price service are not considered SOS. However, these customers will remain at the rates for commodity, T&D, and CTC for such nominated quantities through the term of the nominated allocation, which shall not continue past August 31, 2003. Thereafter, such quantities under SC-3A shall be served under the Market-Price Service commodity described in Section 2.0.

<sup>3</sup> Unless the SC-2ND, SC-2D, SC-3, or SC-4 customer has been notified by the Company pursuant to the procedure set forth in Section 1.2.3.5 of the Joint Proposal that its option for Standard Offer Service has expired and the date for receiving Standard Offer Service has passed.

<sup>4</sup> A "new customer" under this provisions is defined in PSC 207 as: 1.5.1 A "New Customer" is a customer who was not the last previous customer at the premises to be served, regardless of whether such customer was or is still a customer of the utility at a different location.

<sup>5</sup> New SC-1B subscriptions are prohibited.

<sup>6</sup> Approximately 3,620 residential and general service customers totaling 150 GWh/year are under this option.

<sup>7</sup> Approximately 50,786 residential, general, and lighting service customers totaling 1,950 GWh/year are under this option.

## **Standard Offer Service and Market-Price Service**

Section 1.2.3.5 "Transfer to Market-Price Service" of the Joint Proposal.

### **1.3. Terms and Conditions for Customers Who Switch to Alternative Commodity Service**

- 1.3.1. Customers may, at any time, terminate Standard Offer Service to take service from an alternate supplier provided proper notice and procedures are followed as set forth in the Company's Retail Access Program except as limited by Section 1.2.2.
- 1.3.2. Customers who terminate Standard Offer Service to purchase electricity under the Market-Price Service shall not be allowed to return to Standard Offer Service.
- 1.3.3. Customers who purchase electricity from an alternate supplier and subsequently desire to purchase electricity from the Company, shall not be allowed to return to Standard Offer Service and will be served under the Market-Price Service.

### **1.4. Calculation of the Standard Offer Service Charge**

- 1.4.1. SOS prices include a Base Commodity Charge as shown on Schedule 1. The Base Commodity Charge for September 2001 through December 2011 includes an allowance of \$2.56/MWh (subject to loss factors) for Ancillary Services and the New York Power Authority Transmission Adjustment Charge ("NTAC") under the New York Independent System Operator ("NYISO") Open Access Transmission Tariff ("OATT")<sup>8</sup>.
- 1.4.2. SOS is subject to the Commodity Adjustment Charge as set forth in Section 1.6.
- 1.4.3. Through 2004, the Base Commodity Charges are levelized over all hours. The net present value of the forecast is calculated and levelized to calculate a single Base Commodity Charge for all hours through 2004.
- 1.4.4. The Base Commodity Charges represented in Schedule 1 of this Attachment vary by:

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<sup>8</sup> Base Commodity Charge, ancillary services and NTAC shall not apply from the Company to the customer if the customer chooses to take service from an Esco. For the period during which the customer takes service from an Esco, the Esco and/or customer shall be responsible for commodity, ancillary services and NTAC costs and the Company shall not reimburse the customer or the Esco for any such costs.



## Standard Offer Service and Market-Price Service

- zone
- voltage level
- service class (load shape)

### 1.5. Elimination of the Delivery Charge Adjustment (DCA)

The DCA is eliminated.

### 1.6. Commodity Adjustment Charge ("CAC")

The CAC will adjust the Base Commodity Charges for deviations between actual costs and forecast costs. Using a methodology similar to that used to develop and track the eliminated former Rule 29 (Fuel Adjustment Clause) of PSC 207, the CAC shall be calculated each month based upon the cost month two months prior. Such CAC, positive or negative, shall be divided by the Standard Offer Service forecast sales for the applicable month and applied to bills, subject to Section 1.2.3.7 "The Commodity Adjustment Charge" of the Joint Proposal. For each month a calculation of:

1.6.1. Total purchased power costs for the respective cost month, exclusive of any New York Power Authority Power For Jobs, Expansion Power, Replacement Power, Rural and Domestic residential hydro supplies<sup>9</sup>, inclusive of NYPA Blenheim Gilboa, all ancillary services, NTAC, power supply contracts, NYISO purchases, Transmission Usage Charges, any TCC costs, and any associated congestion rents from those purchased TCCs, minus

1.6.2. The Over-Market Variable Costs associated with the Company's supply contracts allocated to the CTC, excluding NYPA contracts as shown in the following table:

Year	Annual Amount (\$ 000,000)
2001 (4 mo.)	\$68.6
2002	\$214.0
2003	\$200.1
2004	\$180.0
2005	\$163.3

<sup>9</sup> Presumes the NYPA programs are scheduled as bilateral purchase for resale to the applicable customers and that such customer's electricity for the NYPA supply portion is not purchased through the NYISO, or SOS, or MPS.

### Standard Offer Service and Market-Price Service

2006	\$174.7
2007	\$164.3
2008	\$97.3
2009	\$32.9
2010	\$38.2
2011	\$36.6

divided by twelve (with the exception of 2001 which shall be divided by four), minus

- 1.6.3. PSC 207 Rule 46 revenues/costs to MPS Customers for the respective cost month, minus
- 1.6.4. Revenues from Base Commodity Charges, which includes a the allowance for ancillary service, and NTAC set forth in Section 1.4.1, plus
- 1.6.5. The product of (i) the NYPA Rural and Domestic ("R&D") residential hydro purchase supplies, in kWh times (ii) the SC-1 Base Commodity Charge for the Zone 1A (Schedule 1 attached), for the respective cost month<sup>10</sup>, minus
- 1.6.6. Commodity revenues received from SC-3A customers served under Option 2, minus
- 1.6.7. Wholesale sales revenues associated with wholesale sales by Niagara Mohawk during the respective cost month.

## 2.0 MARKET-PRICE SERVICE

- 2.1. **Definition:** Market-Price Service is electricity service which is priced at the New York Independent System Operator ("NYISO") day-ahead price of energy, installed capacity, ancillary service charges, and NTAC and adjusted

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<sup>10</sup> Presuming the NYPA R&D is scheduled as a bilateral schedule to the Niagara Mohawk customer's load; since the NYPA R&D residential supply is quasi-bundled in the total Base Commodity Charge revenues and the purchased power costs under 1.6.1 exclude NYPA R&D, then the NYPA R&D residential energy in kWh priced at the Base Commodity Charge need to be deducted from the Base Commodity Charge revenues by adding back such component into the CAC. For example, consider a hypothetical example whereby the CAC should be zero: residential load is 1,000 kWh, the Base Commodity Charge is 4 cents/kWh and the portfolio supply contract energy is 900 kWh at 4 cents/kWh and the NYPA R&D is 100 kWh at 1 cents/kWh. Under this example the CAC is equal to = (900 kWh \* 4 cents/kWh) - (1,000 kWh \* 4 cents/kWh) + (100 kWh \* 4 cents/kWh). The benefits of the below market NYPA R&D is provided for as a separate credit.

### **Standard Offer Service and Market-Price Service**

for all losses, as defined under Rule 46 of the Company's tariff. Rule 46 of the Company's tariff shall be amended to read as follows:

**46. Electricity Supply Cost (ESCost)** - Any capitalized terms herein shall use the Definitions within this PSC No. 207 Tariff and definitions within the NYISO Tariff filed April 30, 1999. The following shall define the determination of ESCost:

*For each hour, the Day-Ahead LBMP in \$/MWh; plus*

*For each On-Peak hour, the LBMCP in \$/kW-mo times the sum of one plus the Installed Capacity Requirement of the NYISO divided by On-Peak hours of the respective month divided by the class load factor where the class load factor as approved by the PSC for the applicable six-month Capability Period; plus*

*NYISO Tariff Schedule I Scheduling System Control and Dispatch rate in \$/MWh for the respective day; plus*

*NYISO Tariff Schedule II Voltage Support Service weighted average rate in \$/MWh for the respective day; plus*

*NYISO Tariff Schedule III Regulation and Frequency Response Service rate in \$/MWh for the respective day; plus*

*NYISO Tariff Schedule IV Energy Imbalance rate in \$/MWh calculated as NYISO Real Time energy purchases times the difference between Real Time price minus DAM Price plus Real Time energy sales times the difference between the DAM Price minus Real Time Price, each from the month (2 month prior) divided by the energy sales of customers applicable to the Market Rate Sales for the forthcoming month; plus*

*NYISO Tariff Schedule V Operating Reserve Service weighted average rate in \$/MWh for the respective day; plus*

*NYISO Tariff Schedule VI Black Start Service weighted average rate in \$/MWh for the respective month; plus*

*NYISO NTAC weighted average rate in \$/MWh for the respective month.*

*The sum of each item shall be adjusted by a line loss multiplier equal to 1 plus the applicable transmission loss factor times 1 plus the applicable distribution*

## **Standard Offer Service and Market-Price Service**

*delivery loss factor and any applicable unaccounted for losses in Rule 39.18.5 plus any applicable taxes.*

*A system average calculation of the prices in each of the Load Zones shall be calculated to effectuate contracts under Service Classification No. 11 that reference system average rates. The system average prices shall be determined through application of weights to each Load Zone price. The weight factors will be updated and filed with the PSC for approval according to historic consumption. The weights for each of the Load Zones shall be shown on statements filed with the Public Service Commission apart from this rate schedule not less than three (3) business days before its effective date. Such statement will be filed quarterly with proposed effective dates of January 1, April 1, July 1, and October 1 of each year. The statements will be available to the public.*

### **2.2. Eligibility:**

- 2.2.1.** Any Niagara Mohawk customer may request Market-Price Service commodity at any time, except as limited by Section 1.2.2.
- 2.2.2.** All customers on PSC 207 service classifications SC-3A, large SC-4 (SC-3A parent class) customers who are currently on Market-Price Service commodity will continue to be served on this service.
- 2.2.3.** All customers on PSC 207 service classifications SC-11 and SC-12 will continue to pay under the amended Rule 46 pursuant to the existing terms of the SC-11 and SC-12 agreements.
- 2.2.4.** Any customer who has been converted to Market-Price Service or returns to Niagara Mohawk commodity service from an ESCo will be served under Market-Price Service.
- 2.2.5.** All Economic Development Zone Rider (EDZR) customers who buy commodity service from Niagara Mohawk will have their EDZR qualified load provided with Market-Price Service.
- 2.2.6.** All new customers on PSC 207 service classifications SC-3, SC-4 (SC-3 parent class), and SC-3A customers will be provided with Market-Price Service.
- 2.2.7.** Existing customers on PSC 207 service classifications SC-4, SC-3, SC-2D, SC-2ND, or PSC 214 customers who are shifted from SOS shall be served under Market-Price Service.

## **Standard Offer Service and Market-Price Service**

### **2.3. Metering Requirements**

- 2.3.1.** SC-1, SC-1B, SC-1C, SC-2D, SC-2ND, and PSC 214 customers served under Market-Price Service shall be billed under the class load shape, and Niagara Mohawk or customer shall not be required to install interval metering.
- 2.3.2.** SC-3 and SC-4 customers served under Market-Price Service shall be required to install interval metering and such Market-Price Service shall be priced based upon the interval hourly consumption and the applicable hourly market price. In the event of delays in the metering installation occurs, the class average load shape shall be used for billing purposes until metering is installed.

**Standard Offer Service and Market-Price Service**

**Schedule 1**

**Standard Offer Service Rates**

PSC 214	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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**Base Commodity Charges inclusive of Ancillary Services and NTAC for Standard Offer Service**

### ***Zones 1A, 29B***

PRIVATE AREA LIGHTING	All hours	\$0.04453	\$0.04453	\$0.04453	\$0.04453	\$0.04587	\$0.04744	\$0.04798	\$0.04953	\$0.05102	\$0.05316	\$0.05434
STREET LIGHTING	w/losses	\$0.04424	\$0.04424	\$0.04424	\$0.04424	\$0.04557	\$0.04713	\$0.04767	\$0.04921	\$0.05070	\$0.05282	\$0.05399
TRAFFIC SIGNALS	applied	\$0.04075	\$0.04075	\$0.04075	\$0.04075	\$0.04218	\$0.04363	\$0.04412	\$0.04555	\$0.04693	\$0.04889	\$0.04997

**Zone 2C, 3E, 31D**

PRIVATE AREA LIGHTING	All hours	\$0.04607	\$0.04607	\$0.04607	\$0.04607	\$0.04751	\$0.04914	\$0.04970	\$0.05130	\$0.05285	\$0.05506	\$0.05628
STREET LIGHTING	w/losses	\$0.04577	\$0.04577	\$0.04577	\$0.04577	\$0.04722	\$0.04883	\$0.04939	\$0.05098	\$0.05252	\$0.05472	\$0.05593
TRAFFIC SIGNALS	applied	\$0.04285	\$0.04285	\$0.04285	\$0.04285	\$0.04458	\$0.04611	\$0.04664	\$0.04814	\$0.04960	\$0.05167	\$0.05282

**Zone 4F**

PRIVATE AREA LIGHTING	All hours	\$0.04834	\$0.04834	\$0.04834	\$0.04834	\$0.04955	\$0.05124	\$0.05182	\$0.05350	\$0.05511	\$0.05742	\$0.05869
STREET LIGHTING	w/losses	\$0.04804	\$0.04804	\$0.04804	\$0.04804	\$0.04925	\$0.05093	\$0.05151	\$0.05318	\$0.05478	\$0.05707	\$0.05834
TRAFFIC SIGNALS	applied	\$0.04590	\$0.04590	\$0.04590	\$0.04590	\$0.04701	\$0.04862	\$0.04918	\$0.05076	\$0.05230	\$0.05448	\$0.05569

2001

2002

2003

2004

**2005**

2006

**2007**

2008

**2009**

2010

2011

***Zones 1A, 29B***

SC3 Secondary -On	On/Off	\$0.04992	\$0.04992	\$0.04992	\$0.04992	\$0.05134	\$0.05309	\$0.05370	\$0.05543	\$0.05711	\$0.05949	\$0.06081
SC3 Secondary -Off	peak	\$0.03606	\$0.03606	\$0.03606	\$0.03606	\$0.03749	\$0.03877	\$0.03921	\$0.04048	\$0.04170	\$0.04345	\$0.04441
SC3 Primary -On	with	\$0.04828	\$0.04828	\$0.04828	\$0.04828	\$0.04970	\$0.05140	\$0.05199	\$0.05366	\$0.05529	\$0.05760	\$0.05887
SC3 Primary -Off	losses	\$0.03525	\$0.03525	\$0.03525	\$0.03525	\$0.03665	\$0.03790	\$0.03833	\$0.03957	\$0.04077	\$0.04247	\$0.04341
SC3 Subtransmission -On	applied	\$0.04758	\$0.04758	\$0.04758	\$0.04758	\$0.04895	\$0.05063	\$0.05120	\$0.05286	\$0.05445	\$0.05673	\$0.05799
SC3 Subtransmission -Off		\$0.03469	\$0.03469	\$0.03469	\$0.03469	\$0.03603	\$0.03726	\$0.03768	\$0.03890	\$0.04007	\$0.04175	\$0.04268
SC3 Transmission -On		\$0.04948	\$0.04948	\$0.04948	\$0.04948	\$0.05077	\$0.05250	\$0.05310	\$0.05482	\$0.05647	\$0.05883	\$0.06014
SC3 Transmission -Off		\$0.03424	\$0.03424	\$0.03424	\$0.03424	\$0.03561	\$0.03682	\$0.03724	\$0.03845	\$0.03961	\$0.04126	\$0.04218



PSC 207	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
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**Base Commodity Charges inclusive of Ancillary Services and NTAC for Standard Offer Service**

**Zones 2C, 3E, 31D**

SC1	All hours with losses applied	\$0.04640	\$0.04640	\$0.04640	\$0.04640	\$0.04809	\$0.04974	\$0.05030	\$0.05193	\$0.05350	\$0.05573	\$0.05697
SC2ND		\$0.04880	\$0.04880	\$0.04880	\$0.04880	\$0.05061	\$0.05235	\$0.05294	\$0.05465	\$0.05630	\$0.05866	\$0.05996
SC2D		\$0.04758	\$0.04758	\$0.04758	\$0.04758	\$0.04930	\$0.05099	\$0.05157	\$0.05324	\$0.05485	\$0.05714	\$0.05841
SC3 Secondary		\$0.04647	\$0.04647	\$0.04647	\$0.04647	\$0.04749	\$0.04912	\$0.04968	\$0.05128	\$0.05283	\$0.05504	\$0.05626
SC3 Primary		\$0.04381	\$0.04381	\$0.04381	\$0.04381	\$0.04555	\$0.04711	\$0.04765	\$0.04919	\$0.05067	\$0.05279	\$0.05396
SC3 Subtransmission		\$0.04292	\$0.04292	\$0.04292	\$0.04292	\$0.04460	\$0.04612	\$0.04665	\$0.04816	\$0.04961	\$0.05168	\$0.05283
SC3 Transmission		\$0.04361	\$0.04361	\$0.04361	\$0.04361	\$0.04526	\$0.04681	\$0.04734	\$0.04887	\$0.05034	\$0.05245	\$0.05361
SC3 Secondary -On	On/Off peak with losses applied	\$0.05385	\$0.05385	\$0.05385	\$0.05385	\$0.05596	\$0.05788	\$0.05854	\$0.06043	\$0.06225	\$0.06486	\$0.06630
SC3 Secondary -Off		\$0.03690	\$0.03690	\$0.03690	\$0.03690	\$0.03836	\$0.03967	\$0.04012	\$0.04142	\$0.04267	\$0.04445	\$0.04544
SC3 Primary -On		\$0.05213	\$0.05213	\$0.05213	\$0.05213	\$0.05422	\$0.05608	\$0.05672	\$0.05855	\$0.06032	\$0.06284	\$0.06423
SC3 Primary -Off		\$0.03607	\$0.03607	\$0.03607	\$0.03607	\$0.03750	\$0.03878	\$0.03922	\$0.04049	\$0.04171	\$0.04345	\$0.04442
SC3 Subtransmission -On		\$0.05135	\$0.05135	\$0.05135	\$0.05135	\$0.05340	\$0.05522	\$0.05585	\$0.05766	\$0.05940	\$0.06188	\$0.06326
SC3 Subtransmission -Off		\$0.03550	\$0.03550	\$0.03550	\$0.03550	\$0.03686	\$0.03812	\$0.03855	\$0.03980	\$0.04100	\$0.04271	\$0.04366
SC3 Transmission -On		\$0.05325	\$0.05325	\$0.05325	\$0.05325	\$0.05518	\$0.05707	\$0.05772	\$0.05958	\$0.06138	\$0.06395	\$0.06536
SC3 Transmission -Off	\$0.03503	\$0.03503	\$0.03503	\$0.03503	\$0.03643	\$0.03768	\$0.03810	\$0.03934	\$0.04052	\$0.04222	\$0.04315	

**PSC 207**

**Zone 4F**

SC1	All hours with losses applied	\$0.04953	\$0.04953	\$0.04953	\$0.04953	\$0.05059	\$0.05232	\$0.05291	\$0.05462	\$0.05627	\$0.05862	\$0.05993
SC2ND		\$0.05228	\$0.05228	\$0.05228	\$0.05228	\$0.05331	\$0.05513	\$0.05576	\$0.05756	\$0.05930	\$0.06177	\$0.06315
SC2D		\$0.05116	\$0.05116	\$0.05116	\$0.05116	\$0.05202	\$0.05380	\$0.05441	\$0.05617	\$0.05787	\$0.06029	\$0.06162
SC3 Secondary		\$0.04905	\$0.04905	\$0.04905	\$0.04905	\$0.05009	\$0.05181	\$0.05240	\$0.05409	\$0.05572	\$0.05805	\$0.05934
SC3 Primary		\$0.04700	\$0.04700	\$0.04700	\$0.04700	\$0.04804	\$0.04969	\$0.05025	\$0.05188	\$0.05344	\$0.05568	\$0.05691
SC3 Subtransmission		\$0.04606	\$0.04606	\$0.04606	\$0.04606	\$0.04705	\$0.04866	\$0.04921	\$0.05080	\$0.05234	\$0.05452	\$0.05573
SC3 Transmission		\$0.04660	\$0.04660	\$0.04660	\$0.04660	\$0.04763	\$0.04926	\$0.04982	\$0.05143	\$0.05299	\$0.05520	\$0.05643
SC3 Secondary -On	On/Off	\$0.05846	\$0.05846	\$0.05846	\$0.05846	\$0.05923	\$0.06126	\$0.06196	\$0.06396	\$0.06589	\$0.06864	\$0.07017
SC3 Secondary -Off	peak	\$0.03891	\$0.03891	\$0.03891	\$0.03891	\$0.04024	\$0.04161	\$0.04209	\$0.04344	\$0.04476	\$0.04663	\$0.04766
SC3 Primary -On	with	\$0.05664	\$0.05664	\$0.05664	\$0.05664	\$0.05742	\$0.05938	\$0.06006	\$0.06200	\$0.06387	\$0.06654	\$0.06802
SC3 Primary -Off	losses	\$0.03804	\$0.03804	\$0.03804	\$0.03804	\$0.03933	\$0.04068	\$0.04114	\$0.04247	\$0.04375	\$0.04558	\$0.04659
SC3 Subtransmission -On	applied	\$0.05586	\$0.05586	\$0.05586	\$0.05586	\$0.05658	\$0.05852	\$0.05918	\$0.06110	\$0.06294	\$0.06557	\$0.06703
SC3 Subtransmission -Off		\$0.03743	\$0.03743	\$0.03743	\$0.03743	\$0.03866	\$0.03999	\$0.04044	\$0.04175	\$0.04301	\$0.04481	\$0.04580
SC3 Transmission -On		\$0.05746	\$0.05746	\$0.05746	\$0.05746	\$0.05821	\$0.06020	\$0.06089	\$0.06286	\$0.06476	\$0.06746	\$0.06896
SC3 Transmission -Off		\$0.03692	\$0.03692	\$0.03692	\$0.03692	\$0.03821	\$0.03952	\$0.03997	\$0.04126	\$0.04251	\$0.04429	\$0.04527



**INDICATIVE ELIGIBLE STANDARD OFFER SERVICE (SOS) CUSTOMER LOAD and MARKET PRICED SERVICE (MPS)  
CUSTOMER LOAD**

	Supply Contracts for Standard Offer Service					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
IPP Contracts	2,474	2,403	2,382	2,142	2,072	2,067
MRA Swaps	4,061	4,080	4,093	4,088	4,119	4,129
Niagara Replacement - Residential	538	538	538	538	538	538
NYPA Firm and Peaking - Residential	1,714	1,714	1,714	1,714	1,714	1,714
Nuclear TPC	7,039	6,864	6,755	6,883	6,755	6,883
Fossil Divestiture Contracts	3,350	2,579	1,494	-	-	-
Orion Hydro 1/	2,858	2,858	2,858	2,144	-	-
<b>Total</b>	<b>22,034</b>	<b>21,036</b>	<b>19,834</b>	<b>17,509</b>	<b>15,198</b>	<b>15,331</b>

	Cumulative Net Energy for Standard Offer Load (GWh) 2/					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PSC 214	260.2	260.2	260.2	260.2	260.2	260.2
SC-5	269.9	269.9	269.9	269.9	269.9	269.9
SC-1	11,498.1	11,519.4	11,582.2	11,621.5	11,632.2	11,632.3
SC-2 ND	12,285.2	12,314.1	12,383.2	12,428.4	12,444.9	12,449.2
SC-2D	16,965.2	17,061.8	17,169.1	17,249.8	15,198.0	15,331.0
SC-3 Secondary	21,787.6	21,036.0	19,834.0	17,508.5	MPS	MPS
SC-3 Primary	22,034.0	MPS	MPS	MPS	MPS	MPS
SC-3 Subtransmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-3 Transmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (small) Primary	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (small) Subtransmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (small) Transmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-3a Secondary	MPS	MPS	MPS	MPS	MPS	MPS
SC-3a Primary	MPS	MPS	MPS	MPS	MPS	MPS
SC-3a Subtransmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-3a Transmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (large) Primary	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (large) Subtransmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-4 (large) Transmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-11 Secondary	MPS	MPS	MPS	MPS	MPS	MPS
SC-11 Primary	MPS	MPS	MPS	MPS	MPS	MPS
SC-11 Subtransmission	MPS	MPS	MPS	MPS	MPS	MPS
SC-11 Transmission	MPS	MPS	MPS	MPS	MPS	MPS

1/ Schedule assumes continuation of Power Purchase Agreement

2/ MPS equals Market Priced Service, Classes directly above MPS have some customers on MPS - Cumulative from Page 2

## INDICATIVE ELIGIBLE STANDARD OFFER SERVICE (SOS) CUSTOMER LOAD and MARKET PRICED SERVICE (MPS) CUSTOMER LOAD

	<u>Loss</u> Factor	<u>Customers</u>	<u>Sales (GWh)</u>						<u>Net Energy for Load (GWh) 3/</u>					
			<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
PSC 214	1.1352		229.2	229.2	229.2	229.2	229.2	229.2	260.2	260.2	260.2	260.2	260.2	260.2
SC-5	1.1120	6	8.8	8.8	8.8	8.8	8.8	8.8	9.7	9.7	9.7	9.7	9.7	9.7
SC-1	1.1352	1,418,241	9,890.9	9,909.7	9,965.0	9,999.6	10,009.0	10,009.1	11,228.2	11,249.5	11,312.3	11,351.6	11,362.3	11,362.4
SC-2 ND	1.1352	104,205	693.4	700.0	705.6	710.8	715.9	719.6	787.2	794.6	801.0	806.9	812.7	816.9
SC-2D	1.1352	43,480	4,122.6	4,182.3	4,215.9	4,247.2	4,277.4	4,239.8	4,680.0	4,747.8	4,785.9	4,821.4	4,855.7	4,813.0
SC-3 Secondary	1.1352	3,384	4,248.0	4,263.0	4,297.2	4,329.1	4,359.9	4,390.8	4,822.3	4,839.4	4,878.2	4,914.4	4,949.4	4,984.5
SC-3 Primary	1.1120	716	1,631.0	1,637.0	1,650.1	1,662.4	1,674.2	1,686.1	1,813.7	1,820.3	1,834.9	1,848.6	1,861.7	1,874.9
SC-3 Subtransmission	1.0949	106	388.3	389.7	392.8	395.7	398.6	401.4	425.2	426.7	430.1	433.3	436.4	439.5
SC-3 Transmission	1.0676	13	43.0	43.0	43.6	43.9	44.2	44.5	45.9	45.9	46.5	46.9	47.2	47.5
SC-3 Total		4,218	6,310.3	6,332.7	6,383.7	6,431.1	6,476.9	6,522.8	7,107.1	7,132.3	7,189.7	7,243.1	7,294.7	7,346.4
SC-4 (small) Primary	1.1120	26	37.3	36.8	36.8	36.8	36.8	36.8	41.5	40.9	40.9	40.9	40.9	40.9
SC-4 (small) Subtransmission	1.0949	12	15.8	15.5	15.5	15.5	15.5	15.5	17.3	17.0	17.0	17.0	17.0	17.0
SC-4 (small) Transmission	1.0676	18	21.7	21.4	21.4	21.4	21.4	21.4	23.2	22.8	22.8	22.8	22.8	22.8
SC-4 (small) Total		56	74.8	73.7	73.7	73.7	73.7	73.7	81.9	80.7	80.7	80.7	80.7	80.7
SC-3a Secondary	1.1352	28	298.3	300.4	300.4	300.4	300.4	300.4	338.6	341.0	341.0	341.0	341.0	341.0
SC-3a Primary	1.1120	60	616.1	620.4	620.4	620.4	620.4	620.4	685.1	689.9	689.9	689.9	689.9	689.9
SC-3a Subtransmission	1.0949	70	1,690.7	1,702.6	1,702.6	1,702.6	1,702.6	1,702.6	1,851.2	1,864.2	1,864.2	1,864.2	1,864.2	1,864.2
SC-3a Transmission	1.0676	39	1,309.0	1,318.2	1,318.2	1,318.2	1,318.2	1,318.2	1,397.4	1,407.3	1,407.3	1,407.3	1,407.3	1,407.3
SC-3a Total		197	3,914.1	3,941.6	3,941.6	3,941.6	3,941.6	3,941.6	4,272.3	4,302.4	4,302.4	4,302.4	4,302.4	4,302.4
SC-4 (large) Primary	1.1120	2	24.1	23.7	23.7	23.7	23.7	23.7	26.8	26.4	26.4	26.4	26.4	26.4
SC-4 (large) Subtransmission	1.0949	6	50.9	50.0	50.1	50.1	50.1	50.1	55.7	54.7	54.9	54.9	54.9	54.9
SC-4 (large) Transmission	1.0676	7	192.2	189.2	189.2	189.3	189.2	189.3	205.2	202.0	202.0	202.1	202.0	202.1
SC-4 (large) Total		15	267.2	262.9	263.0	263.1	263.0	263.1	287.7	283.1	283.2	283.3	283.2	283.3
SC-11 Secondary	1.1352	277	310.8	310.8	310.8	310.8	310.8	320.0	352.8	352.8	352.8	352.8	352.8	363.3
SC-11 Primary	1.1120	103	461.8	461.8	461.8	461.8	461.8	475.5	513.5	513.5	513.5	513.5	513.5	528.8
SC-11 Subtransmission	1.0949	43	469.6	469.6	469.6	469.6	469.6	483.5	514.2	514.2	514.2	514.2	514.2	529.4
SC-11 Transmission	1.0676	43	2,135.4	2,135.4	2,135.4	2,135.4	2,135.4	2,198.6	2,279.7	2,279.7	2,279.7	2,279.7	2,279.7	2,347.1
SC-11 Total		466	3,377.6	3,377.6	3,377.6	3,377.6	3,377.6	3,477.6	3,660.2	3,660.2	3,660.2	3,660.2	3,660.2	3,768.6
Total		1,570,884	28,889	29,018	29,164	29,283	29,373	29,485	32,374	32,521	32,685	32,820	32,922	33,044

3/ Loss Factor times Sales



## NIAGARA MOHAWK BASE ELECTRIC DELIVERY RATES

### 1.0 OVERVIEW

This attachment presents a comparison of current and proposed Electric Delivery Rates for each service classification by Load Zone under tariff schedules PSC 207 and 214 Electricity for major service classifications. The current rates are defined as those that became effective September 1, 2000 as a result of Niagara Mohawk's year three compliance filing in conformance with the provisions of the Settlement Agreement in PSC Case Nos. 94-E-0098 and 94-E-0099. The proposed rates are the retail rates that become effective on the Effective Date of the Rate Plan as defined in the Joint Proposal. The proposed Electricity Delivery Rates described below shall remain in effect during the term of the Rate Plan, subject to the provisions of the Joint Proposal.

### 2.0 DESCRIPTION OF PROPOSED ELECTRICITY DELIVERY RATES

- 2.1. Under the Rate Plan, Niagara Mohawk's Electricity Delivery Rates include the rates and charges for transmission, distribution and Competitive Transition Charge ("CTC"), but exclude the prices for commodity and other surcharge mechanisms. The charges associated with the Distribution and Transmission portion of the proposed Electricity Delivery Rates are identical to the current Distribution and Transmission rates and charges effective September 1, 2000.
- 2.2. The 2001 CTC recovery in the proposed Electricity Delivery Rates is lower than the CTC recovery in current rates. Rates were designed to collect the Year 1 Total CTC Revenue, Distribution and Transmission Revenue, and Base Electricity Delivery Revenue illustrated on page 2 of 3 of Attachment 1. The 2001 CTC revenue requirement was allocated to the service classifications by the use of a CTC revenue stream based on the following criteria.
  - 2.2.1. For PSC 207 and 214 a class-level CTC revenue stream was developed by: 1) applying current CTC rates to the 2001 billing determinants for SC Nos. SC-1, SC-1B, SC-1C, SC-2, SC-3 and SC-4 (demand less than 2 MW), and to all PSC 214 service classifications, and; 2) by employing the CTC Reset procedure described in the Base Case Electric Revenues (included within this filing's Workbook in Support of Base Case Financial Forecast) to PSC 207 service classifications SC-3A, SC-4 (demand greater than 2 MW) and SC-11 using 2001 billing determinants.

## **NIAGARA MOHAWK BASE ELECTRIC DELIVERY RATES**

- 2.2.2.** The resulting class level CTC revenue stream was used as the basis to allocate the 2001 CTC Revenue Requirement included in this filing to service classifications. When developing the service class specific rates, the entire change in a class's CTC revenue allocation was assigned to the CTC-related volumetric component (per kWh). The current CTC related customer and demand charges of a class' rate structure, where applicable, is unchanged. For classes with an hours-use rate structure, the CTC revenue was allocated in a manner that would proportionately simulate the recovery of CTC revenues by the current hours-use rates.
- 2.2.3.** During the CTC allocation process, prior to adjustment, negative CTC revenues resulted for specific Load Zones within a service classification. When such circumstances occurred the Load Zone with the negative CTC revenue was reset to a zero ("0") amount. The negative CTC amount was then proportionately allocated to reduce the positive CTC revenues of the other Load Zones for that class.
- 2.2.4.** For the residential classes of SC-1, SC-1B, and SC-1C, the NYPA Hydropower benefit afforded residential customers shall be identified and itemized on customers' service bills and not bundled to reduce the CTC. As presented in the proposed rate designs for each residential class, the forecast NYPA Hydropower benefit has been separately identified as a rate per kilowatt-hour based on the forecast benefit during the twelve months ending August 31, 2002. The forecast amount embedded in the tariff charges will additionally be used in the annual true-up procedures currently enforced and described in PSC 207, Rule 40 - Adjustment to Charges Pursuant to the NYPA Hydropower Benefit Reconciliation Mechanism.



## NIAGARA MOHAWK BASE ELECTRIC DELIVERY RATES

### 3.0 ECONOMIC DEVELOPMENT RATES

#### 3.1. Economic Development Zone Rider (EDZR)

The Company will continue to administer the EDZR program in accordance with the PSC 207 Tariff and the provisions of PSC Case Nos. 94-E-0098 and 94-E-0099. Prices for services provided under the EDZR program is provided for in Attachment 5, Schedule 1, Sheet 10 of 11. The prices in Attachment 5, Schedule 1, Sheet 10 of 11 represent the full marginal cost of service although these prices will continue to be phased-in according to the provisions of PSC Case Nos. 94-E-0098 and 94-E-0099.

There are no bill impacts relative to the current rates in the Rate Period Plan.

#### 3.2. Economic Development Power Rider (EDPR)

The Company will continue to administer the EDPR tariff according to Rule 34.4 (or its successor) of the Tariff and the resale provisions of the Agreement between NYPA and Niagara Mohawk.

Transmission and Distribution Delivery rates for retail customers receiving an EDPR Allocation during the Rate Plan Period shall be frozen at their current levels for the Rate Plan Period. The current rates are provided for in Attachment 5, Schedule 1, Sheet 11 of 11.

There are no bill impacts under the EDPR Program during the period of the Rate Plan.

#### 3.3. Delivery Rates for NYPA Hydro Allocations

Niagara Mohawk will continue to administer the delivery of the NYPA hydropower to customers with allocations of expansion and replacement power from the New York Power Authority's Niagara Project, and non-residential St. Lawrence power according to the provisions of the SC-4 tariff and the governing agreements between NYPA and Niagara Mohawk. Customers taking new allocations and served below transmission voltage will also be charged the applicable distribution rates as currently reflected in SC-3 and SC-3A of PSC 207.

There are no bill impacts for delivery services provided to existing NYPA Hydro Allocation recipients during the Rate Plan Period.

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC1-RESIDENTIAL</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$13.79	\$13.79	\$0.00	0.00%
NYPA Credit	\$0.00000	(\$0.00819)	(\$0.00819)	
Per kWh				
Load Area 1	\$0.06007	\$0.05491	(\$0.00516)	-8.59%
Load Area 2/3	\$0.05946	\$0.05266	(\$0.00680)	-11.44%
Load Area 4	\$0.05388	\$0.04952	(\$0.00436)	-8.09%
<b><u>SC1B-RESIDENTIAL VOLUNTARY TIME-OF-USE</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$13.79	\$13.79	\$0.00	0.00%
NYPA Credit	\$0.00000	(\$0.00819)	(\$0.00819)	
Per kWh				
Load Area 1	\$0.04732	\$0.04727	(\$0.00005)	-0.11%
Load Area 2/3	\$0.04671	\$0.04502	(\$0.00169)	-3.62%
Load Area 4	\$0.04113	\$0.04188	\$0.00075	1.82%
<b><u>SC1C-RESIDENTIAL MANDATORY TIME-OF-USE</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$36.53	\$36.53	\$0.00	0.00%
NYPA Credit	\$0.00000	(\$0.00819)	(\$0.00819)	
Per kWh				
On-Peak				
Load Area 1	\$0.17226	\$0.16227	(\$0.00999)	-5.80%
Load Area 2/3	\$0.17165	\$0.16002	(\$0.01163)	-6.78%
Load Area 4	\$0.16607	\$0.15688	(\$0.00919)	-5.53%
Shoulder Peak				
Load Area 1	\$0.08096	\$0.07678	(\$0.00418)	-5.16%
Load Area 2/3	\$0.08035	\$0.07453	(\$0.00582)	-7.24%
Load Area 4	\$0.07477	\$0.07139	(\$0.00338)	-4.52%
Off-Peak/Off Season				
Load Area 1	\$0.03829	\$0.03598	(\$0.00231)	-6.03%
Load Area 2/3	\$0.03768	\$0.03373	(\$0.00395)	-10.48%
Load Area 4	\$0.03210	\$0.03293	\$0.00083	2.59%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC2ND-SMALL GENERAL SERVICE</u></b>				
Distribution Delivery Rates and Charges				
Customer Charge	\$17.84	\$17.84	\$0.00	0.00%
Per kWh				
Load Area 1	\$0.08496	\$0.07307	(\$0.01189)	-13.99%
Load Area 2/3	\$0.08435	\$0.07046	(\$0.01389)	-16.47%
Load Area 4	\$0.07880	\$0.06697	(\$0.01183)	-15.01%

**SC2D-SMALL GENERAL SERVICE**

Distribution Delivery Rates and Charges

For all Load Areas:

Customer Charge	\$47.25	\$47.25	\$0.00	0.00%
Per kW	\$8.32	\$8.32	\$0.00	0.00%
Per kWh				
Load Area 1	\$0.04029	\$0.03075	(\$0.00954)	-23.68%
Load Area 2/3	\$0.03967	\$0.02825	(\$0.01142)	-28.79%
Load Area 4	\$0.03419	\$0.02467	(\$0.00952)	-27.84%
Transformer Credit, Per kW	(\$0.90)	(\$0.90)	\$0.00	0.00%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC3-LARGE GENERAL SERVICE</u></b>				
<b><u>SECONDARY METERED(UP TO 2.2 KV)</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$260.15	\$260.15	\$0.00	0.00%
Per kW	14.97	14.97	\$0.00	0.00%
Per kWh				
First 450 Hours				
Load Area 1	\$0.03201	\$0.02150	(\$0.01051)	-32.83%
Load Area 2/3	\$0.03141	\$0.01828	(\$0.01313)	-41.80%
Load Area 4	\$0.02615	\$0.01570	(\$0.01045)	-39.96%
Over 450 Hours				
Load Area 1	\$0.01454	\$0.01087	(\$0.00367)	-25.24%
Load Area 2/3	\$0.01394	\$0.00765	(\$0.00629)	-45.12%
Load Area 4	\$0.00868	\$0.00507	(\$0.00361)	-41.59%
Reactive Demand Charge	\$0.85	\$0.85	\$0.00	0.00%
 <b><u>SC3/5-LARGE GENERAL SERVICE</u></b>				
<b><u>PRIMARY METERED(2.2 TO 15 KV)</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$436.70	\$436.70	\$0.00	0.00%
Per kW	\$12.69	\$12.69	\$0.00	0.00%
Per kWh				
First 450 Hours				
Load Area 1	\$0.03172	\$0.02282	(\$0.00890)	-28.06%
Load Area 2/3	\$0.03114	\$0.02054	(\$0.01060)	-34.04%
Load Area 4	\$0.02607	\$0.01735	(\$0.00872)	-33.45%
Over 450 Hours				
Load Area 1	\$0.01507	\$0.01160	(\$0.00347)	-23.03%
Load Area 2/3	\$0.01449	\$0.00932	(\$0.00517)	-35.68%
Load Area 4	\$0.00942	\$0.00613	(\$0.00329)	-34.93%
Reactive Demand Charge	\$0.85	\$0.85	\$0.00	0.00%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC3/5-LARGE GENERAL SERVICE</u></b>				
<b><u>SUBTRANSMISSION METERED(22 TO 50 KV)</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas:				
Customer Charge	\$554.83	\$554.83	\$0.00	0.00%
Per kW	\$8.62	\$8.62	\$0.00	0.00%
Per kWh				
First 450 Hours				
Load Area 1	\$0.02973	\$0.02116	(\$0.00857)	-28.83%
Load Area 2/3	\$0.02916	\$0.01897	(\$0.01019)	-34.95%
Load Area 4	\$0.02422	\$0.01583	(\$0.00839)	-34.64%
Over 450 Hours				
Load Area 1	\$0.01445	\$0.01101	(\$0.00344)	-23.81%
Load Area 2/3	\$0.01388	\$0.00882	(\$0.00506)	-36.46%
Load Area 4	\$0.00894	\$0.00568	(\$0.00326)	-36.47%
Reactive Demand Charge	\$0.85	\$0.85	\$0.00	0.00%

**SC3-LARGE GENERAL SERVICE**  
**TRANSMISSION METERED(OVER 60 KV)**

Distribution Delivery Rates and Charges

For all Load Areas:

Customer Charge	\$599.15	\$599.15	\$0.00	0.00%
Per kW	\$8.23	\$8.23	\$0.00	0.00%
Per kWh				
First 450 Hours				
Load Area 1	\$0.03044	\$0.02191	(\$0.00853)	-28.02%
Load Area 2/3	\$0.02991	\$0.01972	(\$0.01019)	-34.07%
Load Area 4	\$0.02501	\$0.01673	(\$0.00828)	-33.11%
Over 450 Hours				
Load Area 1	\$0.01556	\$0.01167	(\$0.00389)	-25.00%
Load Area 2/3	\$0.01503	\$0.00948	(\$0.00555)	-36.93%
Load Area 4	\$0.01013	\$0.00649	(\$0.00364)	-35.93%
Reactive Demand Charge	\$0.85	\$0.85	\$0.00	0.00%

## COMPARISON OF PROPOSED DELIVERY MERGER RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC3A-LARGE GENERAL SERVICE TIME-OF USE</u></b>				
<b><u>SECONDARY METERED(UP TO 2.2 KV)</u></b>				
Distribution Delivery Rates and Charges				
For all Load Areas				
Customer Charge:	\$902.00	\$902.00	\$0.00	0.00%
Per kW	\$10.40	\$9.63	(\$0.77)	-7.40%
Per kWh				
First 250 Hours of Use				
On-Peak				
Load Area 1	\$0.02838	\$0.02498	(\$0.00340)	-11.98%
Load Area 2/3	\$0.02750	\$0.02410	(\$0.00340)	-12.36%
Load Area 4	\$0.02137	\$0.01753	(\$0.00384)	-17.97%
Off-Peak				
Load Area 1	\$0.02353	\$0.02013	(\$0.00340)	-14.45%
Load Area 2/3	\$0.02321	\$0.01981	(\$0.00340)	-14.65%
Load Area 4	\$0.01858	\$0.01474	(\$0.00384)	-20.67%
Next 150 Hours of Use				
On-Peak				
Load Area 1	\$0.01624	\$0.00000	(\$0.01624)	-100.00%
Load Area 2/3	\$0.01536	\$0.00000	(\$0.01536)	-100.00%
Load Area 4	\$0.00923	\$0.00000	(\$0.00923)	-100.00%
Off-Peak				
Load Area 1	\$0.01163	\$0.00000	(\$0.01163)	-100.00%
Load Area 2/3	\$0.01131	\$0.00000	(\$0.01131)	-100.00%
Load Area 4	\$0.00668	\$0.00000	(\$0.00668)	-100.00%
Over 400 Hours of Use				
On-Peak				
Load Area 1	\$0.00598	\$0.00000	(\$0.00598)	-100.00%
Load Area 2/3	\$0.00510	\$0.00000	(\$0.00510)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Off-Peak				
Load Area 1	\$0.00410	\$0.00000	(\$0.00410)	-100.00%
Load Area 2/3	\$0.00378	\$0.00000	(\$0.00378)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Reactive Demand Charge:	\$1.02	\$1.02	\$0.00	0.00%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC3A-LARGE GENERAL SERVICE TIME-OF USE</u></b>				
<b><u>PRIMARY METERED(2.2 TO 15 KV)</u></b>				
For all Load Areas				
Customer Charge:	\$902.00	\$902.00	\$0.00	0.00%
Per kW	8.86	8.09	(\$0.77)	-8.69%
Per kWh				
First 250 Hours of Use				
On-Peak				
Load Area 1	\$0.03010	\$0.02670	(\$0.00340)	-11.30%
Load Area 2/3	\$0.02919	\$0.02579	(\$0.00340)	-11.65%
Load Area 4	\$0.02304	\$0.01920	(\$0.00384)	-16.67%
Off-Peak				
Load Area 1	\$0.02559	\$0.02219	(\$0.00340)	-13.29%
Load Area 2/3	\$0.02527	\$0.02187	(\$0.00340)	-13.45%
Load Area 4	\$0.02086	\$0.01702	(\$0.00384)	-18.41%
Next 150 Hours of Use				
On-Peak				
Load Area 1	\$0.01824	\$0.00000	(\$0.01824)	-100.00%
Load Area 2/3	\$0.01733	\$0.00000	(\$0.01733)	-100.00%
Load Area 4	\$0.01118	\$0.00000	(\$0.01118)	-100.00%
Off-Peak				
Load Area 1	\$0.01375	\$0.00000	(\$0.01375)	-100.00%
Load Area 2/3	\$0.01343	\$0.00000	(\$0.01343)	-100.00%
Load Area 4	\$0.00902	\$0.00000	(\$0.00902)	-100.00%
Over 400 Hours of Use				
On-Peak				
Load Area 1	\$0.00608	\$0.00000	(\$0.00608)	-100.00%
Load Area 2/3	\$0.00517	\$0.00000	(\$0.00517)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Off-Peak				
Load Area 1	\$0.00394	\$0.00000	(\$0.00394)	-100.00%
Load Area 2/3	\$0.00362	\$0.00000	(\$0.00362)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Reactive Demand Charge:	\$1.02	\$1.02	\$0.00	0.00%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC3A-LARGE GENERAL SERVICE TIME-OF USE</u></b>				
<b><u>SUBTRANSMISSION METERED(22 TO 50 KV)</u></b>				
For all Load Areas				
Customer Charge:	\$1,400.00	\$1,400.00	\$0.00	0.00%
Per kW	6.19	5.42	(\$0.77)	-12.44%
Per kWh				
First 250 Hours of Use				
On-Peak				
Load Area 1	\$0.02824	\$0.02484	(\$0.00340)	-12.04%
Load Area 2/3	\$0.02734	\$0.02394	(\$0.00340)	-12.44%
Load Area 4	\$0.02149	\$0.01765	(\$0.00384)	-17.87%
Off-Peak				
Load Area 1	\$0.02333	\$0.01993	(\$0.00340)	-14.57%
Load Area 2/3	\$0.02302	\$0.01962	(\$0.00340)	-14.77%
Load Area 4	\$0.01884	\$0.01500	(\$0.00384)	-20.38%
Next 150 Hours of Use				
On-Peak				
Load Area 1	\$0.01750	\$0.00000	(\$0.01750)	-100.00%
Load Area 2/3	\$0.01660	\$0.00000	(\$0.01660)	-100.00%
Load Area 4	\$0.01075	\$0.00000	(\$0.01075)	-100.00%
Off-Peak				
Load Area 1	\$0.01332	\$0.00000	(\$0.01332)	-100.00%
Load Area 2/3	\$0.01301	\$0.00000	(\$0.01301)	-100.00%
Load Area 4	\$0.00883	\$0.00000	(\$0.00883)	-100.00%
Over 400 Hours of Use				
On-Peak				
Load Area 1	\$0.00579	\$0.00000	(\$0.00579)	-100.00%
Load Area 2/3	\$0.00489	\$0.00000	(\$0.00489)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Off-Peak				
Load Area 1	\$0.00371	\$0.00000	(\$0.00371)	-100.00%
Load Area 2/3	\$0.00340	\$0.00000	(\$0.00340)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Reactive Demand Charge:	\$1.02	\$1.02	\$0.00	0.00%



## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current Rates	Proposed Merger Rates	Increase/ Decrease	Percent Change
<b><u>SC2ND-SMALL GENERAL SERVICE</u></b>				
<b><u>SC3A-LARGE GENERAL SERVICE TIME-OF USE</u></b>				
<b><u>TRANSMISSION METERED(OVER 60 KV)</u></b>				
For all Load Areas				
Customer Charge:	\$3,172.00	\$3,172.00	\$0.00	0.00%
Per kW	5.48	4.71	(\$0.77)	-14.05%
Per kWh				
First 250 Hours of Use				
On-Peak				
Load Area 1	\$0.02692	\$0.02352	(\$0.00340)	-12.63%
Load Area 2/3	\$0.02607	\$0.02267	(\$0.00340)	-13.04%
Load Area 4	\$0.02036	\$0.01652	(\$0.00384)	-18.86%
Off-Peak				
Load Area 1	\$0.02161	\$0.01821	(\$0.00340)	-15.73%
Load Area 2/3	\$0.02130	\$0.01790	(\$0.00340)	-15.96%
Load Area 4	\$0.01726	\$0.01342	(\$0.00384)	-22.25%
Next 150 Hours of Use				
On-Peak				
Load Area 1	\$0.01760	\$0.00000	(\$0.01760)	-100.00%
Load Area 2/3	\$0.01675	\$0.00000	(\$0.01675)	-100.00%
Load Area 4	\$0.01104	\$0.00000	(\$0.01104)	-100.00%
Off-Peak				
Load Area 1	\$0.01381	\$0.00000	(\$0.01381)	-100.00%
Load Area 2/3	\$0.01350	\$0.00000	(\$0.01350)	-100.00%
Load Area 4	\$0.00946	\$0.00000	(\$0.00946)	-100.00%
Over 400 Hours of Use				
On-Peak				
Load Area 1	\$0.00564	\$0.00000	(\$0.00564)	-100.00%
Load Area 2/3	\$0.00479	\$0.00000	(\$0.00479)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Off-Peak				
Load Area 1	\$0.00360	\$0.00000	(\$0.00360)	-100.00%
Load Area 2/3	\$0.00329	\$0.00000	(\$0.00329)	-100.00%
Load Area 4	\$0.00000	\$0.00000	\$0.00000	
Reactive Demand Charge:	\$1.02	\$1.02	\$0.00	0.00%

## COMPARISON OF PROPOSED MERGER DELIVERY RATES TO CURRENT POWER CHOICE RATES

	Current			Proposed		
	Load Zones A, B	Load Zones C, D, E	Load Zone F	Load Zones A, B	Load Zones C, D, E	Load Zone F
<b><u>PSC 214 - SC1</u></b>						
Delivery 1/ (T&D & CTC)	\$0.07655	\$0.07598	\$0.07094	\$0.07392	\$0.07238	\$0.07011
<b><u>PSC 214 - SC2/Contract</u></b>						
Delivery 1/ (T&D & CTC)	\$0.06503	\$0.06447	\$0.05946	\$0.06110	\$0.05956	\$0.05729
<b><u>PSC 214 - SC3</u></b>						
Delivery (T&D & CTC)	\$0.03979	\$0.03923	\$0.03422	\$0.06110	\$0.05956	\$0.05729
<b><u>PSC 214 - SC6</u></b>						
Delivery 1/ (T&D & CTC)	\$0.04686	\$0.04630	\$0.04129	\$0.06110	\$0.05956	\$0.05729
<b><u>PSC 214 - SC4</u></b>						
Delivery 2/ (T & CTC)	\$(0.00594)	\$(0.00653)	\$(0.01159)	\$0.00917	\$0.00706	\$0.00464

- 1/ All Facility Charges remain unchanged  
2/ Traffic Control location charge remains unchanged

COMPARISON OF PROPOSED MERGER DELIVERY RATES  
TO CURRENT POWER CHOICE RATES

PSC 207 Case Nos. 94-E-0098 and 94-E-0099 - Grandfathered EDZR Rates

Service Basis For Charge Delivery Level Service Rate Class	Transmission Per kW (Note 1) All Delivery Levels	Marginal Distribution Per kWh			Commodity Per kWh All Delivery Levels
		Subtransmission	Primary	Secondary	
SC-2ND (Note 1)	\$0.00477	\$0.00000	\$0.00431	\$0.00657	Rule 46
SC-2D	\$1.89	\$0.00000	\$0.00463	\$0.00705	Rule 46
SC-3	\$1.89	\$0.00000	\$0.00341	\$0.00594	Rule 46
SC-3A	\$1.89	\$0.00000	\$0.00307	\$0.00589	Rule 46

Note 1: Transmission Delivery will be based upon Peak kW which occurs in the billing period.  
In the Case of SC-2ND, all delivery charges will be administered on a per kwh basis.  
SC-3A delivery rates will be administered on a Maximum Demand basis (e.g., not time differentiated).

COMPARISON OF PROPOSED MERGER DELIVERY RATES  
TO CURRENT POWER CHOICE RATES

**Economic Development Power Rider  
Distribution Delivery Rates**

<u>Parent Service Classification</u>	<u>Current/Grandfathered Distribution Delivery Rates (1)</u>	<u>Proposed Distribution Delivery Rates</u>
SC-3		
Secondary	\$6.85	(2)
Primary	\$4.95	(2)
Subtrans	\$2.99	(2)
Trans	\$1.89	(2)
SC-3A		
Secondary	\$6.85	(2)
Primary	\$4.95	(2)
Subtrans	\$2.99	(2)
Trans	\$1.89	(2)

- (1) Distribution Delivery Rates were derived by subtracting the capacity payments (currently \$8.16) which Niagara Mohawk makes to NYPA from the existing EDRP Demand rates as specified in Rule 34.4 of the Tariff.  
The result equates to the implicit Distribution Delivery Rates for EDPR Allocations
- (2) Rates for new customers are equal to the rates of the PSC 207 service classification otherwise applicable.



Projection of Adjusted Electricity Delivery Rates  
2001 - 2011

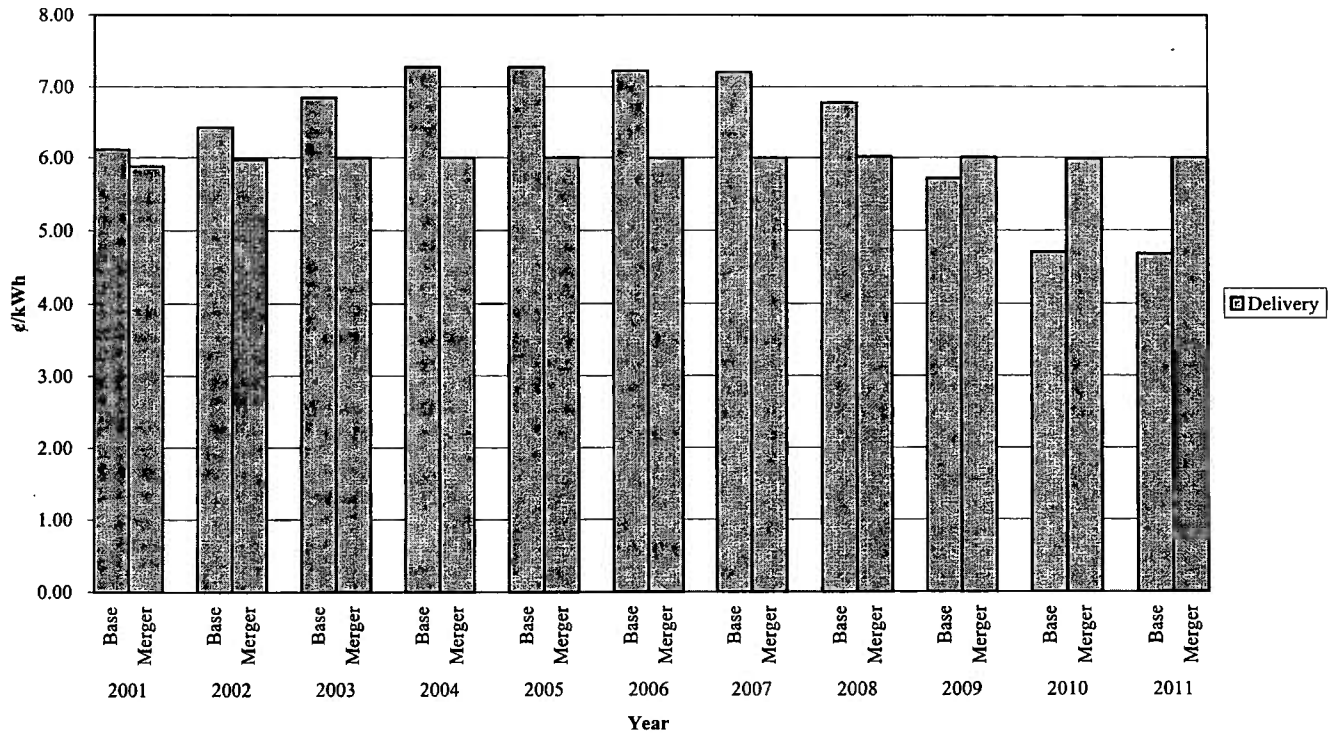
The following six charts illustrate on a \$/kWh basis the differences in the average rates paid by All Rate Classes, the Non-Market Rate Classes, and the Market Rate Classes without the merger (bars labeled "Base") and with the merger (bars labeled "Merger") during the entire period of the Rate Plan.

The Base analysis represents the rates that would have taken effect absent the merger under the Company's financial forecast. For September 1, 2001, the Base case includes the collection of today's higher market prices in the commodity component, a one-percent increase in the T&D component, and the CTC reset as required under Power Choice. For a comparison of the merger rates to current rates, before the September 1, 2001 Power Choice adjustments. See Attachment 6E.

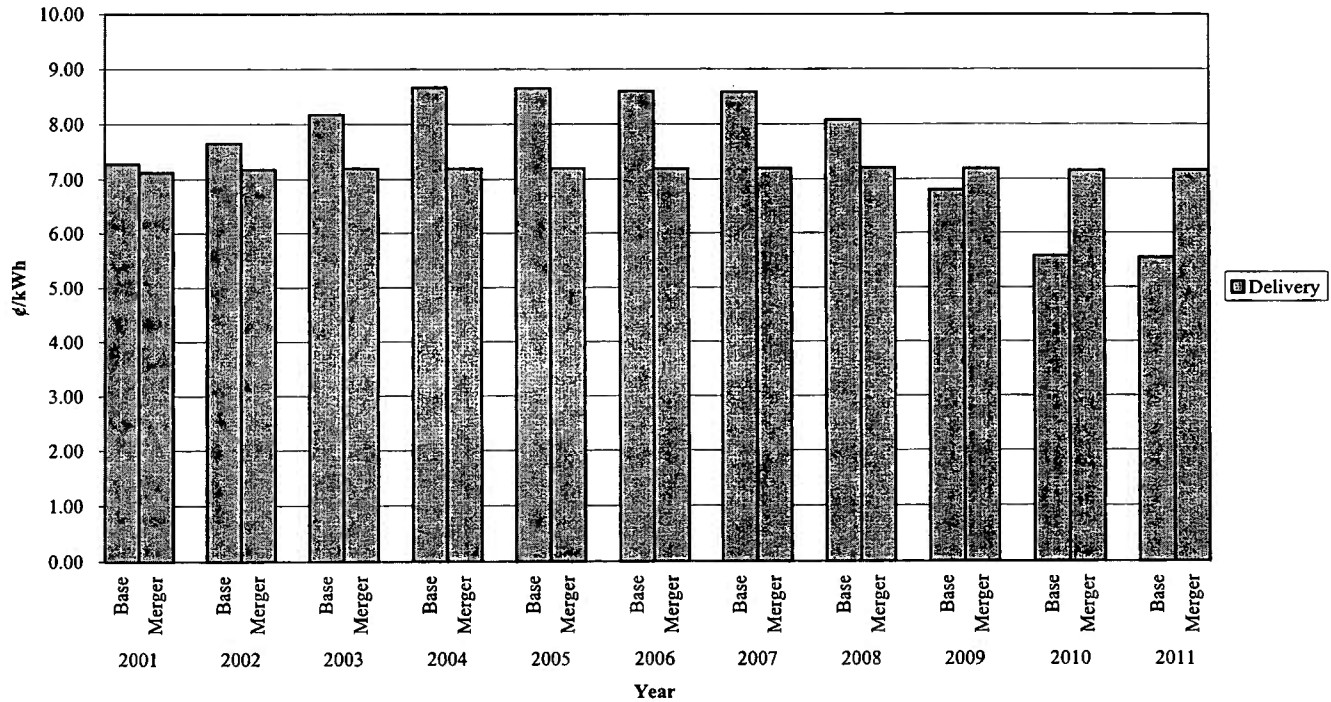
The Non-Market Rate Classes are PSC 207 service classifications SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S (SC-4 customers smaller than 2 megawatts, SC-5, and Street Lighting (all PSC 214 service classifications combined) grouped together. The Market Rate Classes are PSC 207 service classifications SC-3A, SC-4L (SC-4 customers smaller than 2 megawatts), SC-11/12 (SC-11 and SC-12 service classifications combined) grouped together. All Rate Classes are the Non-Market and Market Rate Classes combined.

Charts 1 through 3 illustrate average Electric Delivery Rates only, and Charts 4 through 6 illustrate both average Electric Delivery Rates and average Electric Commodity Rates. Electric Delivery Rates are defined as the sum of Base Delivery revenues (including the residential NYPA Hydropower Benefit as applicable), Transmission Revenue Adjustment Charge revenues and System Benefit Charge revenues for the rate class grouping divided by the Delivery kWh for the rate class grouping. Electric Commodity Rates are defined as the sum of Base Commodity Charge revenues and Commodity Adjustment Charge revenues for the rate class grouping divided by the Commodity kWh for the rate class grouping. A table of the charted prices is shown in Attachment 6A.

**Projection of Adjusted Electricity Delivery Rates  
All Rate Classes**

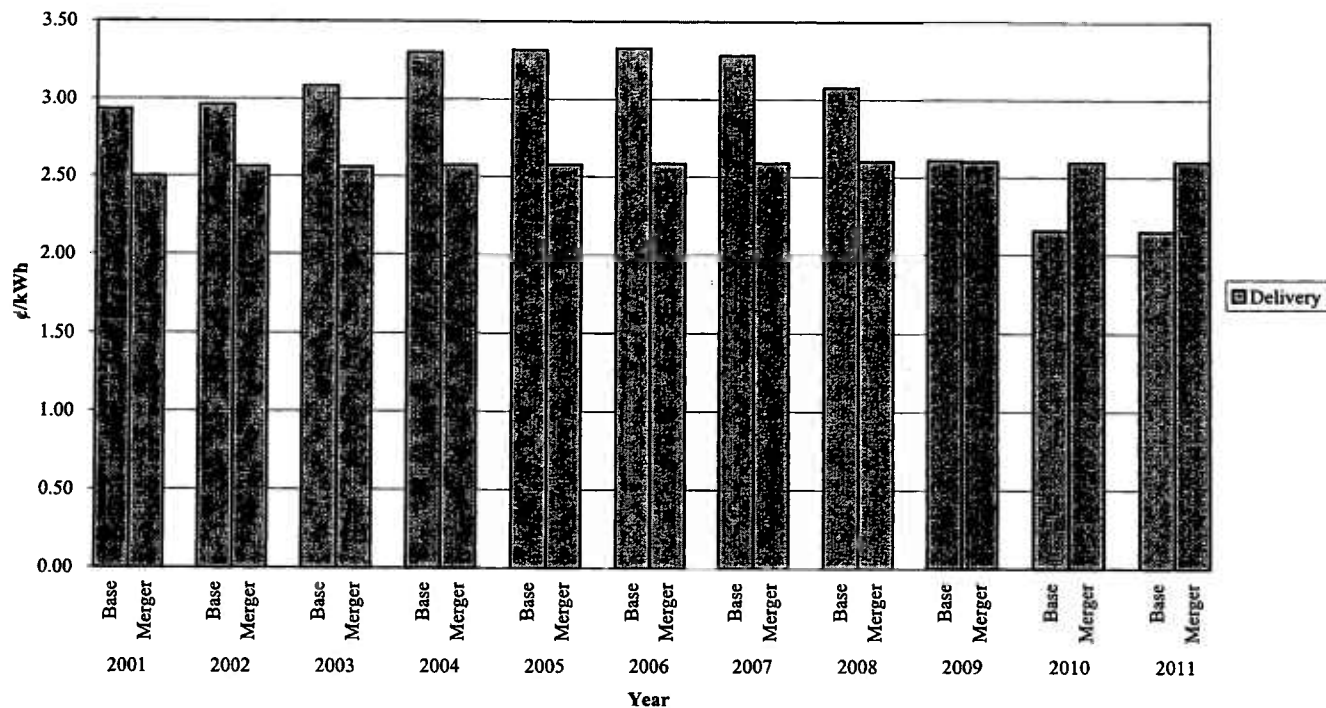


**Projection of Adjusted Electricity Delivery Rates  
Non-Market Rate Classes  
(SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, & PSC 214)**

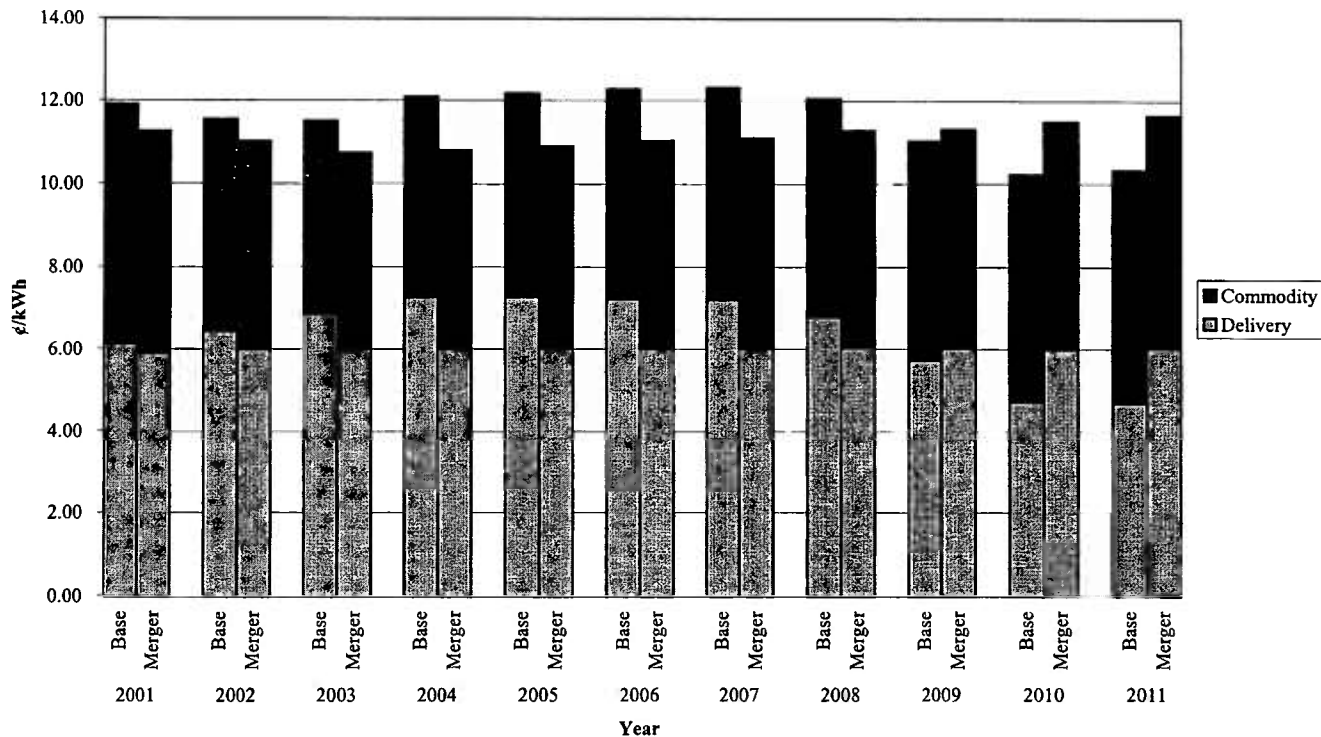




**Projection of Adjusted Electricity Delivery Rates  
 Market Rate Classes  
 (SC-3A, SC-4L, & SC-11/12)**

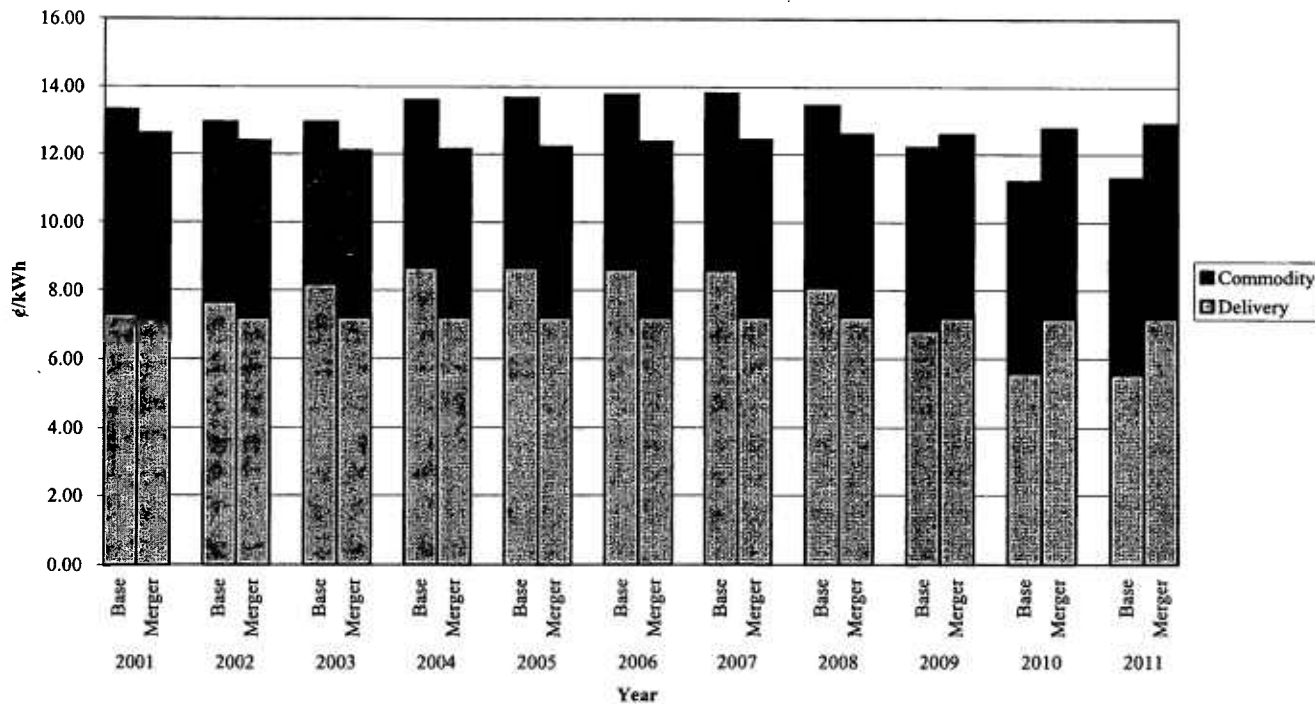


### Projection of Adjusted Electricity Delivery Rates All Rate Classes\*



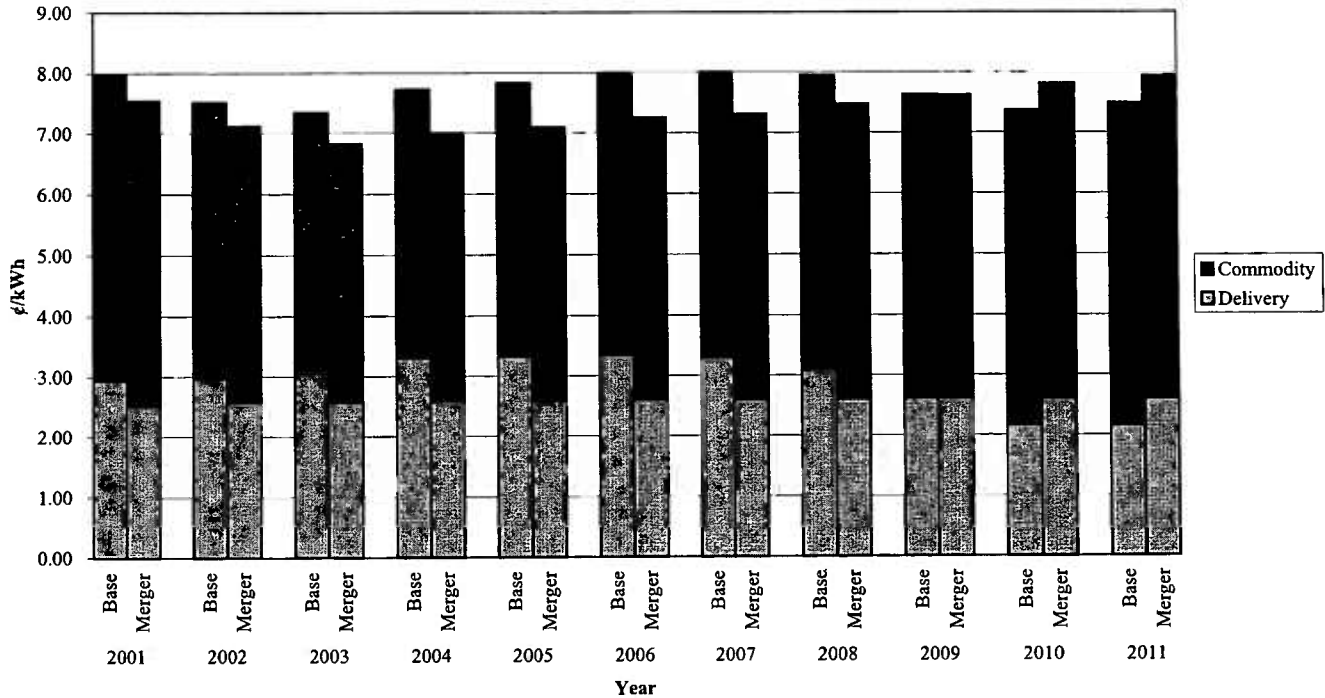
\* For 2001 through 2004, commodity prices are at hedged Standard Offer Service prices for Non-Market Rate Classes and at forecasted market prices thereafter. For all years, commodity prices are at forecasted market price for Market Rate Classes.

**Projection of Adjusted Electricity Delivery Rates  
 Non-Market Rate Classes\*  
 (SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, & PSC 214)**



\* For 2001 through 2004, commodity prices are at hedged Standard Offer Service prices for Non-Market Rate Classes and at forecasted market prices thereafter. For all years, commodity prices are at forecasted market price for Market Rate Classes.

**Projection of Adjusted Electricity Delivery Rates  
 Market Rate Classes\*  
 (SC-3A, SC-4L, & SC-11/12)**



\* For 2001 through 2004, commodity prices are at hedged Standard Offer Service prices for Non-Market Rate Classes and at forecasted market prices thereafter. For all years, commodity prices are at forecasted market price for Market Rate Classes.

Niagara Mohawk Power Corporation  
Annual Summary of Unit Revenue Changes (incl. Taxes)  
Non-Market Rate Classes

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Delivery					Commodity				TOTAL			
	Year	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.
1.	2001	\$ 0.0728	\$ 0.0713	\$ (0.0015)	-2.1%	\$ 0.0605	\$ 0.0549	\$ (0.0055)	-9.2%	\$ 0.1333	\$ 0.1262	\$ (0.0071)	-5.3%
2.	2002	\$ 0.0765	\$ 0.0718	\$ (0.0047)	-6.2%	\$ 0.0530	\$ 0.0521	\$ (0.0009)	-1.7%	\$ 0.1296	\$ 0.1239	\$ (0.0056)	-4.3%
3.	2003	\$ 0.0817	\$ 0.0720	\$ (0.0097)	-11.9%	\$ 0.0479	\$ 0.0491	\$ 0.0012	2.6%	\$ 0.1296	\$ 0.1211	\$ (0.0085)	-6.6%
4.	2004	\$ 0.0866	\$ 0.0720	\$ (0.0146)	-16.9%	\$ 0.0495	\$ 0.0495	\$ -	0.0%	\$ 0.1361	\$ 0.1215	\$ (0.0147)	-10.8%
5.	2005	\$ 0.0865	\$ 0.0720	\$ (0.0145)	-16.8%	\$ 0.0503	\$ 0.0503	\$ -	0.0%	\$ 0.1368	\$ 0.1223	\$ (0.0145)	-10.6%
6.	2006	\$ 0.0860	\$ 0.0719	\$ (0.0141)	-16.3%	\$ 0.0518	\$ 0.0518	\$ -	0.0%	\$ 0.1378	\$ 0.1237	\$ (0.0141)	-10.2%
7.	2007	\$ 0.0858	\$ 0.0720	\$ (0.0138)	-16.1%	\$ 0.0524	\$ 0.0524	\$ -	0.0%	\$ 0.1382	\$ 0.1244	\$ (0.0138)	-10.0%
8.	2008	\$ 0.0808	\$ 0.0721	\$ (0.0087)	-10.7%	\$ 0.0540	\$ 0.0540	\$ -	0.0%	\$ 0.1348	\$ 0.1261	\$ (0.0087)	-6.4%
9.	2009	\$ 0.0680	\$ 0.0719	\$ 0.0039	5.8%	\$ 0.0542	\$ 0.0541	\$ -	0.0%	\$ 0.1222	\$ 0.1261	\$ 0.0039	3.2%
10.	2010	\$ 0.0559	\$ 0.0716	\$ 0.0157	28.1%	\$ 0.0562	\$ 0.0562	\$ -	0.0%	\$ 0.1121	\$ 0.1278	\$ 0.0157	14.0%
11.	2011	\$ 0.0555	\$ 0.0717	\$ 0.0162	29.2%	\$ 0.0576	\$ 0.0576	\$ -	0.0%	\$ 0.1131	\$ 0.1293	\$ 0.0162	14.3%

Col. B: Attachment 6C, Col B, Ln 14/Attachment 6C, Col B, Ln 16  
Col. C: Attachment 6C, Col C, Ln 14/Attachment 6C, Col C, Ln 16  
Col. F: Attachment 6D, Col B, Ln 14/Attachment 6D, Col B, Ln 16  
Col. G: Attachment 6D, Col C, Ln 14/Attachment 6D, Col C, Ln 16  
Col. J: Attachment 6B, Col B, Ln 14/Attachment 6B, Col B, Ln 16  
Col. K: Attachment 6B, Col C, Ln 14/Attachment 6B, Col C, Ln 16

Niagara Mohawk Power Corporation  
Annual Summary of Unit Revenue Changes (incl. Taxes)  
Market Rate Classes

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Delivery					Commodity				TOTAL			
	Year	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.
1.	2001	\$ 0.0293	\$ 0.0250	\$ (0.0043)	-14.8%	\$ 0.0505	\$ 0.0505	\$ -	0.0%	\$ 0.0799	\$ 0.0755	\$ (0.0043)	-5.4%
2.	2002	\$ 0.0296	\$ 0.0256	\$ (0.0040)	-13.5%	\$ 0.0456	\$ 0.0456	\$ -	0.0%	\$ 0.0753	\$ 0.0713	\$ (0.0040)	-5.3%
3.	2003	\$ 0.0308	\$ 0.0256	\$ (0.0052)	-17.0%	\$ 0.0427	\$ 0.0427	\$ -	0.0%	\$ 0.0735	\$ 0.0683	\$ (0.0052)	-7.1%
4.	2004	\$ 0.0330	\$ 0.0257	\$ (0.0073)	-22.0%	\$ 0.0443	\$ 0.0444	\$ -	0.0%	\$ 0.0773	\$ 0.0701	\$ (0.0072)	-9.4%
5.	2005	\$ 0.0331	\$ 0.0258	\$ (0.0074)	-22.2%	\$ 0.0452	\$ 0.0452	\$ -	0.0%	\$ 0.0784	\$ 0.0710	\$ (0.0074)	-9.4%
6.	2006	\$ 0.0333	\$ 0.0259	\$ (0.0074)	-22.2%	\$ 0.0467	\$ 0.0467	\$ -	0.0%	\$ 0.0800	\$ 0.0726	\$ (0.0074)	-9.2%
7.	2007	\$ 0.0328	\$ 0.0259	\$ (0.0069)	-21.0%	\$ 0.0473	\$ 0.0473	\$ -	0.0%	\$ 0.0801	\$ 0.0732	\$ (0.0069)	-8.6%
8.	2008	\$ 0.0308	\$ 0.0260	\$ (0.0047)	-15.4%	\$ 0.0488	\$ 0.0488	\$ -	0.0%	\$ 0.0796	\$ 0.0749	\$ (0.0047)	-6.0%
9.	2009	\$ 0.0261	\$ 0.0260	\$ (0.0001)	-0.2%	\$ 0.0503	\$ 0.0503	\$ -	0.0%	\$ 0.0764	\$ 0.0763	\$ (0.0001)	-0.1%
10.	2010	\$ 0.0216	\$ 0.0260	\$ 0.0044	20.5%	\$ 0.0522	\$ 0.0522	\$ -	0.0%	\$ 0.0738	\$ 0.0782	\$ 0.0044	6.0%
11.	2011	\$ 0.0215	\$ 0.0260	\$ 0.0045	20.9%	\$ 0.0535	\$ 0.0535	\$ -	0.0%	\$ 0.0750	\$ 0.0795	\$ 0.0045	6.0%

Col. B: Attachment 6C, Col B, Ln 15/Attachment 6C, Col B, Ln 17  
Col. C: Attachment 6C, Col C, Ln 15/Attachment 6C, Col C, Ln 17  
Col. F: Attachment 6D, Col B, Ln 15/Attachment 6D, Col B, Ln 17  
Col. G: Attachment 6D, Col C, Ln 15/Attachment 6D, Col C, Ln 17  
Col. J: Attachment 6B, Col B, Ln 15/Attachment 6B, Col B, Ln 17  
Col. K: Attachment 6B, Col C, Ln 15/Attachment 6B, Col C, Ln 17

Niagara Mohawk Power Corporation  
Annual Summary of Unit Revenue Changes (incl. Taxes)  
All Rate Classes

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Delivery				Commodity				TOTAL				
	Year	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.	Base	Merger	Difference	Pct. Diff.
1.	2001	\$ 0.0611	\$ 0.0588	\$ (0.0023)	-3.8%	\$ 0.0580	\$ 0.0538	\$ (0.0042)	-7.2%	\$ 0.1191	\$ 0.1126	\$ (0.0065)	-5.4%
2.	2002	\$ 0.0643	\$ 0.0597	\$ (0.0045)	-7.1%	\$ 0.0513	\$ 0.0506	\$ (0.0007)	-1.3%	\$ 0.1155	\$ 0.1103	\$ (0.0052)	-4.5%
3.	2003	\$ 0.0685	\$ 0.0599	\$ (0.0086)	-12.5%	\$ 0.0466	\$ 0.0476	\$ 0.0009	2.0%	\$ 0.1151	\$ 0.1075	\$ (0.0076)	-6.6%
4.	2004	\$ 0.0727	\$ 0.0600	\$ (0.0127)	-17.5%	\$ 0.0483	\$ 0.0482	\$ -	0.0%	\$ 0.1210	\$ 0.1083	\$ (0.0127)	-10.5%
5.	2005	\$ 0.0727	\$ 0.0600	\$ (0.0127)	-17.4%	\$ 0.0491	\$ 0.0491	\$ -	0.0%	\$ 0.1218	\$ 0.1091	\$ (0.0127)	-10.4%
6.	2006	\$ 0.0723	\$ 0.0599	\$ (0.0123)	-17.1%	\$ 0.0506	\$ 0.0506	\$ -	0.0%	\$ 0.1228	\$ 0.1105	\$ (0.0123)	-10.0%
7.	2007	\$ 0.0720	\$ 0.0600	\$ (0.0120)	-16.7%	\$ 0.0512	\$ 0.0511	\$ -	0.0%	\$ 0.1232	\$ 0.1112	\$ (0.0120)	-9.8%
8.	2008	\$ 0.0678	\$ 0.0602	\$ (0.0076)	-11.3%	\$ 0.0528	\$ 0.0528	\$ -	0.0%	\$ 0.1206	\$ 0.1129	\$ (0.0077)	-6.3%
9.	2009	\$ 0.0572	\$ 0.0601	\$ 0.0029	5.1%	\$ 0.0532	\$ 0.0532	\$ -	0.0%	\$ 0.1104	\$ 0.1133	\$ 0.0029	2.6%
10.	2010	\$ 0.0471	\$ 0.0599	\$ 0.0128	27.2%	\$ 0.0553	\$ 0.0553	\$ -	0.0%	\$ 0.1023	\$ 0.1151	\$ 0.0128	12.5%
11.	2011	\$ 0.0468	\$ 0.0600	\$ 0.0132	28.3%	\$ 0.0566	\$ 0.0566	\$ -	0.0%	\$ 0.1034	\$ 0.1166	\$ 0.0132	12.8%

Col. B: Attachment 6C, Col B, Ln 13/Attachment 6C, Col B, Ln 18  
Col. C: Attachment 6C, Col C, Ln 13/Attachment 6C, Col C, Ln 18  
Col. F: Attachment 6D, Col B, Ln 13/Attachment 6D, Col B, Ln 18  
Col. G: Attachment 6D, Col C, Ln 13/Attachment 6D, Col C, Ln 18  
Col. J: Attachment 6B, Col B, Ln 13/Attachment 6B, Col B, Ln 18  
Col. K: Attachment 6B, Col C, Ln 13/Attachment 6B, Col C, Ln 18

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2001 Base		2001 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1		\$ 397,142,099	\$	369,467,603	\$	(27,674,496)	-7.0%
2. SC-1B		\$ 3,260,254	\$	3,127,369	\$	(132,885)	-4.1%
3. SC-1C		\$ 15,719,241	\$	14,832,872	\$	(886,369)	-5.6%
4. SC-2ND		\$ 37,338,879	\$	35,864,903	\$	(1,473,976)	-3.9%
5. SC-2D		\$ 161,334,747	\$	156,341,257	\$	(4,993,490)	-3.1%
6. SC-3		\$ 223,745,728	\$	214,787,324	\$	(8,958,404)	-4.0%
7. SC-3A		\$ 79,323,476	\$	73,166,110	\$	(6,157,366)	-7.8%
8. SC-4S		\$ 2,714,084	\$	2,533,282	\$	(180,802)	-6.7%
9. SC-4L		\$ 6,859,494	\$	6,511,735	\$	(347,759)	-5.1%
10. SC-5		\$ 323,711	\$	311,380	\$	(12,331)	-3.8%
11. SC-11/12		\$ 87,793,350	\$	83,388,552	\$	(4,404,798)	-5.0%
12. Litg (PSC 214)		\$ 20,689,588	\$	21,008,403	\$	318,815	1.5%
13. TOTAL		\$ 1,036,244,651	\$	981,340,790	\$	(54,903,861)	-5.3%
14. Non-Market Classes		\$ 862,268,331	\$	818,274,393	\$	(43,993,938)	-5.1%
15. Market Classes		\$ 173,976,320	\$	163,066,397	\$	(10,909,923)	-6.3%
16. Non-Market Classes	kWh	6,839,640,322		6,839,640,322		-	0.0%
17. Market Classes	kWh	2,515,752,777		2,515,752,777		-	0.0%
18. All Classes	kWh	9,355,393,099		9,355,393,099			

NOTE: All year 2001 values are four months ending 12/31/01 (9/01-12/01 inclusive).

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17



**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2002 Base		2002 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	1,247,720,471	\$	1,177,074,519	\$	(70,645,952)	-5.7%
2. SC-1B	\$	11,205,160	\$	10,977,700	\$	(227,460)	-2.0%
3. SC-1C	\$	54,823,290	\$	52,522,421	\$	(2,300,869)	-4.2%
4. SC-2ND	\$	115,311,270	\$	111,214,819	\$	(4,096,451)	-3.6%
5. SC-2D	\$	488,066,086	\$	474,072,417	\$	(13,993,669)	-2.9%
6. SC-3	\$	661,191,660	\$	633,260,320	\$	(27,931,340)	-4.2%
7. SC-3A	\$	225,082,640	\$	209,782,860	\$	(15,299,780)	-6.8%
8. SC-4S	\$	7,450,903	\$	7,202,243	\$	(248,660)	-3.3%
9. SC-4L	\$	18,813,801	\$	18,033,193	\$	(780,608)	-4.1%
10. SC-5	\$	974,299	\$	930,969	\$	(43,330)	-4.4%
11. SC-11/12	\$	254,932,210	\$	240,674,956	\$	(14,257,254)	-5.6%
12. Litg (PSC 214)	\$	58,299,496	\$	59,356,818	\$	1,057,322	1.8%
13. TOTAL	\$	3,143,871,286	\$	2,995,103,235	\$	(148,768,051)	-4.7%
14. Non-Market Classes	\$	2,645,042,635	\$	2,526,612,226	\$	(118,430,409)	-4.5%
15. Market Classes	\$	498,828,651	\$	468,491,009	\$	(30,337,642)	-6.1%
16. Non-Market Classes	kWh	21,436,569,317		21,436,569,317		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,018,981,159		29,018,981,159			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
<u>Rate Class</u>		2003 Base <u>Revenue</u>	2003 Merger <u>Revenue</u>	<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	1,258,697,728	\$ 1,167,114,950	\$ (91,582,778)	-7.3%
2. SC-1B	\$	11,048,795	\$ 10,750,048	\$ (298,747)	-2.7%
3. SC-1C	\$	54,261,637	\$ 51,510,604	\$ (2,751,033)	-5.1%
4. SC-2ND	\$	117,519,408	\$ 110,218,077	\$ (7,301,331)	-6.2%
5. SC-2D	\$	493,855,755	\$ 463,997,120	\$ (29,858,635)	-6.0%
6. SC-3	\$	673,903,162	\$ 620,286,296	\$ (53,616,866)	-8.0%
7. SC-3A	\$	220,523,462	\$ 201,700,783	\$ (18,822,679)	-8.5%
8. SC-4S	\$	7,833,358	\$ 7,341,780	\$ (491,578)	-6.3%
9. SC-4L	\$	18,352,570	\$ 17,334,973	\$ (1,017,597)	-5.5%
10. SC-5	\$	986,016	\$ 905,509	\$ (80,507)	-8.2%
11. SC-11/12	\$	251,593,065	\$ 231,787,190	\$ (19,805,875)	-7.9%
12. Litg (PSC 214)	\$	59,198,233	\$ 58,500,554	\$ (697,679)	-1.2%
13. TOTAL	\$	3,167,773,189	\$ 2,941,447,884	\$ (226,325,305)	-7.1%
14. Non-Market Classes	\$	2,677,304,092	\$ 2,490,624,938	\$ (186,679,154)	-7.0%
15. Market Classes	\$	490,469,097	\$ 450,822,946	\$ (39,646,151)	-8.1%
16. Non-Market Classes	kWh	21,581,855,333	21,581,855,333	-	0.0%
17. Market Classes	kWh	7,582,411,842	7,582,411,842	-	0.0%
18. All Classes	kWh	29,164,267,175	29,164,267,175		

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
	<u>Rate Class</u>	<u>2004 Base</u>		<u>2004 Merger</u>		<u>Difference</u>	<u>Percent</u>
		<u>Revenue</u>		<u>Revenue</u>			<u>Difference</u>
1.	SC-1	\$ 1,322,769,825	\$	1,168,810,201	\$	(153,959,624)	-11.6%
2.	SC-1B	\$ 11,474,671	\$	10,728,036	\$	(746,635)	-6.5%
3.	SC-1C	\$ 56,451,305	\$	51,398,268	\$	(5,053,037)	-9.0%
4.	SC-2ND	\$ 124,039,461	\$	110,445,878	\$	(13,593,583)	-11.0%
5.	SC-2D	\$ 524,461,811	\$	471,051,449	\$	(53,410,362)	-10.2%
6.	SC-3	\$ 719,033,346	\$	632,841,758	\$	(86,191,588)	-12.0%
7.	SC-3A	\$ 232,926,818	\$	207,487,020	\$	(25,439,798)	-10.9%
8.	SC-4S	\$ 8,152,438	\$	7,341,634	\$	(810,804)	-9.9%
9.	SC-4L	\$ 19,346,908	\$	17,887,237	\$	(1,459,671)	-7.5%
10.	SC-5	\$ 1,046,122	\$	922,190	\$	(123,932)	-11.8%
11.	SC-11/12	\$ 264,395,755	\$	236,316,285	\$	(28,079,470)	-10.6%
12.	Litg (PSC 214)	\$ 62,444,629	\$	58,301,818	\$	(4,142,811)	-6.6%
13.	TOTAL	\$ 3,346,543,089	\$	2,973,531,774	\$	(373,011,315)	-11.1%
14.	Non-Market Classes	\$ 2,829,873,608	\$	2,511,841,232	\$	(318,032,376)	-11.2%
15.	Market Classes	\$ 516,669,481	\$	461,690,542	\$	(54,978,939)	-10.6%
16.	Non-Market Classes kWh	21,700,858,321		21,700,858,321		-	0.0%
17.	Market Classes kWh	7,582,411,842		7,582,411,842		-	0.0%
18.	All Classes kWh	29,283,270,163		29,283,270,163			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2005 Base		2005 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	1,328,056,009	\$	1,178,648,193	\$	(149,407,816)	-11.3%
2. SC-1B	\$	11,449,445	\$	10,815,807	\$	(633,638)	-5.5%
3. SC-1C	\$	56,375,141	\$	51,811,158	\$	(4,563,983)	-8.1%
4. SC-2ND	\$	125,614,568	\$	112,301,071	\$	(13,313,497)	-10.6%
5. SC-2D	\$	532,066,208	\$	477,262,600	\$	(54,803,608)	-10.3%
6. SC-3	\$	730,977,367	\$	641,837,602	\$	(89,139,765)	-12.2%
7. SC-3A	\$	235,651,180	\$	210,400,841	\$	(25,250,339)	-10.7%
8. SC-4S	\$	8,135,164	\$	7,403,551	\$	(731,613)	-9.0%
9. SC-4L	\$	19,311,889	\$	17,862,504	\$	(1,449,385)	-7.5%
10. SC-5	\$	1,056,694	\$	929,725	\$	(126,969)	-12.0%
11. SC-11/12	\$	268,137,527	\$	239,084,699	\$	(29,052,828)	-10.8%
12. Litg (PSC 214)	\$	61,281,875	\$	57,169,449	\$	(4,112,426)	-6.7%
13. TOTAL	\$	3,378,113,067	\$	3,005,527,200	\$	(372,585,867)	-11.0%
14. Non-Market Classes	\$	2,855,012,471	\$	2,538,179,156	\$	(316,833,315)	-11.1%
15. Market Classes	\$	523,100,596	\$	467,348,044	\$	(55,752,552)	-10.7%
16. Non-Market Classes	kWh	21,790,858,323		21,790,858,323		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,373,270,165		29,373,270,165			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2006 Base		2006 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1		\$ 1,330,202,167	\$	1,190,634,145	\$	(139,568,022)	-10.5%
2. SC-1B		\$ 11,448,804	\$	10,974,713	\$	(474,091)	-4.1%
3. SC-1C		\$ 56,401,160	\$	52,546,877	\$	(3,854,283)	-6.8%
4. SC-2ND		\$ 126,606,794	\$	114,070,576	\$	(12,536,218)	-9.9%
5. SC-2D		\$ 533,147,808	\$	479,344,709	\$	(53,803,099)	-10.1%
6. SC-3		\$ 746,405,220	\$	655,893,176	\$	(90,512,044)	-12.1%
7. SC-3A		\$ 239,722,822	\$	214,638,645	\$	(25,084,177)	-10.5%
8. SC-4S		\$ 8,133,848	\$	7,511,800	\$	(622,048)	-7.6%
9. SC-4L		\$ 19,706,430	\$	18,269,408	\$	(1,437,022)	-7.3%
10. SC-5		\$ 1,071,829	\$	943,674	\$	(128,155)	-12.0%
11. SC-11/12		\$ 281,580,709	\$	251,330,961	\$	(30,249,748)	-10.7%
12. Litg (PSC 214)		\$ 61,603,998	\$	56,192,910	\$	(5,411,088)	-8.8%
13. TOTAL		\$ 3,416,031,589	\$	3,052,351,594	\$	(363,679,995)	-10.6%
14. Non-Market Classes		\$ 2,875,021,628	\$	2,568,112,580	\$	(306,909,048)	-10.7%
15. Market Classes		\$ 541,009,961	\$	484,239,014	\$	(56,770,947)	-10.5%
16. Non-Market Classes	kWh	21,803,858,330		21,803,858,330		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,486,266,181		29,486,266,181			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		<u>2007 Base Revenue</u>		<u>2007 Merger Revenue</u>		<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	1,343,603,961	\$	1,199,078,617	\$	(144,525,344)	-10.8%
2. SC-1B	\$	11,743,631	\$	11,430,487	\$	(313,144)	-2.7%
3. SC-1C	\$	57,734,246	\$	54,674,881	\$	(3,059,365)	-5.3%
4. SC-2ND	\$	127,439,354	\$	113,396,556	\$	(14,042,798)	-11.0%
5. SC-2D	\$	534,137,004	\$	482,332,353	\$	(51,804,651)	-9.7%
6. SC-3	\$	746,342,689	\$	662,765,029	\$	(83,577,660)	-11.2%
7. SC-3A	\$	239,349,928	\$	216,231,147	\$	(23,118,781)	-9.7%
8. SC-4S	\$	8,351,453	\$	7,837,083	\$	(514,370)	-6.2%
9. SC-4L	\$	19,731,451	\$	18,423,577	\$	(1,307,874)	-6.6%
10. SC-5	\$	1,067,279	\$	948,998	\$	(118,281)	-11.1%
11. SC-11/12	\$	281,867,491	\$	253,299,714	\$	(28,567,777)	-10.1%
12. Litg (PSC 214)	\$	61,726,790	\$	57,188,444	\$	(4,538,346)	-7.4%
13. TOTAL	\$	3,433,095,277	\$	3,077,606,886	\$	(355,488,391)	-10.4%
14. Non-Market Classes	\$	2,892,146,407	\$	2,589,652,448	\$	(302,493,959)	-10.5%
15. Market Classes	\$	540,948,870	\$	487,954,438	\$	(52,994,432)	-9.8%
16. Non-Market Classes	kWh	21,876,866,331		21,876,866,331		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,559,274,182		29,559,274,182			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2008 Base		2008 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1		\$ 1,313,542,830	\$	1,214,995,179	\$	(98,547,651)	-7.5%
2. SC-1B		\$ 12,000,808	\$	12,211,303	\$	210,495	1.8%
3. SC-1C		\$ 58,777,827	\$	58,351,657	\$	(426,170)	-0.7%
4. SC-2ND		\$ 123,853,830	\$	115,393,375	\$	(8,460,455)	-6.8%
5. SC-2D		\$ 521,922,272	\$	492,342,548	\$	(29,579,724)	-5.7%
6. SC-3		\$ 728,925,308	\$	676,695,873	\$	(52,229,435)	-7.2%
7. SC-3A		\$ 235,407,432	\$	220,865,372	\$	(14,542,060)	-6.2%
8. SC-4S		\$ 7,978,043	\$	7,487,877	\$	(490,166)	-6.1%
9. SC-4L		\$ 19,597,287	\$	18,859,173	\$	(738,114)	-3.8%
10. SC-5		\$ 1,039,545	\$	964,098	\$	(75,447)	-7.3%
11. SC-11/12		\$ 279,724,158	\$	258,606,172	\$	(21,117,986)	-7.5%
12. Litg (PSC 214)		\$ 60,021,938	\$	59,014,052	\$	(1,007,886)	-1.7%
13. TOTAL		\$ 3,362,791,278	\$	3,135,786,679	\$	(227,004,599)	-6.8%
14. Non-Market Classes		\$ 2,828,062,401	\$	2,637,455,962	\$	(190,606,439)	-6.7%
15. Market Classes		\$ 534,728,877	\$	498,330,717	\$	(36,398,160)	-6.8%
16. Non-Market Classes	kWh	21,988,862,328		21,988,862,328		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,671,270,179		29,671,270,179			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B  
Col C: Attachment 6C, Col. C + Attachment 6D, Col. C  
Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12  
Ln 15: Lns. 7 + 9 + 11  
Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16  
Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17  
Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		<u>2009 Base</u>		<u>2009 Merger</u>		<u>Difference</u>	<u>Percent</u>
		<u>Revenue</u>		<u>Revenue</u>			<u>Difference</u>
1. SC-1		\$ 1,183,124,559	\$	1,209,903,217	\$	26,778,658	2.3%
2. SC-1B		\$ 9,985,262	\$	11,080,410	\$	1,095,148	11.0%
3. SC-1C		\$ 48,838,739	\$	53,024,613	\$	4,185,874	8.6%
4. SC-2ND		\$ 112,108,239	\$	117,295,713	\$	5,187,474	4.6%
5. SC-2D		\$ 479,720,591	\$	501,625,091	\$	21,904,500	4.6%
6. SC-3		\$ 669,500,887	\$	689,625,369	\$	20,124,482	3.0%
7. SC-3A		\$ 221,058,023	\$	224,354,280	\$	3,296,257	1.5%
8. SC-4S		\$ 7,384,723	\$	7,589,397	\$	204,674	2.8%
9. SC-4L		\$ 18,798,053	\$	19,211,855	\$	413,802	2.2%
10. SC-5		\$ 954,920	\$	976,199	\$	21,279	2.2%
11. SC-11/12		\$ 267,746,451	\$	263,552,742	\$	(4,193,709)	-1.6%
12. Litg (PSC 214)		\$ 49,716,376	\$	56,173,826	\$	6,457,450	13.0%
13. TOTAL		\$ 3,068,936,823	\$	3,154,412,712	\$	85,475,889	2.8%
14. Non-Market Classes		\$ 2,561,334,296	\$	2,647,293,835	\$	85,959,539	3.4%
15. Market Classes		\$ 507,602,527	\$	507,118,877	\$	(483,650)	-0.1%
16. Non-Market Classes	kWh	22,072,874,319		22,072,874,319		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,755,282,170		29,755,282,170			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17



**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2010 Base		2010 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1		\$ 1,082,908,581	\$	1,227,113,658	\$	144,205,077	13.3%
2. SC-1B		\$ 9,321,411	\$	11,244,129	\$	1,922,718	20.6%
3. SC-1C		\$ 45,274,582	\$	53,776,675	\$	8,502,093	18.8%
4. SC-2ND		\$ 101,419,846	\$	119,671,999	\$	18,252,153	18.0%
5. SC-2D		\$ 441,898,063	\$	513,315,307	\$	71,417,244	16.2%
6. SC-3		\$ 616,134,999	\$	705,842,438	\$	89,707,439	14.6%
7. SC-3A		\$ 208,601,963	\$	228,908,652	\$	20,306,689	9.7%
8. SC-4S		\$ 6,856,843	\$	7,721,589	\$	864,746	12.6%
9. SC-4L		\$ 18,147,029	\$	19,670,684	\$	1,523,655	8.4%
10. SC-5		\$ 878,916	\$	991,909	\$	112,993	12.9%
11. SC-11/12		\$ 257,965,129	\$	270,090,796	\$	12,125,667	4.7%
12. Litg (PSC 214)		\$ 42,647,472	\$	56,130,849	\$	13,483,377	31.6%
13. TOTAL		\$ 2,832,054,834	\$	3,214,478,685	\$	382,423,851	13.5%
14. Non-Market Classes		\$ 2,347,340,713	\$	2,695,808,553	\$	348,467,840	14.8%
15. Market Classes		\$ 484,714,121	\$	518,670,132	\$	33,956,011	7.0%
16. Non-Market Classes	kWh	22,189,862,339		22,189,862,339		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,872,270,190		29,872,270,190			

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
Rate Class		2011 Base Revenue	2011 Merger Revenue	Difference	Percent Difference
1. SC-1	\$	1,106,101,697	\$ 1,259,774,402	\$ 153,672,705	13.9%
2. SC-1B	\$	9,365,784	\$ 11,398,898	\$ 2,033,114	21.7%
3. SC-1C	\$	45,473,658	\$ 54,489,301	\$ 9,015,643	19.8%
4. SC-2ND	\$	102,790,917	\$ 121,505,852	\$ 18,714,935	18.2%
5. SC-2D	\$	449,226,599	\$ 522,270,765	\$ 73,044,166	16.3%
6. SC-3	\$	626,509,854	\$ 718,373,183	\$ 91,863,329	14.7%
7. SC-3A	\$	211,463,302	\$ 232,151,631	\$ 20,688,329	9.8%
8. SC-4S	\$	6,940,234	\$ 7,816,190	\$ 875,956	12.6%
9. SC-4L	\$	18,443,244	\$ 19,993,549	\$ 1,550,305	8.4%
10. SC-5	\$	888,728	\$ 1,003,196	\$ 114,468	12.9%
11. SC-11/12	\$	262,145,443	\$ 274,503,904	\$ 12,358,461	4.7%
12. Litg (PSC 214)	\$	42,618,073	\$ 56,188,778	\$ 13,570,705	31.8%
13. TOTAL	\$	2,881,967,533	\$ 3,279,469,649	\$ 397,502,116	13.8%
14. Non-Market Classes	\$	2,389,915,544	\$ 2,752,820,565	\$ 362,905,021	15.2%
15. Market Classes	\$	492,051,989	\$ 526,649,084	\$ 34,597,095	7.0%
16. Non-Market Classes	kWh	22,412,858,324	22,412,858,324	-	0.0%
17. Market Classes	kWh	7,682,407,851	7,682,407,851	-	0.0%
18. All Classes	kWh	30,095,266,175	30,095,266,175		

Col B: Attachment 6C, Col. B + Attachment 6D, Col. B

Col C: Attachment 6C, Col. C + Attachment 6D, Col. C

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Attachment 6C, Ln. 16 + Attachment 6D, Ln. 16

Ln 17: Attachment 6C, Ln. 17 + Attachment 6D, Ln. 17

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2001 Base		2001 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	223,180,021	\$	215,479,330	\$	(7,700,691)	-3.5%
2. SC-1B	\$	1,370,940	\$	1,461,002	\$	90,062	6.6%
3. SC-1C	\$	6,711,272	\$	6,887,467	\$	176,195	2.6%
4. SC-2ND	\$	23,826,604	\$	23,991,816	\$	165,212	0.7%
5. SC-2D	\$	93,264,627	\$	93,762,953	\$	498,326	0.5%
6. SC-3	\$	132,658,160	\$	127,952,099	\$	(4,706,061)	-3.5%
7. SC-3A	\$	38,199,722	\$	32,042,356	\$	(6,157,366)	-16.1%
8. SC-4S	\$	1,336,281	\$	1,320,810	\$	(15,471)	-1.2%
12. SC-4L	\$	2,581,213	\$	2,233,454	\$	(347,759)	-13.5%
12. SC-5	\$	181,943	\$	169,487	\$	(12,456)	-6.8%
11. SC-11/12	\$	33,013,840	\$	28,609,042	\$	(4,404,798)	-13.3%
12. Litg (PSC 214)	\$	15,397,130	\$	16,330,926	\$	933,796	6.1%
13. TOTAL	\$	571,721,753	\$	550,240,743	\$	(21,481,010)	-3.8%
14. Non-Market Classes	\$	497,926,978	\$	487,355,891	\$	(10,571,087)	-2.1%
15. Market Classes	\$	73,794,775	\$	62,884,852	\$	(10,909,923)	-14.8%
16. Non-Market Classes	kWh	6,839,640,322		6,839,640,322		-	0.0%
17. Market Classes	kWh	2,515,752,777		2,515,752,777		-	0.0%
18. All Classes	kWh	9,355,393,099		9,355,393,099			

NOTE: All year 2001 values are four months ending 12/31/01 (9/01-12/01 inclusive).

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		<u>2002 Base</u>		<u>2002 Merger</u>		<u>Difference</u>	<u>Percent</u>
		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	755,540,656	\$	696,774,399	\$	(58,766,257)	-7.8%
2. SC-1B	\$	5,312,056	\$	5,229,444	\$	(82,612)	-1.6%
3. SC-1C	\$	27,717,198	\$	26,082,939	\$	(1,634,259)	-5.9%
4. SC-2ND	\$	78,491,881	\$	75,141,114	\$	(3,350,767)	-4.3%
5. SC-2D	\$	302,901,022	\$	291,400,717	\$	(11,500,305)	-3.8%
6. SC-3	\$	419,881,576	\$	393,128,904	\$	(26,752,672)	-6.4%
7. SC-3A	\$	114,173,212	\$	98,844,521	\$	(15,328,691)	-13.4%
8. SC-4S	\$	4,231,282	\$	3,981,740	\$	(249,542)	-5.9%
12. SC-4L	\$	7,473,173	\$	6,682,003	\$	(791,170)	-10.6%
12. SC-5	\$	590,243	\$	546,802	\$	(43,441)	-7.4%
11. SC-11/12	\$	103,055,025	\$	88,776,426	\$	(14,278,599)	-13.9%
12. Litg (PSC 214)	\$	45,927,546	\$	47,096,589	\$	1,169,043	2.5%
13. TOTAL	\$	1,865,294,870	\$	1,733,685,598	\$	(131,609,272)	-7.1%
14. Non-Market Classes	\$	1,640,593,460	\$	1,539,382,648	\$	(101,210,812)	-6.2%
15. Market Classes	\$	224,701,410	\$	194,302,950	\$	(30,398,460)	-13.5%
16. Non-Market Classes	kWh	21,436,569,317		21,436,569,317		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,018,981,159		29,018,981,159			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
Rate Class		2003 Base Revenue		2003 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	814,275,611	\$	706,888,143	\$	(107,387,468)	-13.2%
2. SC-1B	\$	5,795,531	\$	5,302,106	\$	(493,425)	-8.5%
3. SC-1C	\$	30,071,970	\$	26,424,711	\$	(3,647,259)	-12.1%
4. SC-2ND	\$	83,966,257	\$	75,435,714	\$	(8,530,543)	-10.2%
5. SC-2D	\$	325,500,695	\$	292,911,797	\$	(32,588,898)	-10.0%
6. SC-3	\$	450,711,724	\$	395,355,102	\$	(55,356,622)	-12.3%
7. SC-3A	\$	118,077,059	\$	99,233,986	\$	(18,843,073)	-16.0%
8. SC-4S	\$	4,584,699	\$	3,977,247	\$	(607,452)	-13.2%
12. SC-4L	\$	7,731,168	\$	6,707,763	\$	(1,023,405)	-13.2%
12. SC-5	\$	626,088	\$	545,521	\$	(80,567)	-12.9%
11. SC-11/12	\$	108,031,613	\$	88,188,820	\$	(19,842,793)	-18.4%
12. Litg (PSC 214)	\$	48,153,447	\$	46,847,628	\$	(1,305,819)	-2.7%
13. TOTAL	\$	1,997,525,862	\$	1,747,818,538	\$	(249,707,324)	-12.5%
14. Non-Market Classes	\$	1,763,686,022	\$	1,553,687,969	\$	(209,998,053)	-11.9%
15. Market Classes	\$	233,839,840	\$	194,130,569	\$	(39,709,271)	-17.0%
16. Non-Market Classes	kWh	21,581,855,333		21,581,855,333		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,164,267,175		29,164,267,175			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
Rate Class		2004 Base Revenue		2004 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	862,182,451	\$	708,827,252	\$	(153,355,199)	-17.8%
2. SC-1B	\$	6,035,097	\$	5,297,428	\$	(737,669)	-12.2%
3. SC-1C	\$	31,412,527	\$	26,400,748	\$	(5,011,779)	-16.0%
4. SC-2ND	\$	89,529,959	\$	75,897,643	\$	(13,632,316)	-15.2%
5. SC-2D	\$	348,990,219	\$	295,471,046	\$	(53,519,173)	-15.3%
6. SC-3	\$	485,452,606	\$	399,203,374	\$	(86,249,232)	-17.8%
7. SC-3A	\$	126,071,085	\$	100,619,689	\$	(25,451,396)	-20.2%
8. SC-4S	\$	4,791,642	\$	3,990,205	\$	(801,437)	-16.7%
12. SC-4L	\$	8,265,157	\$	6,801,366	\$	(1,463,791)	-17.7%
12. SC-5	\$	670,714	\$	546,739	\$	(123,975)	-18.5%
11. SC-11/12	\$	115,815,562	\$	87,721,466	\$	(28,094,096)	-24.3%
12. Litg (PSC 214)	\$	51,002,218	\$	46,684,963	\$	(4,317,255)	-8.5%
13. TOTAL	\$	2,130,219,237	\$	1,757,461,919	\$	(372,757,318)	-17.5%
14. Non-Market Classes	\$	1,880,067,433	\$	1,562,319,398	\$	(317,748,035)	-16.9%
15. Market Classes	\$	250,151,804	\$	195,142,521	\$	(55,009,283)	-22.0%
16. Non-Market Classes	kWh	21,700,858,321		21,700,858,321		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,283,270,163		29,283,270,163			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2005 Base		2005 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	858,905,830	\$	709,868,641	\$	(149,037,189)	-17.4%
2. SC-1B	\$	5,934,301	\$	5,304,855	\$	(629,446)	-10.6%
3. SC-1C	\$	30,977,208	\$	26,432,531	\$	(4,544,677)	-14.7%
4. SC-2ND	\$	89,587,762	\$	76,272,272	\$	(13,315,490)	-14.9%
5. SC-2D	\$	352,210,384	\$	297,396,198	\$	(54,814,186)	-15.6%
6. SC-3	\$	491,148,456	\$	401,993,790	\$	(89,154,666)	-18.2%
7. SC-3A	\$	126,625,055	\$	101,367,692	\$	(25,257,363)	-19.9%
8. SC-4S	\$	4,725,064	\$	3,993,236	\$	(731,828)	-15.5%
12. SC-4L	\$	8,299,899	\$	6,849,729	\$	(1,450,170)	-17.5%
12. SC-5	\$	673,714	\$	546,720	\$	(126,994)	-18.8%
11. SC-11/12	\$	116,352,283	\$	87,289,429	\$	(29,062,854)	-25.0%
12. Litg (PSC 214)	\$	50,618,805	\$	46,505,696	\$	(4,113,109)	-8.1%
13. TOTAL	\$	2,136,058,761	\$	1,763,820,789	\$	(372,237,972)	-17.4%
14. Non-Market Classes	\$	1,884,781,524	\$	1,568,313,939	\$	(316,467,585)	-16.8%
15. Market Classes	\$	251,277,237	\$	195,506,850	\$	(55,770,387)	-22.2%
16. Non-Market Classes	kWh	21,790,858,323		21,790,858,323		-	0.0%
17. Market Classes	kWh	7,582,411,842		7,582,411,842		-	0.0%
18. All Classes	kWh	29,373,270,165		29,373,270,165			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2006 Base		2006 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	847,164,401	\$	707,985,011	\$	(139,179,390)	-16.4%
2. SC-1B	\$	5,762,631	\$	5,292,947	\$	(469,684)	-8.2%
3. SC-1C	\$	30,215,172	\$	26,381,173	\$	(3,833,999)	-12.7%
4. SC-2ND	\$	89,302,276	\$	76,764,014	\$	(12,538,262)	-14.0%
5. SC-2D	\$	349,190,691	\$	295,376,895	\$	(53,813,796)	-15.4%
6. SC-3	\$	496,307,614	\$	405,780,199	\$	(90,527,415)	-18.2%
7. SC-3A	\$	127,067,452	\$	101,976,091	\$	(25,091,361)	-19.7%
8. SC-4S	\$	4,626,090	\$	4,003,818	\$	(622,272)	-13.5%
12. SC-4L	\$	8,327,866	\$	6,890,044	\$	(1,437,822)	-17.3%
12. SC-5	\$	676,153	\$	547,971	\$	(128,182)	-19.0%
11. SC-11/12	\$	120,097,417	\$	89,837,122	\$	(30,260,295)	-25.2%
12. Litg (PSC 214)	\$	51,932,737	\$	46,520,952	\$	(5,411,785)	-10.4%
13. TOTAL	\$	2,130,670,500	\$	1,767,356,237	\$	(363,314,263)	-17.1%
14. Non-Market Classes	\$	1,875,177,765	\$	1,568,652,980	\$	(306,524,785)	-16.3%
15. Market Classes	\$	255,492,735	\$	198,703,257	\$	(56,789,478)	-22.2%
16. Non-Market Classes	kWh	21,803,858,330		21,803,858,330		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,486,266,181		29,486,266,181			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17



**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2007 Base		2007 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	854,289,861	\$	710,151,398	\$	(144,138,463)	-16.9%
2. SC-1B	\$	5,613,517	\$	5,304,746	\$	(308,771)	-5.5%
3. SC-1C	\$	29,474,754	\$	26,435,539	\$	(3,039,215)	-10.3%
4. SC-2ND	\$	91,200,271	\$	77,155,367	\$	(14,044,904)	-15.4%
5. SC-2D	\$	348,832,058	\$	297,016,396	\$	(51,815,662)	-14.9%
6. SC-3	\$	491,650,772	\$	408,057,290	\$	(83,593,482)	-17.0%
7. SC-3A	\$	125,317,909	\$	102,191,778	\$	(23,126,131)	-18.5%
8. SC-4S	\$	4,524,029	\$	4,009,426	\$	(514,603)	-11.4%
12. SC-4L	\$	8,213,166	\$	6,904,471	\$	(1,308,695)	-15.9%
12. SC-5	\$	666,743	\$	548,431	\$	(118,312)	-17.7%
11. SC-11/12	\$	118,410,941	\$	89,832,369	\$	(28,578,572)	-24.1%
12. Litg (PSC 214)	\$	51,075,165	\$	46,536,108	\$	(4,539,057)	-8.9%
13. TOTAL	\$	2,129,269,186	\$	1,774,143,319	\$	(355,125,867)	-16.7%
14. Non-Market Classes	\$	1,877,327,170	\$	1,575,214,701	\$	(302,112,469)	-16.1%
15. Market Classes	\$	251,942,016	\$	198,928,618	\$	(53,013,398)	-21.0%
16. Non-Market Classes	kWh	21,876,866,331		21,876,866,331		-	0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851		-	0.0%
18. All Classes	kWh	29,559,274,182		29,559,274,182			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		2008 Base Revenue		2008 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	811,334,566	\$	713,192,136	\$	(98,142,430)	-12.1%
2. SC-1B	\$	5,087,355	\$	5,302,410	\$	215,055	4.2%
3. SC-1C	\$	26,830,548	\$	26,425,377	\$	(405,171)	-1.5%
4. SC-2ND	\$	86,227,682	\$	77,765,049	\$	(8,462,633)	-9.8%
5. SC-2D	\$	329,349,511	\$	299,758,375	\$	(29,591,136)	-9.0%
6. SC-3	\$	464,179,984	\$	411,934,149	\$	(52,245,835)	-11.3%
7. SC-3A	\$	117,703,996	\$	103,154,375	\$	(14,549,621)	-12.4%
8. SC-4S	\$	4,515,254	\$	4,024,852	\$	(490,402)	-10.9%
12. SC-4L	\$	7,708,595	\$	6,969,643	\$	(738,952)	-9.6%
12. SC-5	\$	626,085	\$	550,616	\$	(75,469)	-12.1%
11. SC-11/12	\$	111,002,910	\$	89,873,815	\$	(21,129,095)	-19.0%
12. Litg (PSC 214)	\$	47,611,828	\$	46,603,214	\$	(1,008,614)	-2.1%
13. TOTAL	\$	2,012,178,314	\$	1,785,554,011	\$	(226,624,303)	-11.3%
14. Non-Market Classes	\$	1,775,762,813	\$	1,585,556,178	\$	(190,206,635)	-10.7%
15. Market Classes	\$	236,415,501	\$	199,997,833	\$	(36,417,668)	-15.4%
16. Non-Market Classes	kWh	21,988,862,328		21,988,862,328	-		0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851	-		0.0%
18. All Classes	kWh	29,671,270,179		29,671,270,179			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
<u>Rate Class</u>		<u>2009 Base Revenue</u>	<u>2009 Merger Revenue</u>	<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	683,379,695	\$ 710,608,295	\$ 27,228,600	4.0%
2. SC-1B	\$	4,163,062	\$ 5,263,282	\$ 1,100,220	26.4%
3. SC-1C	\$	22,034,484	\$ 26,243,716	\$ 4,209,232	19.1%
4. SC-2ND	\$	73,080,231	\$ 78,267,704	\$ 5,187,473	7.1%
5. SC-2D	\$	279,801,175	\$ 301,705,677	\$ 21,904,502	7.8%
6. SC-3	\$	394,497,031	\$ 414,621,514	\$ 20,124,483	5.1%
7. SC-3A	\$	99,849,258	\$ 103,145,515	\$ 3,296,257	3.3%
8. SC-4S	\$	3,818,955	\$ 4,023,624	\$ 204,669	5.4%
12. SC-4L	\$	6,554,384	\$ 6,968,185	\$ 413,801	6.3%
12. SC-5	\$	529,160	\$ 550,442	\$ 21,282	4.0%
11. SC-11/12	\$	93,998,147	\$ 89,804,439	\$ (4,193,708)	-4.5%
12. Litg (PSC 214)	\$	40,110,114	\$ 46,567,565	\$ 6,457,451	16.1%
13. TOTAL	\$	1,701,815,696	\$ 1,787,769,958	\$ 85,954,262	5.1%
14. Non-Market Classes	\$	1,501,413,907	\$ 1,587,851,819	\$ 86,437,912	5.8%
15. Market Classes	\$	200,401,789	\$ 199,918,139	\$ (483,650)	-0.2%
16. Non-Market Classes	kWh	22,072,874,319	22,072,874,319	-	0.0%
17. Market Classes	kWh	7,682,407,851	7,682,407,851	-	0.0%
18. All Classes	kWh	29,755,282,170	29,755,282,170		

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		<u>2010 Base Revenue</u>		<u>2010 Merger Revenue</u>		<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	562,185,719	\$	706,870,450	\$	144,684,731	25.7%
2. SC-1B	\$	3,272,548	\$	5,200,660	\$	1,928,112	58.9%
3. SC-1C	\$	17,426,827	\$	25,953,748	\$	8,526,921	48.9%
4. SC-2ND	\$	60,532,362	\$	78,784,515	\$	18,252,153	30.2%
5. SC-2D	\$	232,258,095	\$	303,675,336	\$	71,417,241	30.7%
6. SC-3	\$	327,624,472	\$	417,331,914	\$	89,707,442	27.4%
7. SC-3A	\$	82,696,519	\$	103,003,211	\$	20,306,692	24.6%
8. SC-4S	\$	3,153,663	\$	4,018,405	\$	864,742	27.4%
12. SC-4L	\$	5,432,317	\$	6,955,972	\$	1,523,655	28.0%
12. SC-5	\$	436,764	\$	549,761	\$	112,997	25.9%
11. SC-11/12	\$	77,494,480	\$	89,620,145	\$	12,125,665	15.6%
12. Litg (PSC 214)	\$	33,038,906	\$	46,522,284	\$	13,483,378	40.8%
13. TOTAL	\$	1,405,552,672	\$	1,788,486,401	\$	382,933,729	27.2%
14. Non-Market Classes	\$	1,239,929,356	\$	1,588,907,073	\$	348,977,717	28.1%
15. Market Classes	\$	165,623,316	\$	199,579,328	\$	33,956,012	20.5%
16. Non-Market Classes	kWh	22,189,862,339		22,189,862,339	-		0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851	-		0.0%
18. All Classes	kWh	29,872,270,190		29,872,270,190			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
Rate Class		2011 Base Revenue		2011 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	564,330,816	\$	718,489,098	\$	154,158,282	27.3%
2. SC-1B	\$	3,170,540	\$	5,209,033	\$	2,038,493	64.3%
3. SC-1C	\$	16,951,985	\$	25,992,387	\$	9,040,402	53.3%
4. SC-2ND	\$	60,624,861	\$	79,339,794	\$	18,714,933	30.9%
5. SC-2D	\$	232,842,205	\$	305,886,371	\$	73,044,166	31.4%
6. SC-3	\$	328,537,821	\$	420,401,155	\$	91,863,334	28.0%
7. SC-3A	\$	82,498,634	\$	103,186,959	\$	20,688,325	25.1%
8. SC-4S	\$	3,146,198	\$	4,022,153	\$	875,955	27.8%
12. SC-4L	\$	5,418,651	\$	6,968,955	\$	1,550,304	28.6%
12. SC-5	\$	435,740	\$	550,209	\$	114,469	26.3%
11. SC-11/12	\$	77,295,120	\$	89,653,586	\$	12,358,466	16.0%
12. Litg (PSC 214)	\$	32,963,402	\$	46,534,109	\$	13,570,707	41.2%
13. TOTAL	\$	1,408,215,973	\$	1,806,233,809	\$	398,017,836	28.3%
14. Non-Market Classes	\$	1,243,003,568	\$	1,606,424,309	\$	363,420,741	29.2%
15. Market Classes	\$	165,212,405	\$	199,809,500	\$	34,597,095	20.9%
16. Non-Market Classes	kWh	22,412,858,324		22,412,858,324	-		0.0%
17. Market Classes	kWh	7,682,407,851		7,682,407,851	-		0.0%
18. All Classes	kWh	30,095,266,175		30,095,266,175			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

# Niagara Mohawk Power Corporation Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)

(A)		(B)		(C)		(D)	(E)
		2001 Base		2001 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	173,962,078	\$	153,988,273	\$	(19,973,805)	-11.5%
2. SC-1B	\$	1,889,314	\$	1,666,367	\$	(222,947)	-11.8%
3. SC-1C	\$	9,007,969	\$	7,945,405	\$	(1,062,564)	-11.8%
4. SC-2ND	\$	13,512,275	\$	11,873,087	\$	(1,639,188)	-12.1%
5. SC-2D	\$	68,070,120	\$	62,578,304	\$	(5,491,816)	-8.1%
6. SC-3	\$	91,087,568	\$	86,835,225	\$	(4,252,343)	-4.7%
7. SC-3A	\$	41,123,754	\$	41,123,754	\$	-	0.0%
8. SC-4S	\$	1,377,803	\$	1,212,472	\$	(165,331)	-12.0%
9. SC-4L	\$	4,278,281	\$	4,278,281	\$	-	0.0%
10. SC-5	\$	141,768	\$	141,893	\$	125	0.1%
11. SC-11/12	\$	54,779,510	\$	54,779,510	\$	-	0.0%
12. Litg (PSC 214)	\$	5,292,458	\$	4,677,477	\$	(614,981)	-11.6%
13. TOTAL	\$	464,522,898	\$	431,100,047	\$	(33,422,851)	-7.2%
14. Non-Market Classes	\$	364,341,353	\$	330,918,502	\$	(33,422,851)	-9.2%
15. Market Classes	\$	100,181,545	\$	100,181,545	\$	-	0.0%
16. Non-Market Classes	kWh	6,026,297,919		6,026,297,919		-	0.0%
17. Market Classes	kWh	1,982,000,672		1,982,000,672		-	0.0%
18. All Classes	kWh	8,008,298,591		8,008,298,591			

NOTE: All year 2001 values are four months ending 12/31/01 (9/01-12/01 inclusive).

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2002 Base		2002 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	492,179,815	\$	480,300,120	\$	(11,879,695)	-2.4%
2. SC-1B	\$	5,893,104	\$	5,748,256	\$	(144,848)	-2.5%
3. SC-1C	\$	27,106,092	\$	26,439,482	\$	(666,610)	-2.5%
4. SC-2ND	\$	36,819,389	\$	36,073,705	\$	(745,684)	-2.0%
5. SC-2D	\$	185,165,064	\$	182,671,700	\$	(2,493,364)	-1.3%
6. SC-3	\$	241,310,084	\$	240,131,416	\$	(1,178,668)	-0.5%
7. SC-3A	\$	110,909,428	\$	110,938,339	\$	28,911	0.0%
8. SC-4S	\$	3,219,621	\$	3,220,503	\$	882	0.0%
9. SC-4L	\$	11,340,628	\$	11,351,190	\$	10,562	0.1%
10. SC-5	\$	384,056	\$	384,167	\$	111	0.0%
11. SC-11/12	\$	151,877,185	\$	151,898,530	\$	21,345	0.0%
12. Litg (PSC 214)	\$	12,371,950	\$	12,260,229	\$	(111,721)	-0.9%
13. TOTAL	\$	1,278,576,416	\$	1,261,417,637	\$	(17,158,779)	-1.3%
14. Non-Market Classes	\$	1,004,449,175	\$	987,229,578	\$	(17,219,597)	-1.7%
15. Market Classes	\$	274,127,241	\$	274,188,059	\$	60,818	0.0%
16. Non-Market Classes	kWh	18,934,726,829		18,934,726,829		-	0.0%
17. Market Classes	kWh	6,009,465,554		6,009,465,554		-	0.0%
18. All Classes	kWh	24,944,192,383		24,944,192,383			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
Rate Class		2003 Base Revenue	2003 Merger Revenue	Difference	Percent Difference
1. SC-1	\$	444,422,117	\$ 460,226,807	\$ 15,804,690	3.6%
2. SC-1B	\$	5,253,264	\$ 5,447,942	\$ 194,678	3.7%
3. SC-1C	\$	24,189,667	\$ 25,085,893	\$ 896,226	3.7%
4. SC-2ND	\$	33,553,151	\$ 34,782,363	\$ 1,229,212	3.7%
5. SC-2D	\$	168,355,060	\$ 171,085,323	\$ 2,730,263	1.6%
6. SC-3	\$	223,191,438	\$ 224,931,194	\$ 1,739,756	0.8%
7. SC-3A	\$	102,446,403	\$ 102,466,797	\$ 20,394	0.0%
8. SC-4S	\$	3,248,659	\$ 3,364,533	\$ 115,874	3.6%
9. SC-4L	\$	10,621,402	\$ 10,627,210	\$ 5,808	0.1%
10. SC-5	\$	359,928	\$ 359,988	\$ 60	0.0%
11. SC-11/12	\$	143,561,452	\$ 143,598,370	\$ 36,918	0.0%
12. Litg (PSC 214)	\$	11,044,786	\$ 11,652,926	\$ 608,140	5.5%
13. TOTAL	\$	1,170,247,327	\$ 1,193,629,346	\$ 23,382,019	2.0%
14. Non-Market Classes	\$	913,618,070	\$ 936,936,969	\$ 23,318,899	2.6%
15. Market Classes	\$	256,629,257	\$ 256,692,377	\$ 63,120	0.0%
16. Non-Market Classes	kWh	19,080,012,845	19,080,012,845	-	0.0%
17. Market Classes	kWh	6,009,465,554	6,009,465,554	-	0.0%
18. All Classes	kWh	25,089,478,399	25,089,478,399		

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17



**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		<u>2004 Base Revenue</u>		<u>2004 Merger Revenue</u>		<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	460,587,374	\$	459,982,949	\$	(604,425)	-0.1%
2. SC-1B	\$	5,439,574	\$	5,430,608	\$	(8,966)	-0.2%
3. SC-1C	\$	25,038,778	\$	24,997,520	\$	(41,258)	-0.2%
4. SC-2ND	\$	34,509,502	\$	34,548,235	\$	38,733	0.1%
5. SC-2D	\$	175,471,592	\$	175,580,403	\$	108,811	0.1%
6. SC-3	\$	233,580,740	\$	233,638,384	\$	57,644	0.0%
7. SC-3A	\$	106,855,733	\$	106,867,331	\$	11,598	0.0%
8. SC-4S	\$	3,360,796	\$	3,351,429	\$	(9,367)	-0.3%
9. SC-4L	\$	11,081,751	\$	11,085,871	\$	4,120	0.0%
10. SC-5	\$	375,408	\$	375,451	\$	43	0.0%
11. SC-11/12	\$	148,580,193	\$	148,594,819	\$	14,626	0.0%
12. Litg (PSC 214)	\$	11,442,411	\$	11,616,855	\$	174,444	1.5%
13. TOTAL	\$	1,216,323,852	\$	1,216,069,855	\$	(253,997)	0.0%
14. Non-Market Classes	\$	949,806,175	\$	949,521,834	\$	(284,341)	0.0%
15. Market Classes	\$	266,517,677	\$	266,548,021	\$	30,344	0.0%
16. Non-Market Classes	kWh	19,199,015,833		19,199,015,833		-	0.0%
17. Market Classes	kWh	6,009,465,554		6,009,465,554		-	0.0%
18. All Classes	kWh	25,208,481,387		25,208,481,387			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
<u>Rate Class</u>		2005 Base Revenue	2005 Merger Revenue	<u>Difference</u>	<u>Percent Difference</u>
1. SC-1	\$	469,150,179	\$ 468,779,552	\$ (370,627)	-0.1%
2. SC-1B	\$	5,515,144	\$ 5,510,952	\$ (4,192)	-0.1%
3. SC-1C	\$	25,397,933	\$ 25,378,627	\$ (19,306)	-0.1%
4. SC-2ND	\$	36,026,806	\$ 36,028,799	\$ 1,993	0.0%
5. SC-2D	\$	179,855,824	\$ 179,866,402	\$ 10,578	0.0%
6. SC-3	\$	239,828,911	\$ 239,843,812	\$ 14,901	0.0%
7. SC-3A	\$	109,026,125	\$ 109,033,149	\$ 7,024	0.0%
8. SC-4S	\$	3,410,100	\$ 3,410,315	\$ 215	0.0%
9. SC-4L	\$	11,011,990	\$ 11,012,775	\$ 785	0.0%
10. SC-5	\$	382,980	\$ 383,005	\$ 25	0.0%
11. SC-11/12	\$	151,785,244	\$ 151,795,270	\$ 10,026	0.0%
12. Litg (PSC 214)	\$	10,663,070	\$ 10,663,753	\$ 683	0.0%
13. TOTAL	\$	1,242,054,306	\$ 1,241,706,411	\$ (347,895)	0.0%
14. Non-Market Classes	\$	970,230,947	\$ 969,865,217	\$ (365,730)	0.0%
15. Market Classes	\$	271,823,359	\$ 271,841,194	\$ 17,835	0.0%
16. Non-Market Classes	kWh	19,289,015,835	19,289,015,835	-	0.0%
17. Market Classes	kWh	6,009,465,554	6,009,465,554	-	0.0%
18. All Classes	kWh	25,298,481,389	25,298,481,389		

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
		2006 Base		2006 Merger			Percent
<u>Rate Class</u>		<u>Revenue</u>		<u>Revenue</u>		<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	483,037,766	\$	482,649,134	\$	(388,632)	-0.1%
2. SC-1B	\$	5,686,173	\$	5,681,766	\$	(4,407)	-0.1%
3. SC-1C	\$	26,185,988	\$	26,165,704	\$	(20,284)	-0.1%
4. SC-2ND	\$	37,304,518	\$	37,306,562	\$	2,044	0.0%
5. SC-2D	\$	183,957,117	\$	183,967,814	\$	10,697	0.0%
6. SC-3	\$	250,097,606	\$	250,112,977	\$	15,371	0.0%
7. SC-3A	\$	112,655,370	\$	112,662,554	\$	7,184	0.0%
8. SC-4S	\$	3,507,758	\$	3,507,982	\$	224	0.0%
9. SC-4L	\$	11,378,564	\$	11,379,364	\$	800	0.0%
10. SC-5	\$	395,676	\$	395,703	\$	27	0.0%
11. SC-11/12	\$	161,483,292	\$	161,493,839	\$	10,547	0.0%
12. Litg (PSC 214)	\$	9,671,261	\$	9,671,958	\$	697	0.0%
13. TOTAL	\$	1,285,361,089	\$	1,284,995,357	\$	(365,732)	0.0%
14. Non-Market Classes	\$	999,843,863	\$	999,459,600	\$	(384,263)	0.0%
15. Market Classes	\$	285,517,226	\$	285,535,757	\$	18,531	0.0%
16. Non-Market Classes	kWh	19,302,015,842		19,302,015,842		-	0.0%
17. Market Classes	kWh	6,109,461,563		6,109,461,563		-	0.0%
18. All Classes	kWh	25,411,477,405		25,411,477,405			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

# Niagara Mohawk Power Corporation Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)

(A)		(B)		(C)		(D)	(E)
Rate Class		2007 Base Revenue		2007 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	489,314,100	\$	488,927,219	\$	(386,881)	-0.1%
2. SC-1B	\$	6,130,114	\$	6,125,741	\$	(4,373)	-0.1%
3. SC-1C	\$	28,259,492	\$	28,239,342	\$	(20,150)	-0.1%
4. SC-2ND	\$	36,239,083	\$	36,241,189	\$	2,106	0.0%
5. SC-2D	\$	185,304,946	\$	185,315,957	\$	11,011	0.0%
6. SC-3	\$	254,691,917	\$	254,707,739	\$	15,822	0.0%
7. SC-3A	\$	114,032,019	\$	114,039,369	\$	7,350	0.0%
8. SC-4S	\$	3,827,424	\$	3,827,657	\$	233	0.0%
9. SC-4L	\$	11,518,285	\$	11,519,106	\$	821	0.0%
10. SC-5	\$	400,536	\$	400,567	\$	31	0.0%
11. SC-11/12	\$	163,456,550	\$	163,467,345	\$	10,795	0.0%
12. Litg (PSC 214)	\$	10,651,625	\$	10,652,336	\$	711	0.0%
13. TOTAL	\$	1,303,826,091	\$	1,303,463,567	\$	(362,524)	0.0%
14. Non-Market Classes	\$	1,014,819,237	\$	1,014,437,747	\$	(381,490)	0.0%
15. Market Classes	\$	289,006,854	\$	289,025,820	\$	18,966	0.0%
16. Non-Market Classes	kWh	19,375,023,843		19,375,023,843		-	0.0%
17. Market Classes	kWh	6,109,461,563		6,109,461,563		-	0.0%
18. All Classes	kWh	25,484,485,406		25,484,485,406			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
Rate Class		2008 Base Revenue		2008 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	502,208,264	\$	501,803,043	\$	(405,221)	-0.1%
2. SC-1B	\$	6,913,453	\$	6,908,893	\$	(4,560)	-0.1%
3. SC-1C	\$	31,947,279	\$	31,926,280	\$	(20,999)	-0.1%
4. SC-2ND	\$	37,626,148	\$	37,628,326	\$	2,178	0.0%
5. SC-2D	\$	192,572,761	\$	192,584,173	\$	11,412	0.0%
6. SC-3	\$	264,745,324	\$	264,761,724	\$	16,400	0.0%
7. SC-3A	\$	117,703,436	\$	117,710,997	\$	7,561	0.0%
8. SC-4S	\$	3,462,789	\$	3,463,025	\$	236	0.0%
9. SC-4L	\$	11,888,692	\$	11,889,530	\$	838	0.0%
10. SC-5	\$	413,460	\$	413,482	\$	22	0.0%
11. SC-11/12	\$	168,721,248	\$	168,732,357	\$	11,109	0.0%
12. Litg (PSC 214)	\$	12,410,110	\$	12,410,838	\$	728	0.0%
13. TOTAL	\$	1,350,612,964	\$	1,350,232,668	\$	(380,296)	0.0%
14. Non-Market Classes	\$	1,052,299,588	\$	1,051,899,784	\$	(399,804)	0.0%
15. Market Classes	\$	298,313,376	\$	298,332,884	\$	19,508	0.0%
16. Non-Market Classes	kWh	19,487,019,840		19,487,019,840		-	0.0%
17. Market Classes	kWh	6,109,461,563		6,109,461,563		-	0.0%
18. All Classes	kWh	25,596,481,403		25,596,481,403			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)	(C)	(D)	(E)
		2009 Base	2009 Merger		Percent
<u>Rate Class</u>		<u>Revenue</u>	<u>Revenue</u>	<u>Difference</u>	<u>Difference</u>
1. SC-1	\$	499,744,864	\$ 499,294,922	\$ (449,942)	-0.1%
2. SC-1B	\$	5,822,200	\$ 5,817,128	\$ (5,072)	-0.1%
3. SC-1C	\$	26,804,255	\$ 26,780,897	\$ (23,358)	-0.1%
4. SC-2ND	\$	39,028,008	\$ 39,028,009	\$ 1	0.0%
5. SC-2D	\$	199,919,416	\$ 199,919,414	\$ (2)	0.0%
6. SC-3	\$	275,003,856	\$ 275,003,855	\$ (1)	0.0%
7. SC-3A	\$	121,208,765	\$ 121,208,765	\$ -	0.0%
8. SC-4S	\$	3,565,768	\$ 3,565,773	\$ 5	0.0%
9. SC-4L	\$	12,243,669	\$ 12,243,670	\$ 1	0.0%
10. SC-5	\$	425,760	\$ 425,757	\$ (3)	0.0%
11. SC-11/12	\$	173,748,304	\$ 173,748,303	\$ (1)	0.0%
12. Litg (PSC 214)	\$	9,606,262	\$ 9,606,261	\$ (1)	0.0%
13. TOTAL	\$	1,367,121,127	\$ 1,366,642,754	\$ (478,373)	0.0%
14. Non-Market Classes	\$	1,059,920,389	\$ 1,059,442,016	\$ (478,373)	0.0%
15. Market Classes	\$	307,200,738	\$ 307,200,738	\$ -	0.0%
16. Non-Market Classes	kWh	19,571,031,831	19,571,031,831	-	0.0%
17. Market Classes	kWh	6,109,461,563	6,109,461,563	-	0.0%
18. All Classes	kWh	25,680,493,394	25,680,493,394		

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
Rate Class		2010 Base Revenue		2010 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	520,722,862	\$	520,243,208	\$	(479,654)	-0.1%
2. SC-1B	\$	6,048,863	\$	6,043,469	\$	(5,394)	-0.1%
3. SC-1C	\$	27,847,755	\$	27,822,927	\$	(24,828)	-0.1%
4. SC-2ND	\$	40,887,484	\$	40,887,484	\$	-	0.0%
5. SC-2D	\$	209,639,968	\$	209,639,971	\$	3	0.0%
6. SC-3	\$	288,510,527	\$	288,510,524	\$	(3)	0.0%
7. SC-3A	\$	125,905,444	\$	125,905,441	\$	(3)	0.0%
8. SC-4S	\$	3,703,180	\$	3,703,184	\$	4	0.0%
9. SC-4L	\$	12,714,712	\$	12,714,712	\$	-	0.0%
10. SC-5	\$	442,152	\$	442,148	\$	(4)	0.0%
11. SC-11/12	\$	180,470,649	\$	180,470,651	\$	2	0.0%
12. Litg (PSC 214)	\$	9,608,566	\$	9,608,565	\$	(1)	0.0%
13. TOTAL	\$	1,426,502,162	\$	1,425,992,284	\$	(509,878)	0.0%
14. Non-Market Classes	\$	1,107,411,357	\$	1,106,901,480	\$	(509,877)	0.0%
15. Market Classes	\$	319,090,805	\$	319,090,804	\$	(1)	0.0%
16. Non-Market Classes	kWh	19,688,019,851		19,688,019,851		-	0.0%
17. Market Classes	kWh	6,109,461,563		6,109,461,563		-	0.0%
18. All Classes	kWh	25,797,481,414		25,797,481,414			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17

**Niagara Mohawk Power Corporation**  
**Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)**

(A)		(B)		(C)		(D)	(E)
<u>Rate Class</u>		2011 Base Revenue		2011 Merger Revenue		Difference	Percent Difference
1. SC-1	\$	541,770,881	\$	541,285,304	\$	(485,577)	-0.1%
2. SC-1B	\$	6,195,244	\$	6,189,865	\$	(5,379)	-0.1%
3. SC-1C	\$	28,521,673	\$	28,496,914	\$	(24,759)	-0.1%
4. SC-2ND	\$	42,166,056	\$	42,166,058	\$	2	0.0%
5. SC-2D	\$	216,384,394	\$	216,384,394	\$	-	0.0%
6. SC-3	\$	297,972,033	\$	297,972,028	\$	(5)	0.0%
7. SC-3A	\$	128,964,668	\$	128,964,672	\$	4	0.0%
8. SC-4S	\$	3,794,036	\$	3,794,037	\$	1	0.0%
9. SC-4L	\$	13,024,593	\$	13,024,594	\$	1	0.0%
10. SC-5	\$	452,988	\$	452,987	\$	(1)	0.0%
11. SC-11/12	\$	184,850,323	\$	184,850,318	\$	(5)	0.0%
12. Litg (PSC 214)	\$	9,654,671	\$	9,654,669	\$	(2)	0.0%
13. TOTAL	\$	1,473,751,560	\$	1,473,235,840	\$	(515,720)	0.0%
14. Non-Market Classes	\$	1,146,911,976	\$	1,146,396,256	\$	(515,720)	0.0%
15. Market Classes	\$	326,839,584	\$	326,839,584	\$	-	0.0%
16. Non-Market Classes	kWh	19,911,015,836		19,911,015,836		-	0.0%
17. Market Classes	kWh	6,109,461,563		6,109,461,563		-	0.0%
18. All Classes	kWh	26,020,477,399		26,020,477,399			

Col B: Base Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC, and Incremental Revenue

Col C: Merger Revenues from Rate Plan Filing Financial Forecast, Gross Margin, Sum of Delivery, SBC and NYPA Hydropower Benefit (if applicable)

Ln 14: Lns. 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns. 7 + 9 + 11

Ln 16: Sum of Annual kWh Sales to SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-4S, SC-5, and Litg

Ln 17: Sum of Annual kWh Sales to SC-3A, SC-4L, and SC-11/12

Ln 18: Lns. 16 + 17



Comparison of Current, Base, and Merger Cases  
Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue/kWh	(C) 2002 Base Revenue/kWh	(D) 2002 Merger Revenue/kWh	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 0.0859	\$ 0.0811	\$ 0.0748	\$(0.0048)	\$(0.0111)	\$(0.0063)	-5.6%	-12.9%	-7.8%
2. SC-1B	\$ 0.0551	\$ 0.0498	\$ 0.0490	\$(0.0053)	\$(0.0061)	\$(0.0008)	-9.6%	-11.0%	-1.6%
3. SC-1C	\$ 0.0616	\$ 0.0564	\$ 0.0531	\$(0.0052)	\$(0.0085)	\$(0.0033)	-8.4%	-13.8%	-5.9%
4. SC-2ND	\$ 0.1189	\$ 0.1121	\$ 0.1073	\$(0.0068)	\$(0.0116)	\$(0.0048)	-5.7%	-9.7%	-4.3%
5. SC-2D	\$ 0.0791	\$ 0.0724	\$ 0.0697	\$(0.0067)	\$(0.0095)	\$(0.0027)	-8.5%	-12.0%	-3.8%
6. SC-3	\$ 0.0726	\$ 0.0663	\$ 0.0621	\$(0.0063)	\$(0.0105)	\$(0.0042)	-8.6%	-14.5%	-6.4%
7. SC-3A	\$ 0.0336	\$ 0.0290	\$ 0.0251	\$(0.0046)	\$(0.0085)	\$(0.0039)	-13.8%	-25.4%	-13.4%
8. SC-4S	\$ 0.0642	\$ 0.0575	\$ 0.0541	\$(0.0067)	\$(0.0101)	\$(0.0034)	-10.5%	-15.7%	-5.9%
9. SC-4L	\$ 0.0330	\$ 0.0284	\$ 0.0254	\$(0.0046)	\$(0.0076)	\$(0.0030)	-14.0%	-23.1%	-10.6%
10. SC-5	\$ 0.0730	\$ 0.0674	\$ 0.0624	\$(0.0056)	\$(0.0105)	\$(0.0050)	-7.7%	-14.4%	-7.4%
11. SC-11/12	\$ 0.0354	\$ 0.0305	\$ 0.0263	\$(0.0049)	\$(0.0091)	\$(0.0042)	-13.8%	-25.7%	-13.9%
12. Litg (PSC 214)	\$ 0.2049	\$ 0.2004	\$ 0.2055	\$(0.0045)	\$ 0.0006	\$ 0.0051	-2.2%	0.3%	2.5%
13. TOTAL	\$ 0.0697	\$ 0.0643	\$ 0.0597	\$(0.0054)	\$(0.0100)	\$(0.0045)	-7.8%	-14.3%	-7.1%
14. Non-Market Classes	\$ 0.0822	\$ 0.0765	\$ 0.0718	\$(0.0057)	\$(0.0104)	\$(0.0047)	-6.9%	-12.7%	-6.2%
15. Market Classes	\$ 0.0344	\$ 0.0296	\$ 0.0256	\$(0.0047)	\$(0.0087)	\$(0.0040)	-13.8%	-25.5%	-13.5%

Col B: Pg 2, Col B / Pg 7 Col B  
Col C: Pg 2, Col C / Pg 7 Col C  
Col D: Pg 2, Col D / Pg 7 Col D  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Comparison of Current, Base, and Merger Cases  
Summary of Delivery Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue	(C) 2002 Base Revenue	(D) 2002 Merger Revenue	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 798,784,971	\$ 755,540,656	\$ 696,774,399	\$ (43,244,315)	\$ (102,010,572)	\$ (58,766,257)	-5.4%	-12.8%	-7.8%
2. SC-1B	\$ 5,864,737	\$ 5,312,056	\$ 5,229,444	\$ (552,681)	\$ (635,293)	\$ (82,612)	-9.4%	-10.8%	-1.6%
3. SC-1C	\$ 30,213,717	\$ 27,717,198	\$ 26,082,939	\$ (2,496,519)	\$ (4,130,778)	\$ (1,634,259)	-8.3%	-13.7%	-5.9%
4. SC-2ND	\$ 82,454,849	\$ 78,491,881	\$ 75,141,114	\$ (3,962,968)	\$ (7,313,735)	\$ (3,350,767)	-4.8%	-8.9%	-4.3%
5. SC-2D	\$ 326,258,413	\$ 302,901,022	\$ 291,400,717	\$ (23,357,391)	\$ (34,857,696)	\$ (11,500,305)	-7.2%	-10.7%	-3.8%
6. SC-3	\$ 457,929,401	\$ 419,881,576	\$ 393,128,904	\$ (38,047,825)	\$ (64,800,497)	\$ (26,752,672)	-8.3%	-14.2%	-6.4%
7. SC-3A	\$ 131,528,283	\$ 114,173,212	\$ 98,844,521	\$ (17,355,071)	\$ (32,683,762)	\$ (15,328,691)	-13.2%	-24.8%	-13.4%
8. SC-4S	\$ 4,800,356	\$ 4,231,282	\$ 3,981,740	\$ (569,074)	\$ (818,616)	\$ (249,542)	-11.9%	-17.1%	-5.9%
9. SC-4L	\$ 8,824,236	\$ 7,473,173	\$ 6,682,003	\$ (1,351,063)	\$ (2,142,233)	\$ (791,170)	-15.3%	-24.3%	-10.6%
10. SC-5	\$ 639,150	\$ 590,243	\$ 546,802	\$ (48,907)	\$ (92,348)	\$ (43,441)	-7.7%	-14.4%	-7.4%
11. SC-11/12	\$ 119,484,450	\$ 103,055,025	\$ 88,776,426	\$ (16,429,425)	\$ (30,708,024)	\$ (14,278,599)	-13.8%	-25.7%	-13.9%
12. Litg (PSC 214)	\$ 46,970,307	\$ 45,927,546	\$ 47,096,589	\$ (1,042,761)	\$ 126,282	\$ 1,169,043	-2.2%	0.3%	2.5%
13. TOTAL	\$ 2,013,752,870	\$ 1,865,294,870	\$ 1,733,685,598	\$ (148,458,000)	\$ (280,067,272)	\$ (131,609,272)	-7.4%	-13.9%	-7.1%
14. Non-Market Classes	\$ 1,753,915,901	\$ 1,640,593,460	\$ 1,539,382,648	\$ (113,322,441)	\$ (214,533,253)	\$ (101,210,812)	-6.5%	-12.2%	-6.2%
15. Market Classes	\$ 259,836,969	\$ 224,701,410	\$ 194,302,950	\$ (35,135,559)	\$ (65,534,019)	\$ (30,398,460)	-13.5%	-25.2%	-13.5%

Col B: Forecasted Calendar Year 2001 Delivery Revenues at Power Choice Year 3 Rates  
Col C: Attachment 6C, Pg 2, Col B  
Col D: Attachment 6C, Pg 2, Col C  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Ln 14: Lns 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12  
Ln 15: Lns 7 + 9 + 11

Comparison of Current, Base, and Merger Cases  
Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue/kWh	(C) 2002 Base Revenue/kWh	(D) 2002 Merger Revenue/kWh	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 0.0348	\$ 0.0546	\$ 0.0532	\$ 0.0198	\$ 0.0184	\$ (0.0013)	56.8%	53.0%	-2.4%
2. SC-1B	\$ 0.0347	\$ 0.0552	\$ 0.0539	\$ 0.0205	\$ 0.0191	\$ (0.0014)	58.9%	55.0%	-2.5%
3. SC-1C	\$ 0.0347	\$ 0.0552	\$ 0.0538	\$ 0.0204	\$ 0.0191	\$ (0.0014)	58.8%	54.9%	-2.5%
4. SC-2ND	\$ 0.0342	\$ 0.0562	\$ 0.0551	\$ 0.0220	\$ 0.0209	\$ (0.0011)	64.4%	61.1%	-2.0%
5. SC-2D	\$ 0.0342	\$ 0.0534	\$ 0.0526	\$ 0.0192	\$ 0.0184	\$ (0.0007)	56.1%	54.0%	-1.3%
6. SC-3	\$ 0.0328	\$ 0.0495	\$ 0.0492	\$ 0.0167	\$ 0.0165	\$ (0.0002)	51.0%	50.2%	-0.5%
7. SC-3A	\$ 0.0505	\$ 0.0468	\$ 0.0468	\$ (0.0037)	\$ (0.0036)	\$ 0.0000	-7.2%	-7.2%	0.0%
8. SC-4S	\$ 0.0293	\$ 0.0437	\$ 0.0437	\$ 0.0144	\$ 0.0144	\$ 0.0000	49.1%	49.1%	0.0%
9. SC-4L	\$ 0.0444	\$ 0.0431	\$ 0.0431	\$ (0.0013)	\$ (0.0013)	\$ 0.0000	-3.0%	-2.9%	0.1%
10. SC-5	\$ 0.0466	\$ 0.0438	\$ 0.0439	\$ (0.0027)	\$ (0.0027)	\$ 0.0000	-5.9%	-5.9%	0.0%
11. SC-11/12	\$ 0.0480	\$ 0.0450	\$ 0.0450	\$ (0.0030)	\$ (0.0030)	\$ 0.0000	-6.3%	-6.3%	0.0%
12. Litg (PSC 214)	\$ 0.0333	\$ 0.0540	\$ 0.0535	\$ 0.0207	\$ 0.0202	\$ (0.0005)	62.1%	60.7%	-0.9%
13. TOTAL	\$ 0.0376	\$ 0.0513	\$ 0.0506	\$ 0.0136	\$ 0.0129	\$ (0.0007)	36.1%	34.3%	-1.3%
14. Non-Market Classes	\$ 0.0341	\$ 0.0530	\$ 0.0521	\$ 0.0189	\$ 0.0180	\$ (0.0009)	55.5%	52.9%	-1.7%
15. Market Classes	\$ 0.0488	\$ 0.0456	\$ 0.0456	\$ (0.0032)	\$ (0.0032)	\$ 0.0000	-6.5%	-6.5%	0.0%

Col B: Pg 4, Col B / Pg 7 Col E  
Col C: Pg 4, Col C / Pg 7 Col F  
Col D: Pg 4, Col D / Pg 7 Col G  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Comparison of Current, Base, and Merger Cases  
Summary of Commodity Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue	(C) 2002 Base Revenue	(D) 2002 Merger Revenue	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 313,271,682	\$ 492,179,815	\$ 480,300,120	\$ 178,908,133	\$ 167,028,438	\$ (11,879,695)	57.1%	53.3%	-2.4%
2. SC-1B	\$ 3,699,859	\$ 5,893,104	\$ 5,748,256	\$ 2,193,245	\$ 2,048,397	\$ (144,848)	59.3%	55.4%	-2.5%
3. SC-1C	\$ 17,033,869	\$ 27,106,092	\$ 26,439,482	\$ 10,072,223	\$ 9,405,613	\$ (666,610)	59.1%	55.2%	-2.5%
4. SC-2ND	\$ 22,168,738	\$ 36,819,389	\$ 36,073,705	\$ 14,650,651	\$ 13,904,967	\$ (745,684)	66.1%	62.7%	-2.0%
5. SC-2D	\$ 116,600,006	\$ 185,165,064	\$ 182,671,700	\$ 68,565,058	\$ 66,071,694	\$ (2,493,364)	58.8%	56.7%	-1.3%
6. SC-3	\$ 159,110,656	\$ 241,310,084	\$ 240,131,416	\$ 82,199,428	\$ 81,020,760	\$ (1,178,668)	51.7%	50.9%	-0.5%
7. SC-3A	\$ 118,175,851	\$ 110,909,428	\$ 110,938,339	\$ (7,266,423)	\$ (7,237,512)	\$ 28,911	-6.1%	-6.1%	0.0%
8. SC-4S	\$ 2,193,813	\$ 3,219,621	\$ 3,220,503	\$ 1,025,808	\$ 1,026,690	\$ 882	46.8%	46.8%	0.0%
9. SC-4L	\$ 11,871,368	\$ 11,340,628	\$ 11,351,190	\$ (530,740)	\$ (520,178)	\$ 10,562	-4.5%	-4.4%	0.1%
10. SC-5	\$ 408,096	\$ 384,056	\$ 384,167	\$ (24,040)	\$ (23,929)	\$ 111	-5.9%	-5.9%	0.0%
11. SC-11/12	\$ 162,076,012	\$ 151,877,185	\$ 151,898,530	\$ (10,198,827)	\$ (10,177,482)	\$ 21,345	-6.3%	-6.3%	0.0%
12. Litg (PSC 214)	\$ 7,631,319	\$ 12,371,950	\$ 12,260,229	\$ 4,740,631	\$ 4,628,910	\$ (111,721)	62.1%	60.7%	-0.9%
13. TOTAL	\$ 934,241,269	\$ 1,278,576,416	\$ 1,261,417,637	\$ 344,335,147	\$ 327,176,368	\$ (17,158,779)	36.9%	35.0%	-1.3%
14. Non-Market Classes	\$ 642,118,038	\$ 1,004,449,175	\$ 987,229,578	\$ 362,331,137	\$ 345,111,540	\$ (17,219,597)	56.4%	53.7%	-1.7%
15. Market Classes	\$ 292,123,231	\$ 274,127,241	\$ 274,188,059	\$ (17,995,990)	\$ (17,935,172)	\$ 60,818	-6.2%	-6.1%	0.0%

Col B: Forecasted Calendar Year 2001 Commodity Revenues at Power Choice Yr 3 Rates  
Col C: Attachment 6D, Pg 2, Col B  
Col D: Attachment 6D, Pg 2, Col C  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Ln 14: Lns 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12  
Ln 15: Lns 7 + 9 + 11

Comparison of Current, Base, and Merger Cases  
Summary of Total Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue/kWh	(C) 2002 Base Revenue/kWh	(D) 2002 Merger Revenue/kWh	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 0.1207	\$ 0.1357	\$ 0.1281	\$ 0.0150	\$ 0.0073	\$ (0.0076)	12.4%	6.1%	-5.6%
2. SC-1B	\$ 0.0898	\$ 0.1050	\$ 0.1029	\$ 0.0152	\$ 0.0130	\$ (0.0021)	16.9%	14.5%	-2.0%
3. SC-1C	\$ 0.0964	\$ 0.1116	\$ 0.1069	\$ 0.0152	\$ 0.0106	\$ (0.0047)	15.8%	11.0%	-4.2%
4. SC-2ND	\$ 0.1531	\$ 0.1683	\$ 0.1624	\$ 0.0152	\$ 0.0093	\$ (0.0059)	10.0%	6.1%	-3.5%
5. SC-2D	\$ 0.1133	\$ 0.1258	\$ 0.1223	\$ 0.0125	\$ 0.0090	\$ (0.0035)	11.0%	7.9%	-2.8%
6. SC-3	\$ 0.1053	\$ 0.1158	\$ 0.1113	\$ 0.0104	\$ 0.0060	\$ (0.0045)	9.9%	5.7%	-3.9%
7. SC-3A	\$ 0.0841	\$ 0.0758	\$ 0.0719	\$ (0.0083)	\$ (0.0122)	\$ (0.0039)	-9.9%	-14.5%	-5.1%
8. SC-4S	\$ 0.0935	\$ 0.1012	\$ 0.0978	\$ 0.0077	\$ 0.0043	\$ (0.0034)	8.2%	4.6%	-3.3%
9. SC-4L	\$ 0.0774	\$ 0.0715	\$ 0.0685	\$ (0.0059)	\$ (0.0089)	\$ (0.0030)	-7.6%	-11.5%	-4.1%
10. SC-5	\$ 0.1195	\$ 0.1112	\$ 0.1063	\$ (0.0083)	\$ (0.0133)	\$ (0.0049)	-7.0%	-11.1%	-4.4%
11. SC-11/12	\$ 0.0834	\$ 0.0755	\$ 0.0713	\$ (0.0079)	\$ (0.0121)	\$ (0.0042)	-9.5%	-14.5%	-5.6%
12. Litg (PSC 214)	\$ 0.2382	\$ 0.2544	\$ 0.2590	\$ 0.0161	\$ 0.0207	\$ 0.0046	6.8%	8.7%	1.8%
13. TOTAL	\$ 0.1074	\$ 0.1155	\$ 0.1103	\$ 0.0082	\$ 0.0030	\$ (0.0052)	7.6%	2.8%	-4.5%
14. Non-Market Classes	\$ 0.1163	\$ 0.1296	\$ 0.1239	\$ 0.0132	\$ 0.0076	\$ (0.0056)	11.4%	6.5%	-4.3%
15. Market Classes	\$ 0.0832	\$ 0.0753	\$ 0.0713	\$ (0.0079)	\$ (0.0119)	\$ (0.0040)	-9.5%	-14.3%	-5.3%

Col B: Pg 1, Col B + Pg 3 Col B  
Col C: Pg 1, Col C + Pg 3 Col C  
Col D: Pg 1, Col D + Pg 3 Col D  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Comparison of Current, Base, and Merger Cases  
Summary of Total Revenue Changes by Rate Class (incl. Taxes)

(A) Rate Class	(B) Power Choice Yr 3 Revenue	(C) 2002 Base Revenue	(D) 2002 Merger Revenue	(E) PCY3 to Base Difference	(F) PCY3 to Merger Difference	(G) Base to Merger Difference	(H) PCY3 to Base Pct. Diff.	(I) PCY3 to Merger Pct. Diff.	(J) Base to Merger Pct. Diff.
1. SC-1	\$ 1,112,056,653	\$ 1,247,720,471	\$ 1,177,074,519	\$ 135,663,818	\$ 65,017,866	\$ (70,645,952)	12.2%	5.8%	-5.7%
2. SC-1B	\$ 9,564,596	\$ 11,205,160	\$ 10,977,700	\$ 1,640,564	\$ 1,413,104	\$ (227,460)	17.2%	14.8%	-2.0%
3. SC-1C	\$ 47,247,586	\$ 54,823,290	\$ 52,522,421	\$ 7,575,704	\$ 5,274,835	\$ (2,300,869)	16.0%	11.2%	-4.2%
4. SC-2ND	\$ 104,623,587	\$ 115,311,270	\$ 111,214,819	\$ 10,687,683	\$ 6,591,232	\$ (4,096,451)	10.2%	6.3%	-3.6%
5. SC-2D	\$ 442,858,419	\$ 488,066,086	\$ 474,072,417	\$ 45,207,667	\$ 31,213,998	\$ (13,993,669)	10.2%	7.0%	-2.9%
6. SC-3	\$ 617,040,057	\$ 661,191,660	\$ 633,260,320	\$ 44,151,603	\$ 16,220,263	\$ (27,931,340)	7.2%	2.6%	-4.2%
7. SC-3A	\$ 249,704,134	\$ 225,082,640	\$ 209,782,860	\$ (24,621,494)	\$ (39,921,274)	\$ (15,299,780)	-9.9%	-16.0%	-6.8%
8. SC-4S	\$ 6,994,169	\$ 7,450,903	\$ 7,202,243	\$ 456,734	\$ 208,074	\$ (248,660)	6.5%	3.0%	-3.3%
9. SC-4L	\$ 20,695,604	\$ 18,813,801	\$ 18,033,193	\$ (1,881,803)	\$ (2,662,411)	\$ (780,608)	-9.1%	-12.9%	-4.1%
10. SC-5	\$ 1,047,246	\$ 974,299	\$ 930,969	\$ (72,947)	\$ (116,277)	\$ (43,330)	-7.0%	-11.1%	-4.4%
11. SC-11/12	\$ 281,560,462	\$ 254,932,210	\$ 240,674,956	\$ (26,628,252)	\$ (40,885,506)	\$ (14,257,254)	-9.5%	-14.5%	-5.6%
12. Litg (PSC 214)	\$ 54,601,626	\$ 58,299,496	\$ 59,356,818	\$ 3,697,870	\$ 4,755,192	\$ 1,057,322	6.8%	8.7%	1.8%
13. TOTAL	\$ 2,947,994,139	\$ 3,143,871,286	\$ 2,995,103,235	\$ 195,877,147	\$ 47,109,096	\$ (148,768,051)	6.6%	1.6%	-4.7%
14. Non-Market Classes	\$ 2,396,033,939	\$ 2,645,042,635	\$ 2,526,612,226	\$ 249,008,696	\$ 130,578,287	\$ (118,430,409)	10.4%	5.4%	-4.5%
15. Market Classes	\$ 551,960,200	\$ 498,828,651	\$ 468,491,009	\$ (53,131,549)	\$ (83,469,191)	\$ (30,337,642)	-9.6%	-15.1%	-6.1%

Col B: Pg 2, Col B + Pg 4, Col B  
Col C: Pg 2, Col C + Pg 4, Col C  
Col D: Pg 2, Col D + Pg 4, Col D  
Col E: Col C - Col B  
Col F: Col D - Col B  
Col G: Col D - Col C  
Col H: Col E / Col B  
Col I: Col F / Col B  
Col J: Col G / Col C

Ln 14: Lns 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns 7 + 9 + 11

### Comparison of Current, Base, and Merger Cases kWh Sales

(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Power Choice Yr 3	2002 Base	2002 Merger	Power Choice Yr 3	2002 Base	2002 Merger
<u>Rate Class</u>	<u>Delivery Sales</u>	<u>Delivery Sales</u>	<u>Delivery Sales</u>	<u>Commodity Sales</u>	<u>Commodity Sales</u>	<u>Commodity Sales</u>
1. SC-1	9,294,221,000	9,311,908,001	9,311,908,001	9,002,680,906	9,020,367,907	9,020,367,907
2. SC-1B	106,486,324	106,727,120	106,727,120	106,486,324	106,727,120	106,727,120
3. SC-1C	490,254,674	491,161,881	491,161,881	490,254,674	491,161,881	491,161,881
4. SC-2ND	693,397,001	699,965,000	699,965,000	648,648,641	655,216,640	655,216,640
5. SC-2D	4,122,646,000	4,182,341,998	4,182,341,998	3,410,928,900	3,470,624,898	3,470,624,898
6. SC-3	6,310,343,007	6,332,871,991	6,332,871,991	4,856,506,073	4,879,035,057	4,879,035,057
7. SC-3A	3,914,082,002	3,941,708,004	3,941,708,004	2,341,135,714	2,368,761,716	2,368,761,716
8. SC-4S	74,819,502	73,648,160	73,648,160	74,819,502	73,648,160	73,648,160
9. SC-4L	267,295,495	263,113,844	263,113,844	267,295,495	263,113,844	263,113,844
10. SC-5	8,760,000	8,760,000	8,760,000	8,760,000	8,760,000	8,760,000
11. SC-11/12	3,377,589,994	3,377,589,994	3,377,589,994	3,377,589,994	3,377,589,994	3,377,589,994
12. Litg (PSC 214)	229,185,166	229,185,166	229,185,166	229,185,166	229,185,166	229,185,166
13. TOTAL	28,889,080,165	29,018,981,159	29,018,981,159	24,814,291,389	24,944,192,383	24,944,192,383
14. Non-Market Classes	21,330,112,674	21,436,569,317	21,436,569,317	18,828,270,186	18,934,726,829	18,934,726,829
15. Market Classes	7,558,967,491	7,582,411,842	7,582,411,842	5,986,021,203	6,009,465,554	6,009,465,554

Col B: Forecasted Calendar Year 2001 Delivery kWh

Col C: Forecasted Calendar Year 2002 Delivery kWh

Col D: Col C

Col E: Forecasted Calendar Year 2001 Delivery kWh less Retail Access kWh

Col F: Forecasted Calendar Year 2002 Delivery kWh less Retail Access kWh

Col G: Col F

Ln 14: Lns 1 + 2 + 3 + 4 + 5 + 6 + 8 + 10 + 12

Ln 15: Lns 7 + 9 + 11





**Expected Proceeds from the Sale of  
Niagara Mohawk's Nuclear Assets  
(Thousand Dollars)**

**Proceeds from Constellation Nuclear**

Nine Mile 1	\$ 234.5
Nine Mile 2	<u>290.5</u>
Subtotal	<u>\$ 525.0</u>

**Proceeds from Nine Mile 2 Co-tenants**

For the co-tenants 59% share of M&S inventory	<u>23.8</u>
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<b>Total Proceeds</b>	<b><u><u>\$ 548.8</u></u></b>
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Fifty percent of the \$525 million of proceeds from Constellation nuclear will be received at closing.

The remaining fifty percent (\$262.5 million) will be received over five years with 11% interest (\$86 million).

These proceeds exclude any purchase price adjustments that may occur at closing.



### Transmission Revenue Adjustment Charge

Niagara Mohawk shall implement the following Transmission Revenue Adjustment Charge to the Base Electricity Delivery Rates and the Guideline Transmission and Distribution Charges. The Transmission Revenue Adjustment Charge shall be an annual reconciliation for such transmission charges under PSC 207 and PSC 214. A Base Transmission Revenue Credit of \$123,475,046 per year (as calculated in Attachment 8 Exhibit 1, below) is associated with wholesale transmission revenues on Niagara Mohawk's transmission system and is reflected in Niagara Mohawk's Base Electricity Delivery Rates. The Base Electricity Rates shall be adjusted either up or down to reflect the changes from the \$123,475,046 in accordance with the Provisions of Rule 29 as amended below. Rule 29 of the Company's PSC 207 Retail Tariff shall be amended to incorporate the following:

29. Transmission Revenue Adjustment Charge to the Base Electricity Delivery Rates and the Guideline Transmission and Distribution Charges
- (i) This rule is applicable to delivery charges to PSC 207 service classifications SC-1, SC-1B, SC-1C, SC-2ND, SC-2D, SC-3, SC-3A, SC-4, SC-5, and all PSC 214 service classification, and not applicable to PSC 207 service classifications SC-11, SC-12, NYPA Replacement Power, NYPA Expansion Power, Economic Development Power, and Power for Jobs.
  - (ii) Prior to each rate year Niagara Mohawk shall project a Forecast Transmission Revenue Credit equal to the sum of estimated (i) transmission rents inclusive of amortized Sales Revenues ("SR"); (ii) Excess Congestion Rents ("ECR"); (iii) Congestion Rent Revenues ("CRR"), excluding rents from Transmission Congestion Contracts ("TCC") bought at auctions; and (iv) Wheeling Revenues ("WR") with all terms as defined in Section 2.1 of Attachment H of the New York ISO Open Access Transmission Tariff. The difference between the Base Transmission Revenue Credit of \$123,475,046 and the Forecast Transmission Revenue Credit for the given year together with a reconciliation between the Forecast Transmission Revenue Credit and the Actual Transmission Revenue from the prior year, together with interest at the customer deposit rate, whether positive or negative ("Annual Difference"), shall be recovered through a Transmission Revenue Adjustment Charge that will be applied volumetrically to customer bills. The Annual Difference for the year will be divided by the forecast electricity deliveries under the rates listed in paragraph (i) above excluding deliveries to SC-11 and SC-12 customers for the applicable year to determine the per kilowatthour adjustment to Base Electricity Delivery Rates (positive or negative) for that applicable year. A statement shall be provided illustrating such Transmission Revenue Adjustment Charge per kilowatthours equal to all applicable customers, 30 days prior to the applicable year.

## Transmission Revenue Adjustment Charge

### Exhibit 1

#### Calculation of Base Transmission Revenue Credit<sup>1</sup> (to be included in Base Electricity Delivery Rates)

NYPA - Munis - OS - OATT	\$ 705,900
NYPA - Munis - OS - TSA	2,693,280
NYPA - Festival Of Lights	8,888
NYPA - Munis - IS - OATT	2,633,721
NYPA - Munis - IS - TSA	4,052,269
NYPA - Jamestown	1,529,678
NYPA - Niagara Frontier	18,240
NYPA - FitzPatrick Indust./OATT	1,248,000
NYPA - C-V-J Wheel	314,649
RG&E - Ginna - Clyde	319,896
RG&E - Exit Agreement/All Svcs.	7,756,991
CHG&E - Gilboa	162,384
CHG&E - N. Catskill	195,300
CHG&E - Nine Mile 2	2,133,120
LIPA - Nine Mile 2	4,266,240
NYSEG - All Services	9,354,240
Lockport Energy	2,112,000
Indeck Corinth	2,640,000
JMC Selkirk Phase II	5,596,800
Sithe Independence, L.P.	18,015,360
Watertown	72,085
Miscellaneous Wheels	9,411,781
AES-Kintigh	6,007,680
TCC Auction Amortization	43,226,544
Congestion Balancing Settlement	<u>(1,000,000)</u>
Total	<u>\$123,475,046</u>

<sup>1</sup> Excludes amortization of RG&E Oswego Unit 6, purchases of TCC from the NYISO auctions, congestion rents received from purchased TCCs. TCC purchases and congestion rent revenues from TCC purchases shall be incorporated into the CAC.



### Storm Fund

Niagara Mohawk Power Corporation (Niagara Mohawk or the Company) shall maintain a storm fund to pay for the incremental costs incurred by the Company as a result of major storms and to pay reasonable costs for insurance against such storm damage if such insurance becomes available on commercially reasonable terms. Major storms shall be defined in accordance with the Commission's definition in 16 NYCRR Part 97. The fund shall be established and maintained as follows:

1. Niagara Mohawk will establish a storm fund on the Effective Date of the Rate Plan with National Grid USA. The initial fund balance will be derived from the net Regulatory Deferrals accrued under Power Choice, including the financing savings on the unamortized balance of the MRA that Niagara Mohawk will realize through August 31, 2003. Fifty percent of the actual balance of the deferrals as of the Effective Date shall be deposited in the Storm Fund, together with 50 percent of any financing savings that accrue during the period between the Effective Date and August 31, 2003. Interest will accrue immediately on the balance of the fund and will be accounted for as described in item 3 below. Beginning on the Effective Date, Niagara Mohawk shall be deemed to collect \$6.0 million annually through base rates. In addition, Niagara Mohawk shall contribute all proceeds from insurers and other third parties associated with restoration of storms occurring after the Effective Date and any Exogenous Factor collections associated with the Storm Fund. The accounting entry to record monthly contributions to the fund will be the following, provided that the fund is in a positive position:

DR	Account 924	Property insurance-storm
CR	Account 254	Storm contingency reserve

The Storm Fund will be in a positive position when the cumulative amount collected through the initial contribution and rates exceeds amounts disbursed from the fund to pay for major storm costs.

2. Upon the occurrence of a major storm, all incremental costs incurred as a result of the storm shall be offset against the balance in Account 254. If the incremental costs of major storms exceeds the balance in Account 254, such excess (i.e. a negative fund balance) shall be debited to Account 182, Deferred charges-storm fund. As long as the fund balance remains negative, the monthly entry to record the collection of storm fund proceeds will be:

DR	Account 924	Property insurance-storm contingency
CR	Account 182	Deferred charges-Storm Fund

Incremental costs are defined as the costs which Niagara Mohawk will incur as a direct result of a storm which are over and above Niagara Mohawk's normal costs of doing business. These

costs shall include such things as overtime paid to employees to restore service to customers, rest time wages incurred as a result of storm restoration (as stipulated in union contracts), outside vendor costs, lodging and meal charges, material and supply charges, and other. The Storm Fund is not intended to reimburse Niagara Mohawk for incremental capital costs.

3. Interest shall be accrued on any positive or negative balance in the Storm Fund, calculated in accordance with the Terms and Conditions for interest expense calculated on customer deposits. If the Storm Fund is in a positive position, the entry on Niagara Mohawk's books will be:

DR	Account 431	Interest expense
CR	Account 254	Storm contingency reserve

If the Storm Fund is in a negative position, the entry on Niagara Mohawk's books will be:

DR	Account 182	Deferred charges-storm fund
CR	Account 419	Interest income

4. After the occurrence of a major storm, Niagara Mohawk will account for all amounts charged to the Storm Fund, and provide such accounting to the Public Service Commission, together with such other information as the Public Service Commission may request.

5. Niagara Mohawk shall be authorized to record deferred taxes for all differences between its books and tax accounts.





**Environmental Response Fund**

1. Niagara Mohawk shall establish on its books a fund for hazardous waste clean up and liabilities. The fund will pay for Environmental Response Costs paid after the Effective Date. Environmental Response Costs are defined as:
  - (a) Reasonable and prudently incurred costs or expenses associated with the investigation, testing, remediation, regulatory compliance, or other liabilities attributable to Niagara Mohawk relating to former gas manufacturing facility sites, disposal sites, sites to which material may have migrated, or any sites at which manufactured gas waste may have been deposited as a result of the earlier operation or decommissioning of gas manufacturing facilities located in New York;
  - (b) Reasonable and prudently incurred costs or expenses associated with the investigation, testing, remediation, liabilities, damages, claims, settlements, or judgments attributable to or incurred by Niagara Mohawk relating to deposits or waste from divested generating facilities off the site of properties sold, whether or not such material is regulated under statutes and authorities referenced in paragraph (e), including material deposited before the divestiture date at disposal sites, to which material may have migrated from off-site disposal sites, or any off-site location at which generation related material may have been deposited before the divestiture date associated with the operation of generating facilities sold pursuant to Niagara Mohawk's divestiture plan;
  - (c) Reasonable and prudently incurred costs or expenses associated with investigation, testing, remediation, liabilities, damages, claims, settlements, or judgments attributable to or incurred by Niagara Mohawk relating to material regulated under the statutes and authorities referenced in paragraph (e) that is unrelated to former gas manufactured facilities or Niagara Mohawk's divested generating plans.
  - (d) Reasonable and prudently incurred costs or expenses associated with the purchase of property that is acquired as part of an overall mitigation and response plan associated with sites identified in paragraph (a), (b), or (c);
  - (e) Reasonable and prudently incurred payments for liabilities, damages, claims, settlements, or judgments arising from subparagraphs 1 (a), (b), (c), and (d) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), Environmental Conservation Law ("ECI") 27-1301 through 27-1321, and any other applicable laws, rules, regulations, or orders by courts or governmental authorities, or resulting from claims and contentions arising in tort, breach of contract, or violation of law.

**Environmental Response Fund**

- (f) Nothing in this section shall be deemed to expand or modify any liability to the government or any other party that does not otherwise exist in either contract or law.

2. The fund shall be financed by:

- (a) An initial deposit as determined under Section 1.3.6 of the Joint Proposal
- (b) Annual contributions by Niagara Mohawk of \$12.75 million commencing as of the Effective Date of the Joint Proposal, as supplemented by credits from natural gas operations in accordance with Section 1.3.6. One-twelfth of the annual amount shall be credited to the fund each month.
- (c) Contributions funded by any exogenous factor collecting for the Environmental Response Fund under Section 1.3.8.5 of the Joint Proposal; and
- (d) Net proceeds from insurance companies related to Environmental Response Costs, net proceeds from the sale of properties purchased under subparagraph 1 (d), and net recoveries from third parties after reflecting litigation costs and expenses.



Regulatory Deferrals  
(Thousand Dollars)

DESCRIPTION	Actual Balance 11/30/2000 (a)	12/01/2000- 08/31/2001 (b)	Estimated Balance 08/31/2001 (c)	9/01/2001- 08/31/2002 (d)	Estimated Balance 08/31/2002 (e)	9/01/2002- 08/31/2003 (f)	Estimated Balance 08/31/2003 (g)
<b>Deferred Debits</b>							
<b>(Customers owe Company money)</b>							
Customer Service Backout Credit	\$ 6,617.2	\$ 4,868.0	\$ 11,485.2		\$ 11,485.2		\$ 11,485.2
Generation Sale Incentive	12,233.1	6,000.0	18,233.1		18,233.1		18,233.1
NYPA Transmission Access Charge (NYTAC)	10,096.1	2,999.0	13,095.1		13,095.1		13,095.1
NYISO Tariff Schedule Costs	28,789.3	32,991.0	61,780.3		61,780.3		61,780.3
NYPA MOU	(461.8)	2,934.6	2,472.8		2,472.8		2,472.8
SC-12 Operational Extension		2,000.0	2,000.0		2,000.0		2,000.0
<b>Total Deferred Debits</b>	<b>57,273.9</b>	<b>51,792.6</b>	<b>109,066.5</b>	<b>-</b>	<b>109,066.5</b>	<b>-</b>	<b>109,066.5</b>
<b>Deferred Credits</b>							
<b>(Company owes Customers money)</b>							
SIR Program Costs	(5,683.5)	10,887.0	5,203.5		5,203.5		5,203.5
Electric Customer Service Penalties	(710.0)	(42.0)	(752.0)		(752.0)		(752.0)
Oswego 6 Trans.Service Contract Exit Agreement	(22,356.2)		(22,356.2)		(22,356.2)		(22,356.2)
Pension/OPEB Curtailment/Settlement Gains	(23,552.1)		(23,552.1)		(23,552.1)		(23,552.1)
Petroleum Business Tax Audit Refund	(6,066.1)	400.0	(5,666.1)		(5,666.1)		(5,666.1)
Affiliate Rule Employee Transfer Credit	(141.0)		(141.0)		(141.0)		(141.0)
<b>Total Deferred Credits</b>	<b>(58,508.9)</b>	<b>11,245.0</b>	<b>(47,263.9)</b>	<b>-</b>	<b>(47,263.9)</b>	<b>-</b>	<b>(47,263.9)</b>
<b>Net deferred debits and credits</b>	<b>(1,235.0)</b>		<b>61,802.6</b>		<b>61,802.6</b>		<b>61,802.6</b>
PowerChoice Appendix E Netting	(65,767.3)	4,795.3	(60,972.0)		(60,972.0)		(60,972.0)
<b>Net total owed to Company or (Customers)</b>	<b>(67,002.3)</b>		<b>830.6</b>		<b>830.6</b>		<b>830.6</b>
<b>MRA Interest Savings Deferral</b>	<b>(57,806.2)</b>	<b>(11,617.0)</b>	<b>(69,423.2)</b>	<b>(12,642.0)</b>	<b>(82,065.2)</b>	<b>(9,847.0)</b>	<b>(91,912.2)</b>
<b>Net deferral balance (Company owes Customers)</b>	<b>\$ (124,808.5)</b>		<b>\$ (68,592.6)</b>		<b>\$ (81,234.6)</b>		<b>\$ (91,081.6)</b>

Column (a) Actual Deferral Balances per Books  
Column (b) Activity consistent with Financial Forecast  
Column (c) Column (a) + Column (b)

Column (d) Activity consistent with Financial Forecast  
Column (e) Column (c) + Column (d)  
Column (f) Activity consistent with Financial Forecast, however the last year's activity in the financial forecast was spread over the calendar year 2003 rather than the rate year which ends in August, 2003.

Column (g) Column (e) + Column (f)



Illustration of Extraordinary Inflation Adjustment  
(Million Dollars)

Description	Inflation Target 4%					Inflation Target 3%				
	Year One (2002)	Year Two (2003)	Year Three (2004)	Year Four (2005)	Year Five (2006)	Year Six (2007)	Year Seven (2008)	Year Eight (2009)	Year Nine (2010)	Year Ten (2011)
1) Base Guideline T & D Charges	\$1,002.50	\$1,019.24	\$1,036.26	\$1,053.57	\$1,071.16	\$1,089.05	\$1,107.24	\$1,125.73	\$1,144.53	\$1,163.64
2) Actual Inflation Rate (GDPPI)	4.00%	3.00%	5.00%	4.50%	3.00%	3.00%	3.25%	2.00%	3.00%	3.50%
3) Actual Growth Amount	\$16.74	\$17.02	\$17.31	\$17.59	\$17.89	\$18.19	\$18.49	\$18.80	\$19.11	\$19.43
4) Extraordinary Inflation Rate	0.00%	-1.00%	1.00%	0.50%	-1.00%	0.00%	0.25%	-1.00%	0.00%	0.50%
5) Extraordinary Inflation Amount	\$0.00	(\$10.19)	\$10.36	\$5.32	(\$10.87)	\$0.00	\$2.77	(\$11.31)	\$0.00	\$5.82
6) Cumulative Extraordinary Inflation Amount (included as Exogenous Factor)	\$0.00	\$0.00	\$10.36	\$15.68	\$4.81	\$4.81	\$7.58	\$0.00	\$0.00	\$5.82

- 1) Year One equal Current Rates with no load growth; All other years - Prior year Line 1 plus prior year Line 3 (no load growth assumed)
- 2) Estimated for this illustration
- 3) Line 1 \* 1.0167
- 4) Line 2 less inflation target for the year
- 5) Line 4 \* (Line 1 plus prior year Line 6)
- 6) Prior year Line 6 plus current year Line 5 (Not less than zero)



## **SERVICE QUALITY PLAN**

There will be a service quality incentive/penalty plan for the rate plan period whose total value is \$13.2 million per year, after tax, or \$21.9 million pre-tax. All of the amounts reflected below are after tax dollars.

### **13.1 CUSTOMER SERVICE PERFORMANCE**

#### **13.1.1 Definition:**

- 1) Six customer service performance measures are proposed with the maximum total annual potential for incurring \$7,920,000 in penalties for deterioration in service or being awarded \$7,920,000 in incentives for achieving stretch targets. A total of \$1,320,000 in maximum potential penalty or incentive opportunity is associated with each measure. For the first two years of the rate plan period, the maximum total penalty or incentive will be \$6,600,000 as the Bill Accuracy measure discussed below will not be in place until Year 3.
- 2) A dead band exists for each measure. Within each dead band neither penalty will be incurred nor incentive awarded. The dead band is defined by recent and current performance. In this sense, sustaining performance within the band is not considered to be significant either with respect to any improvement or deleterious effect on customers, and so neither warrants penalty or reward.
- 3) The values defining the upper and lower limits of the dead band interval are those values at which the penalty or incentive begins to be awarded. For each performance interval, the maximum penalty or incentive is displayed that is associated with that interval. Those maximum values are associated with that specific value within the interval range which represents the worst (in the case of penalty) or best (in the case of incentive) performance. The amount of incentive or penalty is a linear calculation.

#### **13.1.2 Exclusions:**

- 1) For measurement purposes, results from periods having abnormal operating conditions will not be considered. Abnormal operating conditions are deemed to exist during any period of emergency, catastrophe, strike, natural disaster, major storm or other unusual event not in the Company's control affecting more than ten percent of the customers in an operating area during any month. "Major storm" is defined as a period of adverse weather resulting in a service interruption affecting at least ten percent of the customers in an operating area or causing customers to be without electric service for at least 24 hours as stated in 16 NYCRR Part 97.
- 2) In the event that normal operating conditions are interrupted in one of the Company's seven geographical areas (Northern, Mohawk Valley, Frontier,



Capital, Central, Northeast and Western) and the interruption affects the Company's ability to perform any activity that is part of this mechanism, the data for the geographic area(s) experiencing the interruption will be omitted from the calculation for the period of the interruption and the Company's results in the measured areas will be measured only by the data from the other geographic area(s)

- 3) If changes in Company operations render it impractical to continue to measure performance in an agreed upon activity, the measurement method and/or threshold for performance standard will be revised, an alternative method or activity selected, the incentive opportunity/penalty risk associated with the affected activities will be spread proportionately among all remaining activities for the remainder of the period during which the incentive/penalty mechanism is operative. Any such modification must be mutually agreed upon by Staff and the Company in writing.

## **13.2 CUSTOMER SERVICE PERFORMANCE MEASURES**

### **13.2.1 PSC Complaint Rate**

A PSC Complaint is initiated with a dispute being filed by, or on the behalf of, a consumer with the staff of the DPS Office of Consumer Affairs. Once a dispute is filed, the utility is given a reasonable opportunity to address the matter. If the customer is still not satisfied, the dispute is classified as a complaint.

The issue of concern forming the basis for the complaint must be one within the utility's responsibility and control, including an action, practice or conduct of the utility or its employees, not matters within the responsibility or control of an alternative service provider. For example, complaints about high bills resulting from the price of electric energy and capacity or natural gas that do not otherwise present just cause for charging a complaint against the Company, shall not be counted as complaints for the purposes of this mechanism. One or more contacts by a rate consultant raising the same issues as to more than one account, whether such contacts are made at the same time or different times, shall not be counted as more than one complaint if the issue is under consideration by the Department or the Commission. Contacts by customers about the Shared Meter Law shall not be complaints if the contact is about the requirements of the shared meter law and no utility deficiency is found.

A Complaint Rate per 100,000 customers is calculated by (a) dividing the total number of PSC Complaints received in the reporting month by the number of customers and (b) multiplying the results by 100,000. The Company Complaint Rate will be that shown on PSC report "Complaint Rates of Major New York Utilities" for the last month of each year of the Settlement, as adjusted for complaints changed to inquiries. The PSC Complaint Rate is based on a 12 month rolling average.

Rate Interval	Incentive (Penalty) Linear Within Ranges
$\leq 3.0$	\$1,320,000
$< 5.0 - 3.0$	\$0 to \$1,320,000
$5.0 - 8.0$	\$0
$> 8.0 - 10.0$	\$0 to (\$1,320,000)
$\geq 10.0$	(\$1,320,000)

### 13.2.2 Residential Customer Satisfaction with Transactions

This score is the overall satisfaction rating of transactions residential customers have had with the Company regarding new electric and gas service, connects and disconnects, service, and billing. Residential transaction customers are surveyed quarterly. Overall satisfaction with the transaction is measured on a 10 point scale ranging from extremely dissatisfied (1) to extremely satisfied (10). Responses are weighted based on the share each region's customers are representative of the total customer base. Average transaction satisfaction will be reported quarterly (for the preceding quarter). Overall transaction satisfaction is the average of responses for four quarters.

Customer Satisfaction Index Interval	Incentive(Penalty) Linear Within Ranges
$\geq 8.6$	\$1,320,000
$> 8.2 - 8.6$	\$0 to \$1,320,000
$7.8 - 8.2$	\$0
$< 7.8 - 7.4$	\$0 to (\$1,320,000)
$\leq 7.4$	(\$1,320,000)

### 13.2.3 Small/Medium Commercial & Industrial Customer Satisfaction with Transactions

This score is the overall satisfaction rating of transactions small and medium size commercial and industrial (C&I) customers have had with the Company regarding new electric and gas service, connects and disconnects, service, and billing. A random sample of C&I transaction customers are surveyed quarterly. Overall satisfaction with the transaction is measured on a 10-point scale ranging from extremely dissatisfied (1) to extremely satisfied (10). Average transaction satisfaction will be reported quarterly (for the preceding quarter). Overall transaction satisfaction is the average of responses for four quarters.

Commercial & Industrial Index Interval	Incentive(Penalty) Linear Within Ranges
$\geq 7.8$	\$1,320,000
$>7.4 - 7.8$	\$0 to \$1,320,000
$6.6 - 7.4$	\$0
$<6.6 - 6.2$	\$0 to (\$1,320,000)
$\leq 6.2$	(\$1,320,000)

#### 13.2.4 Percent Meters Read

This Index represents the total percentage of meters read of all meters scheduled to be read for monthly billing by a Niagara Mohawk meter reader. Estimated reads for a portion(s) of Niagara Mohawk's service territory declared under a state of emergency would be included in the calculation. Access to meters is calculated monthly. Performance on the percentage of all meters scheduled to be read that are actually read will be based on performance over 12 months. Post-CSS conversion data will be the basis for proposing incentive/penalty ranges. A full 12 months of data will be available for the period March 2000 through February 2001 in March 2001. The table below will be adjusted at that time to reflect the addition of the November-February meter reading access experience.

Percent Meters Read	Incentive(Penalty) Linear Within Ranges
$\geq 90.0$	\$1,320,000
$>88.5 - 90.0$	\$0 to \$1,320,000
$87.5 - 88.5$	\$0
$<87.5 - 86.0$	\$0 to (\$1,320,000)
$\leq 86.0$	(\$1,320,000)

#### 13.2.5. Percent Calls Answered within 30 Seconds

This Index is the percentage of all calls received by the Customer Service Center that are answered within 30 seconds. The Customer Service Center operates 7 days a week, 24 hours a day. Calls received during a major storm, as currently defined in Part 97 of 16 NYCRR, will be excluded from this measure. Monthly calculations are reported on a quarterly basis to DPS staff. Annual performance will be based on an average of 12 months data.

% Calls Answered Within 30 Seconds	Incentive(Penalty) Linear Within Ranges
$\geq 80.0$	\$1,320,000
$>72.0 - 80.0$	\$0 to \$1,320,000
$70.0 - 72.0$	\$0
$<70.0 - 62.0$	\$0 to (\$1,320,000)
$\leq 62.0$	(\$1,320,000)

### 13.2.6 Bill Accuracy

During 2000 the Company has been developing bill quality metrics, one component of which is a bill accuracy measure based on Cancel/Rebill activity. An incentive/penalty measure will be derived from these efforts and their data collection and reporting activities. Bill Accuracy measure will be included as one of the performance areas in which incentive/ penalty may be applied. The measure's calculation will be defined and data collected after 1/01/01. Thresholds for incentive/penalty will be defined for use after at least 12 months of data collection. The performance measure agreed upon will be implemented for incentive/penalty application in Year 3 of the rate plan period. The maximum annual incentive/penalty for this measure will be \$1,320,000.

## 13.3 LOW INCOME CUSTOMER ASSISTANCE PROGRAM (LICAP)

### 13.3.1 Proposal

Niagara Mohawk's customer research verifies the recognition that Niagara Mohawk's low income customer base is diverse with regard to energy consumption, bill payment capabilities and payment history. Consequently the Company in its Power Choice Settlement Agreement made the strategic customer service decision to "...assist low-income customers who are unable to pay fully for their electric and gas usage, and to thereby minimize uncollectible accounts expense." (Sect. 12.0, Power Choice Settlement Agreement)

The same recognition of the diverse needs of low income consumers together with the premise that it is a smart customer service business strategy to target effective remedial services to the low-income "payment troubled" customer segment is consistent with the discussions currently underway in the PSC Energy Competition - Next Steps Proceeding (PSC Case No. 00-M-0504).

Therefore the Company proposes that the LICAP program continue to be offered to those low income, non-public assistance customers, who are in arrears and have a documented inability to pay their full bill.

While efforts are underway to automate various program procedures, program services would remain substantially the same as the current LICAP program. For the purposes of this proposal, performance goals with associated penalties/incentives would pertain to the same program activities measured in the Power Choice Settlement Agreement.

### 13.3.2 Performance Goals

According to a recent report of customer account data drawn from the Customer Service System, it is estimated that there are approximately 21,000 customers who constitute the low income "payment troubled" customers described above who are not on public assistance direct voucher.

While the actual number of this customer segment is always in flux, this "snapshot" total provides an approximation of the average size of the overall customer group to whom LICAP services would be targeted over the first five years of this rate plan.

Three performance goals would be established. First, enrollment goals would be determined so that cumulatively over the next five years, 21,000 customers would be enrolled into the LICAP program. A second goal for energy efficient services delivery will be established based on the actual program ratio of those receiving retrofits compared to total customers enrolled. Finally, a goal for the delivery of energy use management workshops will be set based on current percentage of enrollees assigned to workshops and the average per workshop expected attendance.

Annual goals are:

<b><u>Annual Enrollment</u></b>	<b><u>Energy Efficiency Services</u></b>	<b><u>Workshops</u></b>
4,200	1,130	210

Penalties/incentives for each year would be determined according to whether actual program performance fails to reach or surpasses the average of all three annual goals. The maximum annual incentive/penalty is \$1,320,000 per year. The penalty/incentive amount would be graduated with maximum penalty assessed if actual averaged performance of the three annual goals is less than 90%. Conversely, the maximum incentive would be earned if actual averaged performance for the three goals is 110% or greater.

Average Performance of All Three Goals	Incentive (Penalty) Linear Within Ranges
≥110.0%	\$1,320,000
>105.0% - 110.0%	\$0 to \$1,320,000
95.0% - 105.0%	-0-
<95.0% - 90.0%	\$0 to (\$1,320,000)
≤ 90.0%	(\$1,320,000)

## 13.4 SERVICE RELIABILITY

The Service Reliability Incentive/Penalty will consist of three measures equal to a maximum annual incentive or penalty of \$3,960,000:

### 13.4.1 System Interruption Frequency (SIF)

Targets are the numbers of outages per customer, per year, excluding major storms. The maximum incentive/penalty for SIF performance is \$1,320,000.

SIF Interval	Incentive (Penalty) Linear Within Ranges
Under 0.824	\$1,320,000
<0.904 to 0.824	\$0 to \$1,320,000
0.904 to 0.957	-0-
>0.957 to 1.04	\$0 to (\$1,320,000)
Over 1.04	(\$1,320,000)

### 13.4.2 Customer Interruption Duration (CID)

Targets are the average hours per interruption, excluding major storms. The maximum incentive/penalty for CID performance is \$1,320,000.

CID Interval	Incentive (Penalty) Linear Within Ranges
Under 1.92	\$1,320,000
<2.03 to 1.92	\$0 to \$1,320,000
2.03 to 2.11	-0-
>2.11 to 2.22	\$0 to (\$1,320,000)
Over 2.22	(\$1,320,000)

### 13.4.3 Momentary Interruptions (MI)

The Company proposes to:

- a. Migrate from voltage based targets to a System Momentary Interruption Target for the years ending August 31, 2002 and August 31, 2003.
- b. Use the Power Choice negotiated fixed number of Momentary Interruptions (excluding Major Storms) modified to include an incentive.

- c. The System Momentary Interruption Target will be based only on substation breaker operations.
- d. The maximum incentive/penalty for MI's is \$1,320,000.

Proposed System Target for Momentary Interruptions for the years ending August 31, 2002 and August 31, 2003:

System Target	Incentive (Penalty) Linear Within Ranges
Under 2525	\$1,320,000
<2825 to 2525	\$0 to \$1,320,000
2825 to 2975	-0-
>2975 to 3275	\$0 to (\$1,320,000)
Over 3275	(\$1,320,000)

The Company further proposes to transition from a fixed number of Momentary Interruptions (MI) to a System Momentary Average Interruption Frequency Index (MAIFI) for year 3 of the rate plan period. The MAIFI index will be based only on substation breaker operations. In order to accommodate a MAIFI index, the Company needs to modify the PQ-MITS application, evaluate MAIFI index statistics and determine appropriate targets and penalties

The Company is also implementing an automated Outage Restoration System. Other Companies report as much as a 30% decrease in measured reliability performance when such automated systems are implemented as the result of the more comprehensive reporting of events that occurs with an automated system. An adjustment of all targets will be proposed after the automated system has been implemented.

### 13.5 ACCOUNTING MECHANISM

Any incentives and/or penalties incurred will be netted at the end of each year and included with the Exogenous Factors as described in Section C.1.3.9.





### **Congestion Reduction Incentive**

There is significant congestion currently being experienced in the NYISO that is increasing commodity cost for electric consumers in New York State. Niagara Mohawk is planning to propose to the NYISO an incentive structure as further defined below that would provide an incentive to Niagara Mohawk to take actions to reduce congestion and therefore reduce the cost of commodity to customers. Niagara Mohawk will be allowed to keep 50% of the benefits of any congestion costs it saves for consumers.

The Parties agree to support this proposal before the NYISO. If the NYISO does not implement this proposal before Effective Date, Niagara Mohawk shall be authorized to implement this sharing mechanism in its retail tariffs for customers that it serves east of the Central East constraint. In this case Niagara Mohawk will be allowed to add the incentive cost to Rule 46 of its retail tariff for customers receiving retail service east of the Central East constraint.

Niagara Mohawk has on average over the last five years made available to the New York wholesale electricity markets, 22,220,000 megawatt hours of transmission capacity on the facilities it owns on the Central East interface (Niagara owns all of the facilities making up the Central East interface except for the phase angle regulator tie between Plattsburg and the Vermont border which is owned by the NYPA). To the degree that Niagara Mohawk makes available to the NYISO transmission capacity in excess of this amount on an annual basis, Niagara Mohawk shall be allowed to recover 50% of the savings from customers directly benefiting from this increase in transmission capacity.

If the program is implemented by the NYISO, the NYISO will calculate these savings by multiplying the hourly increase in transmission capacity made available to it from Niagara Mohawk above the target times the difference in market prices on either side of the Central East constraint that would have existed absent the increase in capacity times a factor of 1.7 to reflect the increase in transaction capacity that results from an increase in Central East capacity. If this option is followed, the method for unbundling the annual target into hourly targets will be determined in a protocol agreed upon by the NYISO or, if implemented through Niagara Mohawk's tariffs, with consultation of the Parties to this proposal and approved by the Commission. The incentive amount will be recovered from customers who have directly benefited from the increased transmission capacity, through an adder on commodity cost in the zone of customers that benefited. To the extent that the incentive is collected from wholesale transmission customers, FERC approval will be required to implement the NYISO alternative.



### Illustration of Implied Capital Structure

	Capitalization Ratio	Percent Returns	Weighted Percent Returns	State & Federal Tax Rate	Pre Tax Weighted Rate
	(a)	(b)	(c)	(d)	(e)
Equity	48.24%	11.36%	5.48%	3.63%	9.11%
Preferred	4.17%	6.58%	0.27%	0.18%	0.45%
Debt	47.59%	7.20%	3.43%	0.00%	3.43%
Total					12.99%

(a) Page 2, Columns (d) through (f)

(b) Page 2, Columns (g) through (i)

(c) Column (a) \* Column (b)

(d) Column (c) / (1 - State Income Tax Rate) / (1 - Federal Income Tax Rate) - Column (c)  
Federal Income Tax assumed to be 35% and State Tax assumed to be 7.5%

(e) Column (c) + Column (d)

Illustration of Implied Capital Structure

Company	Dollar Amounts			Capitalization Ratio			Percent Return			Weighted Returns		
	Long-Term Debt (a)	Preferred Stock (b)	Common Equity (c)	Long-Term Debt (d)	Preferred Stock (e)	Common Equity (f)	Long-Term Debt (g)	Preferred Stock (h)	Common Equity (i)	Long-Term Debt (j)	Preferred Stock (k)	Common Equity (l)
Atlantic City	941,389,000	30,180,000	725,698,000	55.46%	1.78%	42.76%	7.40%	7.12%	12.50%	69,662,786	2,148,816	90,712,250
Baltimore Gas & Electric	2,812,786,975	190,000,000	2,429,190,901	51.78%	3.50%	44.72%	6.58%	7.24%	11.75%	185,081,383	13,756,000	285,429,931
Bangor Hydro	288,542,897	13,932,064	118,864,092	68.48%	3.31%	28.21%	7.96%	7.80%	12.75%	22,968,015	1,086,701	15,155,172
Blackstone Valley	33,500,000	6,130,000	41,658,000	41.21%	7.54%	51.25%	9.22%	4.71%	11.43%	3,088,700	288,723	4,761,509
Boston Edison	930,000,000	93,000,000	1,038,271,597	45.12%	4.51%	50.37%	8.26%	6.41%	11.75%	76,818,000	5,961,300	121,996,913
Cambridge	17,370,223	-	52,799,955	24.75%	0.00%	75.25%	8.25%	0.00%	11.00%	1,433,043	-	5,807,995
Central Hudson	387,975,000	56,030,000	472,180,000	42.35%	6.12%	51.54%	6.56%	5.83%	10.52%	25,451,160	3,266,549	49,673,336
Central Maine	308,247,760	59,881,300	515,340,052	34.89%	6.78%	58.33%	6.83%	6.17%	10.55%	21,053,322	3,694,676	54,368,375
Central Vermont	92,800,000	26,053,800	179,547,151	31.10%	8.73%	60.17%	7.47%	7.13%	11.00%	6,932,160	1,857,636	19,750,187
Commonwealth	146,880,174	-	185,195,528	44.23%	0.00%	55.77%	8.81%	0.00%	12.00%	12,940,143	-	22,223,463
Concord	16,000,000	440,000	10,835,496	58.66%	1.61%	39.73%	7.64%	7.32%	14.25%	1,222,400	32,208	1,544,058
Connecticut Light & Power	1,937,900,000	235,489,000	1,023,505,000	60.62%	7.37%	32.02%	6.96%	5.52%	10.30%	134,877,840	12,998,993	105,421,015
Consolidated Edison	4,299,910,000	249,612,527	5,842,724,877	41.38%	2.40%	56.22%	7.07%	5.45%	10.90%	304,003,637	13,603,883	636,857,012
Delmarva	1,042,558,000	159,702,000	851,494,000	50.76%	7.78%	41.46%	7.76%	6.44%	11.50%	80,902,501	10,284,809	97,921,810
Eastern Edison	162,550,000	27,994,000	225,998,000	39.02%	6.72%	54.26%	7.25%	8.40%	11.50%	11,784,875	2,351,496	25,989,770
Exeter & Hampton	19,000,000	948,655	12,093,057	59.30%	2.96%	37.74%	7.76%	7.97%	16.00%	1,474,400	75,608	1,934,889
Fitchburg	43,000,000	2,301,919	39,940,470	50.44%	2.70%	46.86%	7.55%	6.90%	16.30%	3,246,500	158,832	6,510,297
Granite State	20,000,000	-	21,860,000	47.78%	0.00%	52.22%	8.08%	0.00%	10.00%	1,616,000	-	2,186,000
Green Mountain	88,500,000	14,685,000	105,722,701	42.36%	7.03%	50.61%	7.62%	7.56%	11.25%	6,743,700	1,110,186	11,893,804
Massachusetts	370,000,000	10,650,000	507,955,000	41.64%	1.20%	57.16%	7.31%	5.86%	11.00%	27,047,000	624,090	55,875,050
Narragansett	177,700,000	7,238,000	248,883,000	40.96%	1.67%	57.37%	7.81%	5.20%	11.00%	13,878,370	376,376	27,377,130
Newport	19,794,000	771,000	23,321,000	45.10%	1.76%	53.14%	7.49%	3.74%	11.40%	1,482,571	28,835	2,658,594
Orange & Rockland	357,200,000	43,192,486	354,105,311	47.34%	5.72%	46.93%	7.19%	6.53%	10.60%	25,682,680	2,820,469	37,535,163
Pennsylvania Power	276,195,253	54,104,900	275,279,810	45.61%	8.93%	45.46%	7.64%	6.91%	12.91%	21,101,317	3,738,649	35,538,623
PEPCo	1,966,861,000	137,739,000	1,922,261,000	48.84%	3.42%	47.74%	7.39%	5.74%	11.40%	145,351,028	7,906,219	219,137,754
PSNH	516,485,000	75,000,000	678,167,000	40.68%	5.91%	53.41%	7.50%	11.36%	13.25%	38,736,375	8,520,000	89,857,128
RGE	738,061,353	72,000,000	779,352,240	46.44%	4.53%	49.03%	7.30%	6.26%	11.50%	53,878,479	4,507,200	89,625,508
Rockland	357,200,000	43,192,486	354,105,311	47.34%	5.72%	46.93%	7.19%	6.53%	12.00%	25,682,680	2,820,469	42,492,637
United Illuminating	724,632,000	54,299,000	445,518,000	59.18%	4.43%	36.39%	6.97%	9.23%	11.50%	50,506,850	5,011,798	51,234,570
Western Massachusetts	348,800,000	39,500,000	224,492,000	56.92%	6.45%	36.63%	7.26%	7.75%	12.00%	25,322,880	3,061,250	26,939,040
Average	648,061,288	56,802,238	656,878,618	47.59%	4.17%	48.24%	7.20%	6.58%	11.36%	46,665,693	3,736,392	74,613,633

Columns (a), (b), and (c) 1999 FERC Form 1 Page 218 Column (b)  
Columns (d), (e), and (f) 1999 FERC Form 1 Page 218 Column (c)  
Columns (g), (h), and (i) 1999 FERC Form 1 Page 218 Column (d)

Columns (j) = Column (a) \* Column (g)  
Columns (k) = Column (b) \* Column (h)  
Columns (l) = Column (c) \* Column (i)



### Calculation of Equity Sharing Basis

1 Electricity Delivery Rate Base	2,950,000,000
2 Percent Common Equity	48.24%
3 Electricity Delivery Equity	1,423,080,000
4 One Basis Point Return	0.01%
5 Return on Equity	142,308
6 State Income Tax (SIT) @ 7.5%	17,752
7 Federal Income Tax (FIT) @ 35%	76,627
8 Total Revenue Requirement for One Basis Point Increase in Return on Equity	236,687
9 Total Synergies Sharing Related to One Basis Point Return on Equity	473,374

- 1 Financial Forecast - Year 11 Rounded to nearest \$50,000,000
- 2 Attachment 15, Page 1 (Percent Equity)
- 3 Line 1 \* Line 2
- 4 One Basis Point
- 5 Line 3 \* Line 4
- 6 Line 5 / (1 - FIT) / (1 - SIT) \* SIT
- 7 (Line 5 / (1 - FIT) / (1 - SIT) - Line 6) \* FIT
- 8 Line 5 + Line 6 + Line 7
- 9 Line 8 \* 2



## **CORPORATE STRUCTURE AND AFFILIATE RULES**

### **1. PROPOSED CORPORATE STRUCTURE**

#### **1.1 The Scheme of Arrangement and Transaction Structure**

To implement the acquisition, it is intended that prior to completion National Grid will effect a Scheme of Arrangement<sup>1</sup> under which a newly-formed UK-registered holding company, National Grid Group plc, ("New National Grid") will become the holding company of National Grid and National Grid shareholders will receive, in exchange for their ordinary shares in National Grid, new shares issued by New National Grid having the same economic and voting rights. The shares issued by New National Grid will be listed on the London and New York Stock Exchanges with American Depositary Shares (ADSs) representing such shares being listed on the New York Stock Exchange following which the ordinary shares in National Grid will be de-listed. The Scheme of Arrangement affords Niagara Mohawk shareholders tax-free treatment to the extent that they opt to take shares as consideration when the transaction is completed.

Pursuant to the Merger Agreement (attached as Appendix B to the Joint Petition), Grid Delaware, Inc. ("Merger Sub"), a wholly-owned subsidiary of New National Grid, will merge with and into Niagara Mohawk Holdings, with Niagara Mohawk Holdings continuing as the surviving corporation. As the surviving entity, and on completion of the transaction, Niagara Mohawk Holdings will be an indirect wholly-owned subsidiary of New National Grid and its direct parent will be National Grid USA, which is already registered with the SEC as a holding company.

A diagram showing the structure, on completion of the transaction, and the position of Niagara Mohawk in it is attached as Exhibit 1.

#### **1.2 Definitions used in this document**

UK HoldCo – the top-level holding company in the National Grid group, registered as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA). This is National Grid Group plc, referenced in the first paragraph of section 1.1.

US HoldCo – the immediate parent and holding company for National Grid's US Utility operations – this is National Grid USA or any corporate successor. Immediate wholly-owned subsidiaries of US HoldCo will, on completion of the transaction, include Niagara

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<sup>1</sup> "Scheme of Arrangement" is a recognized term by which corporate reorganizations of this form, which require prior approval of the English Courts, are known.



Mohawk Holdings, Inc. (with Niagara Mohawk Power Corporation as a wholly-owned subsidiary), National Grid USA Service Company, Inc., and National Grid's New England utility affiliates.

Where in the document the expression "HoldCo" is used it refers to either or both of UK HoldCo and US HoldCo. Where explicit reference to one of the HoldCos is required, the term "UK HoldCo" or "US HoldCo" will be used in full.

RegCo – RegCo (Niagara Mohawk Power Corporation or any corporate successor) is a wholly owned indirect subsidiary of US HoldCo and carries on the full range of Niagara Mohawk's regulated transmission and electric and gas distribution services.

Unregulated Competitive Energy Affiliates – the Unregulated Competitive Energy Affiliates are any of US HoldCo's current or future affiliates engaged in the competitive sale of electric and gas commodity services, which participate in the energy market in New York State.

National Grid Other Affiliates – means affiliates of HoldCo, including affiliates of Niagara Mohawk, but excluding Unregulated Competitive Energy Affiliates.

Where the term "affiliate" is used in this document, it means Unregulated Competitive Energy Affiliates and National Grid Other Affiliates.

ServiceCo - National Grid USA Service Company, Inc. (or any corporate successor), which provides a variety of corporate and administrative services for the National Grid USA system, pursuant to a service agreement approved by the SEC in accordance with the requirements of Section 90 of PUHCA.

Transmission Company – National Grid may, at the company's option, propose the formation of a single transmission company, which would consolidate all or part of the transmission assets of US HoldCo.

## **2. RULES GOVERNING AFFILIATE TRANSACTIONS**

### **2.1 Organization and Accounting**

#### **2.1.1 Separation and Location**

RegCo, HoldCo, Unregulated Competitive Energy Affiliates and National Grid Other Affiliates will each be operated as separate entities and will maintain separate books and records of account. Unregulated Competitive Energy Affiliates and RegCo will operate from physically separate buildings. RegCo, HoldCo, ServiceCo and National Grid Other Affiliates may occupy the same building.

#### **2.1.2 Board of Directors Membership**

A majority of the RegCo Board of Directors will be neither officers nor directors of UK HoldCo nor of any Unregulated Competitive Energy Affiliate

#### **2.1.3 Accounting Issues and Dividend Limitations**

National Grid is acquiring Niagara Mohawk shares at a premium of approximately 37%, relative to the closing price of Niagara Mohawk shares on September 1, 2000. Because the conditions for pooling of interest accounting are not met in this transaction, purchase accounting must be used. Under Generally Accepted Accounting Principles (GAAP) for purchase accounting, the premium, together with transaction costs, are recorded as goodwill on the acquired company's accounts. National Grid plans to "push down" and allocate the acquisition premium among NMPC and its affiliates. This approach is fully consistent with US GAAP and with FERC precedent and with the practice adopted in the National Grid acquisition of NEES and in the acquisition of Eastern Utilities Associates by National Grid USA. The goodwill appearing on the books of account of NMPC will be amortized over 20 years, through a below-the line account to ensure no recovery in rates absent explicit authority so to do.

In any calendar year RegCo will limit the dividends it pays to HoldCo in accordance with the following dividend restriction commitments and guarantees. RegCo will reflect these commitments in its application to the SEC (under the Public Utility Holding Company Act) for the SEC's approval of the National Grid/Niagara Mohawk merger and ongoing financing authority.

<b>Year</b>	<b>Dividend limitation: Income available for common dividends plus:</b>
2001	\$100 million
2002	\$100 million
2003	\$80 million
2004	\$60 million
2005	\$40 million
2006	\$20 million
2007 and beyond	\$0

For the purpose of this dividend limitation, income available for common dividends will be calculated on a two-year rolling average basis. To the extent that the maximum allowed is not paid out in any year, the balance will be carried forward to subsequent years. Excluded from the calculation of "income available for common dividends" for the purposes of this provision will be non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events. RegCo will also be permitted to add back goodwill so that income available for dividends will reflect the value prior to the push-down of goodwill. Since the push-down of goodwill will result in a reduction of retained earnings, but will not otherwise impair RegCo's capability to pay dividends, RegCo will be permitted, subject to any other restrictions in this section, to pay dividends out of paid in capital.

In addition, the foregoing restrictions will not apply to dividends necessary to transfer to HoldCo revenues from major transactions, such as asset sales, divestiture or securitization or to dividends reducing the RegCo's capital ratio to a level appropriate to the RegCo's business risk.

#### **2.1.4 Cost Allocation**

Appropriate cost allocation procedures will be followed by HoldCo and its affiliates to assure the proper allocation on a fully distributed basis, to HoldCo, RegCo, NME or other affiliates of the costs of any HoldCo personnel, property or services used by RegCo or other affiliates of HoldCo.

National Grid has already established with the SEC approved procedures for cost allocation and for transactions involving ServiceCo and National Grid USA's affiliates and for transactions between National Grid Group and other UK-based

affiliates and National Grid USA's affiliates. These procedures, attached as Exhibit 2, shall be extended to be applicable to Niagara Mohawk from the Effective Date.

## **2.2 Transfer of Non-Transmission and Distribution Assets**

Transfers of non-T&D assets (or rights to use such assets) from RegCo to an unregulated affiliate will be priced at the higher of book value or fair market value.

## **2.3 Transfer of Services**

RegCo may continue to provide tariffed and corporate services (such as corporate governance, administrative, legal and accounting) to HoldCo and HoldCo's other subsidiaries for a transition period pending provision of such services by ServiceCo. Both prior to and following such transition, the provision of corporate services shall be subject to a written contract that, as applicable, identifies the personnel, assets, and services which will be provided. The services will be provided on a fully loaded cost basis.

The RegCo, HoldCo, ServiceCo, Unregulated Competitive Energy Affiliates and National Grid Other Affiliates may be covered by common property/casualty and other business insurance policies. The costs of such policies shall be allocated among the RegCo, HoldCo, ServiceCo and such affiliates in an equitable manner as defined in the approved cost allocation procedures.

## **2.4 Special Services**

RegCo will be allowed to provide to third parties services which have synergies with its regulated services (and hence allow it to manage its cost of providing those services and improve customer satisfaction). These services may include, but not be limited to operation, maintenance and construction services to customers equipment that are at a customer's explicit request and are related to energy delivery services (Rule 28 of P.S.C. 107). Any such services provided by RegCo will be subject to the following:

- (1) RegCo will commit that no such services provided to third parties will impose any additional cost on other utility ratepayers.
- (2) RegCo will track the costs of provision of such services for use in the context of future utility rate cases.
- (3) RegCo will give the Commission 60 days prior notice of its intention to introduce the above services. Such notice will describe the service, the synergies with the regulated service, the costs arising and the proposed manner of allocation. The Commission may then decide if prior approval is needed. If no notification is

received by RegCo within the 60 day period then approval shall be deemed to have been given.

- (4) The Commission will, where prior approval is required, provide expedited consideration of the provision of such services.
- (5) Where such approval is granted (or deemed to have been given in (3) above), the revenues from such services may be retained by RegCo in addition to its revenues for the provision of regulated utility service.

To the extent RegCo's current or planned provision of the services described above requires Commission authorization pursuant to Public Service Law Section 107, in approving this proposal the authorization is in the public interest and the Commission grants that authorization for the term of this settlement.

## **2.5 Human Resources**

### **2.5.1 Separation of Employees and Officers**

RegCo and the Unregulated Competitive Energy Affiliates will have separate operating employees. Operating officers (i.e., those officers providing other than corporate services) of RegCo will not be operating officers of any of the Unregulated Competitive Energy Affiliates. Officers of HoldCo may be officers of RegCo or an Unregulated Competitive Energy Affiliate, provided that a HoldCo officer may not be an officer of both RegCo and an Unregulated Competitive Energy Affiliate.

### **2.5.2 Employee Transfers**

If a RegCo employee accepts a position with an Unregulated Competitive Energy Affiliate, he or she will be required to resign from RegCo unless there is a conflict with the collective bargaining agreement in which case the collective bargaining agreement would control. Any such employee shall be prohibited from copying or taking any non-public customer or competitively sensitive market information from RegCo.

Employees may be transferred from RegCo to an Unregulated Competitive Energy Affiliate. Transferred employees may not be reemployed by RegCo for a minimum of one year after transfer. Employees returning to RegCo may not be transferred again to an Unregulated Competitive Energy Affiliate for a minimum of one year. RegCo will file annual reports to the Commission showing transfers between RegCo and Unregulated Competitive Energy Affiliates by employee name, former

company, former position, new company, new position, and salary or annualized base compensation. There will not be any temporary employee transfers between RegCo or HoldCo and any Unregulated Competitive Energy Affiliates.

Employees also may be transferred from RegCo to a National Grid Other Affiliate and vice-versa. National Grid has already entered into a commitment with the SEC, that it shall comply with Rule 53 (a) (3) in respect of the limitation on the use of any US utility subsidiary's employees in connection with providing services to Foreign Utility Companies (FUCOs). In essence, this requires that the value of such services shall not exceed 2% of the Registered Holding Company's revenue. National Grid proposes that such limitations be extended to cover any transfer of RegCo employees.

#### **2.5.3 Employee Loans in an Emergency**

The foregoing provisions in no way restrict any affiliate from loaning employees to RegCo to respond to an emergency that threatens the safety or reliability of service to consumers.

#### **2.5.4 Compensation for Transfers to an Unregulated Competitive Energy Affiliate**

An employee transfer credit equal to 25% of the employee's salary will be applied to reduce any stranded costs. This fee will apply for all transfers from RegCo to an Unregulated Competitive Energy Affiliate, e.g., NME.

#### **2.5.5 Employee Compensation and Benefits**

The compensation of RegCo employees may not be tied to the performance of any of the Unregulated Competitive Energy Affiliates or National Grid Other Affiliates, provided, however, that stock of the UK HoldCo may be used as an element of compensation and the compensation of common officers of HoldCo and RegCo may be based upon the operations of HoldCo and RegCo.

Employees of HoldCo, RegCo and the Unregulated Competitive Energy Affiliates and National Grid Other Affiliates may participate in common pension and benefit plans.

#### **2.5.6 Legal Representation**

RegCo shall have its own Chief Legal Officer/General Counsel, who shall not be shared with any Unregulated Competitive Energy Affiliate. The same law firm may represent RegCo and any affiliate on any matter other than transactions between

RegCo and that affiliate. On any matter not involving such an intracorporate transaction in which the interests of RegCo may be adverse to the interests of an affiliate, RegCo will take appropriate steps to ensure that RegCo's interests are vigorously and independently protected (such steps, by way of example and not limitation, could include having separate attorneys if a single law firm is used and creating a Chinese wall between such attorneys). With respect to all matters handled by outside counsel, HoldCo and its affiliates shall instruct outside counsel to take all reasonable steps to ensure that non-public customer and competitively sensitive information in the possession of RegCo is not communicated to an affiliate.

## **2.6 Maintaining Financial Integrity**

National Grid will agree to the following financial restrictions: In general, (i) RegCo assets will not be used as collateral for affiliate debt; and (ii) debt and equity requirements will be established for RegCo through the regulatory process. RegCo will not provide any financial assistance to its affiliates through loans, loan guarantees, letters of credit or other commitments. However, RegCo will be permitted to participate, as a borrower and lender, in the SEC-approved Money Pool established by US HoldCo.

Nothing in these restrictions will prevent the Company from transferring funds from its Opinac affiliate to any other affiliate at any time without Commission authorization.

## **2.7 Access to Books, Records and Reports**

Staff will have full access, on reasonable notice, and subject to resolution of confidentiality and privilege (e.g., attorney client, attorney work product, self critical) issues, to: 1) the books and records of UK HoldCo and of the US HoldCo and its majority owned subsidiaries; and 2) the books and records of all other HoldCo subsidiaries or affiliates, in English, to the extent necessary to audit and monitor any transactions which have occurred between the RegCo and such subsidiaries or affiliates.

## **2.8 Reporting**

Annually, RegCo will file reports on: Transfers of assets, cost allocations, employee transfers and employees in common benefit plans. Quarterly, US HoldCo will file a list of all National Grid's SEC filings with the Commission.

### **3 STANDARDS OF COMPETITIVE CONDUCT<sup>2</sup>**

The following standards of competitive conduct shall govern RegCo's relationship with any Unregulated Competitive Energy Affiliates or National Grid Other Affiliates.

#### **3.1 Use of Corporate Name and Royalties**

The rate plan in this settlement shall be in lieu of any and all "royalty" payments that could or might be asserted to be payable by any affiliate or imputed to the RegCo or credited to RegCo customers at any time, including after the expiration of this settlement.

There are no restrictions on any affiliate using the same name, trade names, trademarks, service names, service marks or a derivative of a name of the HoldCo or RegCo, or in identifying itself as being affiliated with the HoldCo or RegCo.

Promotional material may identify the affiliate as being affiliated with RegCo or HoldCo.

#### **3.2 Sales Leads**

RegCo will not provide sales leads involving customers in its service territory to any affiliate.

#### **3.3 Customer Inquires**

If a customer requests information about securing any service or product offered by ESCos, the RegCo may provide a list of all known ESCos operating in the area which may include its Unregulated Competitive Energy Affiliate(s).

#### **3.4 No Advantage Gained by Dealing with Affiliate**

RegCo will refrain from giving any appearance that RegCo speaks on behalf of an affiliate or that an affiliate, other than ServiceCo, speaks on behalf of the RegCo. RegCo will not participate in any joint promotion or marketing with its Unregulated Competitive Energy Affiliates.

The RegCo will not represent to any customer, supplier or third party that an advantage may accrue to such customer, supplier or third party in the use of the RegCos services as a result of that customer, supplier or third party dealing with any affiliate.

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<sup>2</sup> Sections 3.7 "Customer Information", 3.8 "Other Information" and 3.9 "Complaint Procedures" in the original Power Choice Settlement Agreement are deleted here because they are superceded by the Commission's rules governing Uniform Business Practices developed in Case 98-M-1343.



RegCo's affiliates will not represent to any customer, supplier or third party that an advantage may accrue to such customer, supplier or third party in the use of the RegCo's services as a result of that customer, supplier or third party dealing with that affiliate.

These provisions do not restrict the use of the name of HoldCo or RegCo as set forth in Section 3.1.

### **3.5 No Rate Discrimination**

All similarly situated customers, including ESCos and customers of ESCos, whether affiliated or unaffiliated, will pay the same rates for the RegCo's utility services. If there is discretion in the application of any tariff provision, RegCo must not offer its affiliate more favorable terms and conditions than it has offered to all similarly situated competitors of the affiliate.

### **3.6 FERC Jurisdiction**

Transactions subject to FERC's jurisdiction will be governed by FERC's orders or standards as applicable.

## **4. MISCELLANEOUS**

### **4.1 Annual Meeting**

Senior management of RegCo and US HoldCo will meet annually with senior Commission Staff to discuss the Company's plans related to capital attraction and financial performance.

### **4.2 Training and Certification**

US HoldCo and RegCo shall conduct training on these principles for officers, directors and senior managers. The officers, directors and senior managers of US HoldCo, RegCo, and Unregulated Competitive Energy Affiliates shall certify familiarity with these principles within forty-five days of PSC approval. New officers, directors and senior management should similarly certify familiarity within 45 days after taking their positions.

On an annual basis, designated officers should provide certification to the PSC of the companies' adherence to these standards.

**5. MERGERS AND ACQUISITIONS**

**5.1 Relationship to Divestiture**

Because the PSC will assert its authority to review merger applications under the Public Service Law, nothing in this agreement will limit the Company's ability to merge with or be acquired by another entity.

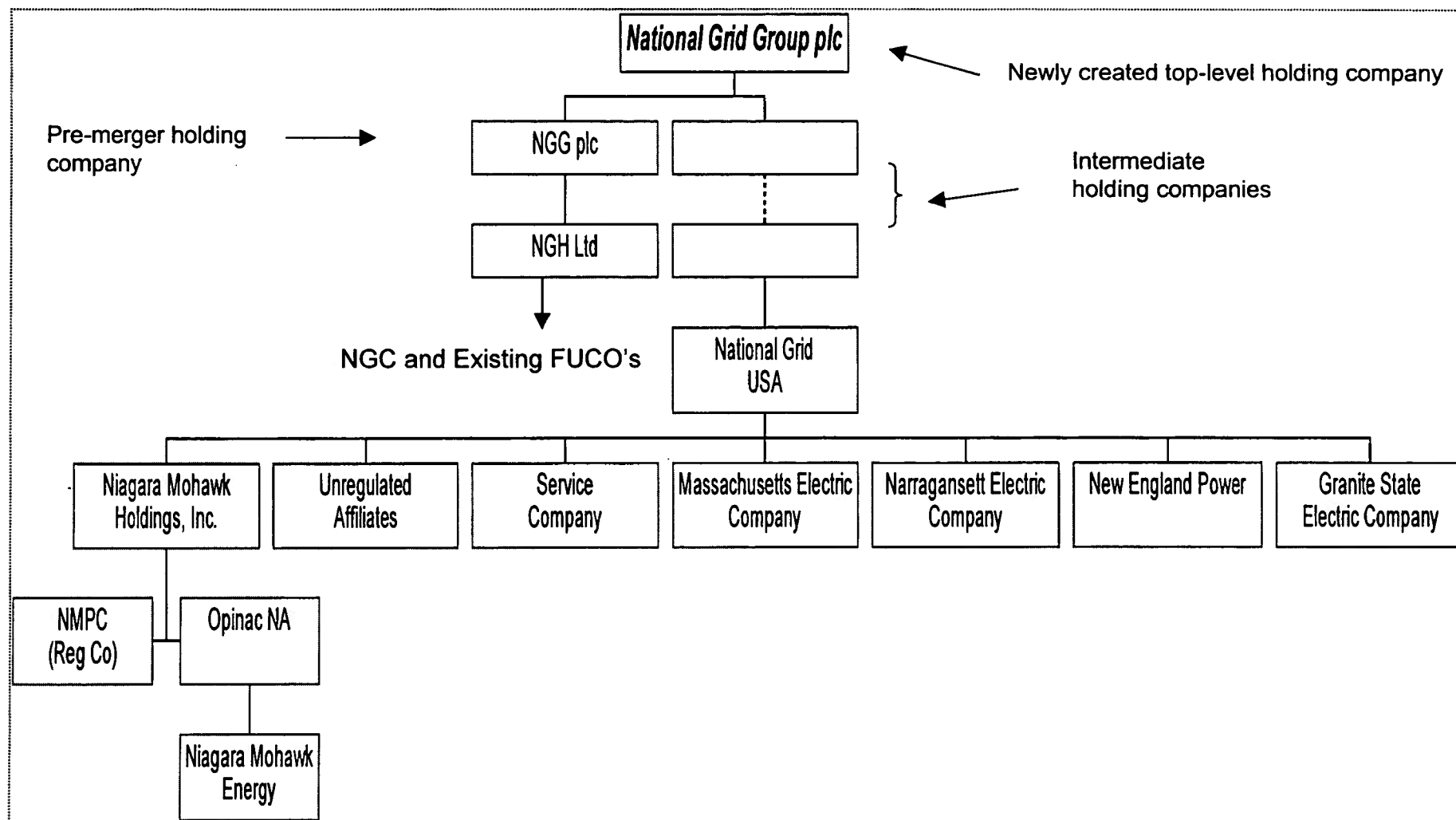
**5.2 Applicability of this Agreement Post Merger**

The provisions of this agreement shall continue in any merged entity.

**5.3 Expedited Review**

Staff and the Commission will give expedited review and treatment to any petition by RegCo or HoldCo in connection with a merger with another utility.

## Post-Merger Structure



**THE NATIONAL GRID GROUP PLC**  
**NEW ENGLAND ELECTRIC SYSTEM**  
**NEW ENGLAND POWER SERVICE COMPANY**

**POLICIES AND PROCEDURES**  
**FOR AFFILIATE TRANSACTIONS**

**JANUARY 2000**

This manual sets forth the policies and procedures that The National Grid Group plc (National Grid) companies will use to contract, bill, and account for affiliate transactions for goods and services covered by the cost regulations of the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (Act) following the acquisition of New England Electric System (NEES). The manual also contemplates the closing of the NEES acquisition of Eastern Utilities Associates (EUA) and reflects the merger of the EUA subsidiaries into the NEES operating companies.

## **I Corporate Organisation**

Upon the closing of the National Grid acquisition of NEES, National Grid will register as a public utility holding company under the Act. NEES is already a registered public utility holding company, and, as a result, has in place accounting and procedures for inter company contracting and billing that comply with the Act. Specifically, NEES has a service company, New England Power Service Company (NEPSCO), in place that complies with the Act and the SEC regulations that are issued thereunder. Following the National Grid acquisition of NEES, NEPSCO will continue as the source of most transactions between affiliates located within the United States (the NEES companies). In addition, NEPSCO will be the exclusive contracting agent between the NEES companies and National Grid companies operating outside the United States. NEPSCO will then distribute or allocate charges and revenues paid to or received from the National Grid companies operating outside the United States in accordance with the procedures set forth in this manual.

Following the closing of the NEES and EUA transaction, the NEES and EUA utility subsidiaries will be merged together, as will NEPSCO and EUA Service Company (EUA's service company). These mergers and the continuation of NEPSCO as the surviving service company assure that the procedures for affiliate contracting and accounting set forth in this manual will continue after the closing of the NEES acquisition of EUA.

## **II Treatment of Affiliate Transactions**

Following the closing of the National Grid acquisition of NEES, an array of services will be provided by the various affiliates on the expanded National Grid system. In the sections below, each kind of affiliate transaction is discussed in turn. Transactions that are not contemplated in the following sections or are not structured to comply with the standard procedures set forth below should be undertaken only following consultation with the Accounting Departments of NEES and National Grid.

### **A *NEPSCO contracts with NEES Affiliates for NEPSCO Services***

Prior to the acquisition by National Grid, NEPSCO used its own personnel to provide an array of services to its affiliates within NEES. NEPSCO provides administrative, accounting, supply chain management, human resources, internal audit, forecasting, information services, treasury operations including insurance and risk management, corporate communications, legal, rates and corporate management to the other NEES companies.

Following the acquisition, many of these services will continue to be provided by NEPSCO to other NEES companies, using established procedures, allocations, and accounting. Accordingly, NEES companies will continue to

contract with NEPSCO for services using a contract similar to that shown in Attachment 1. In addition, NEES companies will continue to use the blanket requests for recurring services or the specific requests for nonrecurring services shown in Attachment 2. Attachment 2 also includes the Company's policy for making service requests. The accounting for such transactions and the allocation of NEPSCO costs and overheads will continue pursuant to Attachment 3. These contracts and procedures have been reviewed and audited by the SEC and state regulators in the past, and will continue to be used for the allocation of NEPSCO costs following the merger.

Many of the regulatory commissions that establish rates for our regulated utility operations have implemented standards of conduct that require goods and services supplied by an affiliate to be priced at the lower of cost or market. Under SEC regulations, services and goods provided by NEPSCO to NEES operating companies are priced at cost. Management of the NEES companies has the responsibility as part of ongoing budgeting and planning to assure that services procured and provided by NEPSCO are competitive with the cost of equivalent services available in the market. This responsibility is discharged through continuing reviews of the Company's structure and staffing and through benchmarking analyses for compensation and productivity. Specific project requests may also be tested directly in the market by requesting similar services from unaffiliated vendors.

***B NEPSCO contracting with unaffiliated suppliers for goods and services provided to NEES affiliates***

At times, NEPSCO will contract with unaffiliated suppliers for goods or services that are incurred for the benefit of several subsidiaries. For example,

NEPSCO may contract with a management consultant to review operating procedures that will benefit several operating companies. Under this approach, NEPSCO executes a single contract, processes a single invoice and pays a single bill, and then allocates the contract costs appropriately to the operating companies without a mark up. This approach to contracting with unaffiliated entities is not required but may be used when convenient to administer a contract.

*C NEPSCO contracting with National Grid for goods and services provided to NEES affiliates*

National Grid System companies (principally, National Grid Company) will provide services to the NEES companies following the closing. The services will be provided exclusively pursuant to work orders and contracts between the applicable National Grid System company and NEPSCO. The contracts and service requests will be in a form similar to those included in Attachments 1 and 2. NEPSCO will in turn allocate the charges under the contracts to the appropriate NEES Company in accordance with allocators, which are consistent with those that have already been established for transactions among the NEES companies. This approach assures that all costs billed to NEES companies from National Grid companies are captured on the NEPSCO accounts and are appropriately allocated to NEES companies.<sup>1</sup>

National Grid companies will provide the Direct or Group Services to the NEES companies that are shown on Attachment 4. The services will be

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<sup>1</sup> As provided in NEPSCO's service agreements with its affiliates, bills for services rendered must be paid within 15 days. Thereafter, the amount due and unpaid accrues interest from the date of the bill at an annual rate of 2% above the lowest interest rate then being charged by the First National Bank of



provided pursuant to either blanket or specific requests for services processed through NEPSCO to National Grid Company using a form similar to that included in Attachment 2. The services provided by National Grid companies will be provided at cost including overheads to NEPSCO. The calculation of overheads is shown on Attachment 5, and is discussed below. NEPSCO will then allocate the costs billed to the appropriate NEES company. In addition to the Direct and Group Services shown on Attachment 4, the NEES Companies may add other requests from time to time, as required.

For example, National Grid Company's billing to NEPSCO for the service will depend upon whether the service is Direct or Group. If the service is a Direct Service, National Grid Company will bill NEPSCO for the cost of the service plus overheads. The overhead percentages will be derived from National Grid Company's overhead costs and will be billed through a percentage loader applied to the direct payroll billed for the underlying service. National Grid Company will use overhead loaders developed for the department doing the work, based on the overhead costs allocated to the department, excluding any profit margin. Direct costs, overheads, and the costs billed from outside vendors (without any National Grid Company overhead loading) will be accumulated in a separate work order for billing to NEPSCO. These costs will be subject to audit and confirmation by the National Grid Company and NEES Accounting Departments.

National Grid Company will also provide Group Services, which are general administrative and management services for all the companies in the Group as a whole, including both NEES Companies and National Grid's

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Boston on 90-day commercial loans. See Attachment 1 hereto. NEPSCO's service contracts with the National Grid System companies will also require 15-day payment with similar late-payment terms.

foreign subsidiaries. The costs for these Group Services will be allocated among all of National Grid's subsidiaries including the consolidated NEES Companies using the following four factors:

1. Revenues (excluding for the NEES Companies revenues for purchased power and stranded cost recovery).
2. Operating Profit
3. Employee numbers, and
4. Net Assets

These factors have been adopted for allocations of this kind by National Grid Company's regulator. The resulting costs will be billed from National Grid Company to NEPSCO using the methodology set forth in Attachment 5. These costs will then be reallocated by NEPSCO to NEES subsidiaries using the allocators that have already been approved by the SEC for the activity involved.

The budgeting and procurement controls within National Grid Company are summarised on the last page of Attachment 5. As those procedures set forth, National Grid Company has budgeting and monitoring procedures in place to assure that its costs for internal and external services are efficient and competitive with other providers in the market. National Grid Company's costs and efficiency are also subject to a rigorous regulatory evaluation as part of its periodic price review with significant incentives to improve productivity and produce efficiency gains during the period between price reviews. These reviews and incentives assure that services provided by National Grid Company to the NEES companies will be performed cost effectively. Under the accounting procedures set forth in this manual these

services will be provided to the NEES companies at cost without a profit margin. Disputes, if any, over accounting, billing, or the services provided will be resolved using the following procedures: (1) any accounting or billing disputes between National Grid Company and NEPSCO shall be referred to representatives of the National Grid Company and NEES Accounting Departments for resolution; (2) any disputes regarding the kind and quality of services provided by National Grid Company or NEES to the other company will be referred to the management of both companies who will confer and resolve the dispute.

*D      NEPSCO Billing to National Grid for Services Performed by it or other  
NEES Affiliates*

Just as the National Grid companies may provide Direct Services to NEES Companies, NEES Companies may provide Direct Services to National Grid. These services would also be provided pursuant to a contract and following a request for services from the National Grid company to NEPSCO. NEPSCO will then provide the service at cost using either NEPSCO personnel or the personnel of other NEES Companies. Billings will include the same overheads that NEPSCO would apply to contracts among NEES companies.

The processing of all billings to and from National Grid through NEPSCO assures that costs and overheads are accounted for properly and provided a clear audit trail for affiliate transactions between the NEES Companies and the balance of the National Grid Companies.

*E      Contracts for Goods and Services between NEES Operating  
Companies other than the Service Company*

The NEES Operating Companies also provide services among themselves ranging from emergency storm restoration services to equipment transfers. These goods and services are provided pursuant to contracts similar in form to that included in Attachment 6. Pricing for the service or goods is also at cost including overheads established in accordance with SEC policy and set forth in Attachment 7. These contracts are only available for services among NEES Companies. Contracts between NEES Companies and other affiliates within National Grid should be executed only by NEPSCO, and not by any other NEES company.

### **III Accounting and Modification**

NEPSCO will account for all affiliate transactions and billings in accordance with established procedures and SEC requirements. It will maintain its accounts in a fashion that allows separate reporting of transactions between NEES companies and their other affiliates within National Grid.

NEPSCO's billing procedures and allocations of costs have been filed with the SEC under the Act. These procedures and cost allocators shall not be changed without the approval of the Accounting Departments of NEES and National Grid Company, which will make necessary filings with the SEC at least 60 days before modifications are implemented.

**Attachment 1**

**NEW ENGLAND POWER SERVICE COMPANY  
25 Research Drive  
Westborough, Massachusetts 01582**

**SERVICE CONTRACT**

December 31, 1998

Massachusetts Electric Company  
25 Research Drive  
Westborough, MA 01582

New England Power Service Company (hereinafter called Service Company) is a company engaged primarily in the rendering of services to companies in the New England Electric System holding-company system. The organization, conduct of business and method of cost allocation of the Service Company are designed to meet the requirements of Section 13 under the Public Utility Holding Company Act of 1935 and the rules and regulations promulgated thereunder to the end that services performed by the Service Company for said associate companies will be rendered to them at cost, fairly and equitably allocated. Services will be rendered by Service Company only upon receipt from time to time of specific or general request therefor. Said requests may always be modified or cancelled by you at your discretion. The parties hereto agree as follows:

1. The Service Company agrees to furnish you upon the terms and conditions herein set forth such of the services described in Schedule I hereto as you may from time to time request. Service Company will also furnish, if available, such services not described in Schedule I as you may request. Notwithstanding the foregoing the Service Company shall not furnish under this agreement any engineering, construction, or maintenance services for a nuclear generating plant.

2. The Service Company has and will maintain a staff trained and experienced in the engineering, construction, operation, maintenance and management of public utility properties. In addition to the services of its own staff, Service Company will, after consultation with you concerning services to be rendered pursuant to your request, arrange for services of non-affiliated experts, consultants, accountants and attorneys.

3. All of the services rendered under this agreement will be at actual cost thereof. Direct charges will be made for services where a direct allocation of cost is possible. The methods of determining such costs and the allocation thereof are set forth in Schedule II hereto. These methods are reviewed annually and more frequently, if appropriate. Such methods may be modified or changed by Service Company without the necessity of an amendment of this agreement provided that in each instance all services rendered hereunder will be at actual cost thereof, fairly and equitably allocated, and all in accordance with the requirements of the Public

Utility Holding Company Act of 1935 and the rules and regulations and orders thereunder. You will be advised from time to time of any material changes in such methods.

4. Bills will be rendered during the first week of each month covering amounts due for the month calculated on an estimated basis using the actual expenses incurred to the extent possible during the second previous month. This estimated amount would be adjusted on the bill to be rendered by the conclusion of the following month. Any amount remaining unpaid after fifteen days following receipt of the bill shall bear interest thereon from the date of the bill at an annual rate of 2% above the lowest interest rate then being charged by the First National Bank of Boston on 90 day commercial loans. Services will be performed hereunder for not more than one year commencing January 1, 1999, and continuing through December 31, 1999, unless terminated at an earlier date by either party giving thirty days' written notice to the other of such termination at the end of any month.

5. This agreement will be subject to termination or modification at any time to the extent its performance may conflict with any federal or state law or any rule, regulation or order of a federal or state regulatory body having jurisdiction. The agreement shall be subject to approval of any federal or state regulatory body whose approval is a legal prerequisite to its execution and delivery or performance.

NEW ENGLAND POWER SERVICE COMPANY

By: /s/ John G. Cochrane

Treasurer

Accepted December 30, 1998

By /s/ Lawrence J. Reilly

**SCHEDULE I**  
**Description of Services Available from**  
**New England Power Service Company**

**Accounting:**

The keeping of accounts and collateral activities, including billing, payroll and customer relations; preparation of reports and preservation of records.

**Auditing:**

Periodic audits by Service Company auditors and the furnishing of reports and recommendations.

**Construction:**

Labor and equipment for construction and maintenance of electric properties. Assistance in obtaining and supervision of non-affiliated contractors.

**Corporate and Corporate Records:**

Cooperation with attorneys, officers and special counsel of associate companies on corporate matters, financing, regulation, contracts, claims and litigation. Services in connection with stockholders' and directors' meetings and keeping of corporate records.

**Customer Services:**

Services re policy development and functional direction of field business service departments, including rate application and training, plus specialized residential, commercial and industrial services.

**Emergencies:**

Assistance in emergency maintenance and restoration of utility service and in mobilization of personnel and equipment.

**Employee Relations:**

Service re labor relations, personnel, wage and salary schedules, employee training and safety and medical programs.

**Engineering:**

Civil, mechanical, electrical, and other engineering services: technical advice, design, installation, supervision, planning, research, testing, operation of communications, including microwave, and operation and maintenance of specialized technical equipment.

**Executive and Administrative:**

Consultation and services in management and administration of all aspects of electric utility business.

**Information Systems:**

Maintenance and operation of information systems and equipment for accounting, engineering, administration and other functions.

## **SCHEDULE II**

### **Determination of Cost of Service and Allocation Thereof**

Cost of service will be determined in accordance with the Public Utility Holding Company Act of 1935 and the rules and regulations and orders thereunder, and will include all costs of doing business incurred by the Service Company.

Records will be maintained for each Department and Division of the Service company in order to accumulate all costs of doing business and to determine the cost of service. These costs will include wages and salaries of employees and related expenses such as insurance, taxes, pensions and other employee welfare expenses, and rent, light, heat, telephone, supplies, and other housekeeping costs. In addition, records will be maintained of general administrative expenses, which will include the costs of operating the Service Company as a corporate entity.

Charges for services rendered and related expenses and non-personnel expenses (e.g. use of automotive equipment, etc.) will be billed directly to the serviced companies, either individually or, when the services performed are for a group of companies, by means of an equitable allocation formula. Each formula will have an appropriate basis such as customers, meters, employees, plant investments, inventories or operating revenues.

Charges for services will be determined from the time sheets of employees and will be computed on the basis of each employee's hourly rate plus a percentage factor to cover related expenses and general administrative expenses. Records of such related expenses and general administrative expenses will be maintained and subjected to periodic review.

Out-of-pocket expenses which are incurred for the serviced companies will be billed at cost. Charges for non-personnel expenses, such as for use of automobiles, trucks and heavy equipment, will normally be computed on the basis of costs per hour or per mile.



Attachment 2

LOGO NEW ENGLAND POWER SERVICE

New England Power Service Company  
25 Research Drive  
Westborough, MA 01581  
Tel. (617) 366-9011

July 9, 1984

Mr. Robert Wason  
Securities & Exchange Commission (SEC)  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Dear Mr. Wason:

Attached for your information are the two forms that are used by NEES companies when requesting the services of New England Power Service Company (NEPSCo). Exhibit A is for Blanket Requests which are recurring in nature. This form is sent out to each of the operating companies annually. Blanket Requests numbers that are not wanted are crossed out and the form is then signed by a "requesting company" officer and, in turn, by a NEPSCo officer (never the same person).

Exhibit B is used for specific requests which are for services which are nonrecurring in nature. The principal difference from the Blanket Request form is the need to describe in detail the nature of the work to be performed. The same approval procedure, however, is followed for specific requests as is used for Blanket Requests.

All costs billed to NEES companies are referenced by the applicable blanket or specific request number. The request procedure, therefore, is not only an approval process but it is also effectively a work order system.

If you have any further questions, please feel free to call.

Sincerely yours,

Howard W. McDowell  
Controller

Attachments:

A New England Electric System Company

Exhibit A

FROM: \_\_\_\_\_ BLANKET REQUEST No. 1-99 \_\_\_\_\_  
          Company Name                      Co. No.  
TO:    NEW ENGLAND POWER SERVICE COMPANY                      DATE \_\_\_\_\_, 19\_\_\_\_  
YOU ARE REQUESTED TO PERFORM DURING THE YEAR 19\_\_\_\_ THE SERVICES OUTLINED BELOW:

TYPE OF SERVICE

ENGINEERING (CLASS 3)

(THE EXTENT OF THE SERVICES WILL BE SUBJECT TO ORAL  
REQUESTS AND INSTRUCTIONS BY OUR REPRESENTATIVES.)

SERVICING (CLASS 4)

## DESCRIPTION OF WORK:

## REQUEST 1

PROPERTY TAX

PROPERTY TAX ACTIVITIES

## REQUEST 2

ENVIRONMENTAL AFFAIRS

ENVIRONMENTAL AFFAIRS ACTIVITIES

## REQUEST 3

ADMINISTRATIVE SERVICES

TRANSPORTATION  
 COMMUNICATIONS & CONTROL  
 BUSINESS INFORMATION SYSTEMS  
 OFFICE SERVICES

## REQUEST 4

CORPORATE

CORPORATE AND LEGAL ACTIVITIES

## REQUEST 5

EMPLOYEE RELATIONS

EMPLOYEE RELATIONS ACTIVITIES

## REQUEST 6

MEDICAL

MEDICAL ACTIVITIES

## REQUEST 7

LABOR RELATIONS

LABOR RELATIONS ACTIVITIES

## REQUEST 8

CONSUMER SERVICES

CONSUMER SERVICES ACTIVITIES

## REQUEST 9

ECONOMIC PLANNING

ECONOMIC PLANNING ACTIVITIES

## REQUEST 10

INFORMATION SERVICES

INFORMATION SERVICES ACTIVITIES

## REQUEST 8

CONSUMER SERVICES

CONSUMER SERVICES ACTIVITIES

## REQUEST 9

ECONOMIC PLANNING

ECONOMIC PLANNING ACTIVITIES

## REQUEST 10

INFORMATION SERVICESINFORMATION SERVICES  
ACTIVITIES

## REQUEST 11

PURCHASING, STORES AND MATERIALS  
CONTROL

PURCHASING, STORES AND  
 MATERIAL  
 CONTROL ACTIVITIES  
 FUEL PROCUREMENT ACTIVITIES

## REQUEST 12

RATE

RATE ACTIVITIES

## REQUEST 13

SAFETY

SAFETY ACTIVITIES

## REQUEST 14

BUDGETING

BUDGETING ACTIVITIES

## REQUEST 15

TREASURY

TREASURY ADMINISTRATION AND  
FINANCIAL ACTIVITIES

## REQUEST 16

RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT ACTIVITIES

## REQUEST 17

MANAGEMENT EXEC. AND ADMIN.

MANAGEMENT EXECUTIVE AND ADMIN. ACTIVITIES

## REQUEST 18

TRANSMISSION AND DISTRIBUTION

TRANSMISSION AND DISTRIBUTION ACTIVITIES

## REQUEST 19

INDUSTRIAL ENGINEERING

INDUSTRIAL ENGINEERING ACTIVITIES

## REQUEST 20 - 29 (VACANT)

## REQUEST 30

TREASURY EXEC. AND ADMIN.

TREASURY EXECUTIVE AND ADMIN. ACTIVITIES

## REQUEST 31

GENERAL ACCOUNTING

GENERAL ACCOUNTING ACTIVITIES

## REQUEST 32

PLANT ACCOUNTING

PLANT ACCOUNTING ACTIVITIES

## REQUEST 33

PAYROLL ACCOUNTING

PAYROLL ACCOUNTING ACTIVITIES

## REQUEST 34

CUSTOMER SERVICE

CUSTOMER SERVICE ACTIVITIES  
SYSTEM DIVERSIONS

## REQUEST 35

REVENUE ACCOUNTING

REVENUE ACCOUNTING ACTIVITIES

## REQUEST 36

## REQUEST 37

INVESTOR RELATIONS

INVESTOR RELATIONS ACTIVITIES

## REQUEST 38

AUDIT

GENERAL AUDIT ACTIVITIES

## REQUESTS 39-49 (VACANT)

## REQUEST 50

ENGINEERING - STEAM POWERGENERATION

OPERATION  
MAINTENANCE

## REQUEST 51

ENGINEERING - HYDRAULIC POWERGENERATION

OPERATION  
MAINTENANCE

## REQUEST 52

ENGINEERING - OTHER POWER GEN. &SUPPLY

OPERATION  
MAINTENANCE

## REQUEST 53

ENGINEERING - TRANSMISSION

OPERATION  
MAINTENANCE

## REQUEST 54

ENGINEERING - DISTRIBUTION

OPERATION  
MAINTENANCE

## REQUEST 55 - 99 (VACANT)

FOR THE REQUESTING COMPANY	NOTED	ACCEPTED FOR
Originated BY _____ Date _____		NEW ENGLAND POWER SERVICE COMPANY
Approved by _____ Date _____		By _____ Date _____
_____ Date _____		Date _____ Date _____
		Started _____ completed _____

FROM _____	CL. _____	CO. _____	REQUEST NO. _____
COMPANY			
TO NEW ENGLAND POWER SERVICE COMPANY		DATE _____ 19 _____	
YOU ARE REQUESTED TO PERFORM THE SERVICES OUTLINED BELOW			
<u>TYPE OF SERVICE</u>			
<u>ENGINEERING AND CONSTRUCTION DIVISION</u>		TOTAL ESTIMATE \$ _____	
CONSTRUCTION		DATE OF ESTIMATE _____	
ENGINEERING		TO BE COMPLETED BY _____ 19 _____	
REQUESTS, SHOW TOTAL NEPSCO. COST OF		NOTE FOR CONSTRUCTION AND ENGINEERING	
SERVICING DIVISION		PROJECT, INCLUDING ANY PREVIOUS	
EXPENDITURES FOR PRELIMINARY ENGINEERING,			
INVESTIGATIONS, ETC.			
JOB TITLE:			
DESCRIPTION OF WORK			
JUSTIFICATION (DETAIL ON REVERSE SIDE OR ATTACHED SHEET)			
CMS REF.	PROJECT REF.	CLASSIFICATION	
		CAPITAL O&M R&D	

LOCATION (CONSTRUCTION WORK ORDERS)	A R E A	CHARGED WORK UNIT \\NEPSCO/	W O C D N E P S C O	CHARGED WORK UNIT \\OPER.COS./	W O C D N E P S C O	ENGRG. FORM ORDER	FIELD ENGRG. & SUPV. WORK ORDER	INTEREST & REAL ESTATE TAXES WORK ORDER	CONSTR./ OPER./ MAINT. WORK ORDER	ACCOUNT OR PLANT UNIT CODE


FOR FURTHER INFORMATION REFER TO:

FOR THE REQUESTING COMPANY	NOTED	ACCEPTED FOR NEW ENGLAND POWER SERVICE COMPANY
ORIGINATED BY _____ DATE _____		BY _____ DATE _____ (VICE PRESIDENT N.E.P.S.CO.)
APPROVED BY _____ DATE _____		BY _____ DATE _____ (FUNCTIONAL ACCEPTANCE - ENGINEERING)
_____ DATE _____		BY _____ DATE _____ (FUNCTIONAL ACCEPTANCE - CONSTRUCTION)
_____ DATE _____		(FOR ENGINEERING/CONSTRUCTION USE ONLY) ESTIMATED START DATE _____ COMPLETION DATE _____

LOGO New England Power Service  
A NEES Company

# **MEMORANDUM**

To:	List	Phone:	(508) 389-2549
From:	A.D. Houston	File:	Projapr2.wpd
Subject:	Service Company Request Approval	Date:	May 22, 1997

As part of a continuing effort to ensure compliance with various regulatory agencies, I would like to reiterate the Security and Exchange Commission (SEC) rules for NEPSCO Request approvals.

The SEC and NEPSCo have an agreement that requires a NEPSCO Request be signed by a minimum of two people:

- 1) A Requesting Company Officer
- 2) An officer of NEPSCo

The two people listed above can never be the same person. If individual organizations/functions wish to require additional signatures for review purposes, there are already lines in place on the NEPSCo Request Report (NEW0/340) for more signatures. Please note, the SEC does not require these additional signatures.

Once a NEPSCo Request has the required signatures, the original must be sent to NEPSCo Accounting, located in General Accounting in Westborough. If the NEPSCO Request does not have the appropriate signatures, it will be returned to the originator for completion.

Attached for your convenience is a list of company officers for the Retail Companies, NEP and NEPSCo. All people listed have the ability to approve a NEPSCo Request for their respective companies.

If you have any questions or comments, you can contact Howard McDowell, Controller at 22021 or Bill Richer, Manager of General Accounting at 22311.

List: See Attached

Distribution List

A.H. Aitken  
 J.C. Amoroso  
 L.E. Bailey  
 E.A. Capommachio  
 J.G. Cochrane  
 E.P. Cody  
 D.C. Delurey  
 J.A. Donahue  
 R.L. Dumouchel  
 C.L. Eaton  
 P.G. Flynn  
 R.L. Francazio  
 R.W. Frost  
 D.F. Goodwin  
 D.F. Grant  
 M.E. Hachey  
 R.M. Holmes  
 D.L. Holt  
 B.E. Huston

M.E. Jsanis  
 D.C. Kennedy  
 R.J. Korsak  
 S.M. Larson  
 C.A. LaFleur  
 J.L. Levett  
 R.E. Loomis  
 J.D. Luchini  
 J.F. Malley  
 R.L. McCabe  
 H.W. McDowell  
 R.H. McLaren  
 R.M. Mellor  
 C.H. Moser  
 F.A. Nangle  
 R. Nadeau  
 J.L. Palmer  
 C.O. Paradise  
 L.M. Pastuszek

A.C. Pini  
 R.A. Racine  
 K.L. Ramsauer  
 W.R. Richer  
 L.J. Reilly  
 T.G. Robinson  
 T.E. Rogers  
 C.E. Root  
 J.W. Rowe  
 M.F. Ryan  
 N.H. Sala  
 R.P. Sergel  
 D.E. Snay  
 J.D. Tranen  
 A.H. Turner  
 J.W. VanSant  
 W. Watkins, Jr.  
 D.G. Webster  
 R.K. Wulff



**Massachusetts Electric Company**

**Officers (As of May 1, 1997)**

<u>Title</u>	<u>Name</u>
Chairman	Richard P. Sergel
President	Lawrence J. Reilly
Vice President	John C. Amoroso
Vice President	Eric P. Cody
Vice President	Charles H. Moser
Vice President	Lydia M. Pastuszek
Vice President	Anthony C. Pini
Vice President	Christopher E. Root
Vice President	Nancy H. Sala
Vice President	Dennis E. Snay
Treasurer	Michael E. Jesanis
Clerk	Robert King Wulff
Assistant Treasurer and Controller	Howard W. McDowell
Assistant Clerk	Thomas G. Robinson

## New England Power Company

Officers (As of May 1, 1997)

<u>Title</u>	<u>Name</u>
Chairman	John W. Rowe
President	Jeffrey D. Tranen
Vice President	Andrew H. Aitken
Vice President	Lawrence E. Bailey
Vice President	Jeffrey A. Donahue
Vice President	Cheryl A. LaFleur
Vice President	John L. Levett
Vice President	John F. Malley
Vice President	Arnold H. Turner
Vice President	Jeff W. VanSant
Vice President	Michael E. Hachey
Treasurer	Michael E. Jesanis
Clerk	Robert King Wulff
Assistant Treasurer	John G. Cochrane
Controller	Howard W. McDowell
Assistant Clerk	Kirk L. Ramsauer

**Granite State Electric Company****Officers (As of May 1, 1997)**

<u>Title</u>	<u>Name</u>
<b>Chairman</b>	<b>Richard P. Sergel</b>
<b>President</b>	<b>Lawrence J. Reilly</b>
<b>Executive Vice President</b>	<b>Cynthia A. Arcate</b>
<b>Treasurer and Assistant Secretary</b>	<b>Howard W. McDowell</b>
<b>Secretary</b>	<b>Paul R. Marshall</b>
<b>Assistant Treasurer</b>	<b>John G. Cochrane</b>

**The Narragansett Electric Company**

**Officers (As of May 1, 1997)**

<u><b>Title</b></u>	<u><b>Name</b></u>
<b>Chairman</b>	<b>Richard P. Sergel</b>
<b>President</b>	<b>Robert L. McCabe</b>
<b>Executive Vice President</b>	<b>William Watkins, Jr.</b>
<b>Vice President</b>	<b>Richard W. Frost</b>
<b>Vice President and Treasurer</b>	<b>Alfred D. Houston</b>
<b>Vice President</b>	<b>Shannon M. Larson</b>
<b>Vice President</b>	<b>Richard Nadeau</b>
<b>Vice President</b>	<b>Michael F. Ryan</b>
<b>Secretary</b>	<b>Thomas G. Robinson</b>
<b>Assistant Secretary</b>	<b>Craig L. Eaton</b>
<b>Assistant Treasurer</b>	<b>John G. Cochrane</b>
<b>Controller</b>	<b>Howard W. McDowell</b>

# **New England Power Service Company**

## **Officers (As of May 1, 1997)**

<b><u>Title</u></b>	<b><u>Name</u></b>
<b>Chairman</b>	<b>John W. Rowe</b>
<b>President</b>	<b>Alfred D. Houston</b>
<b>Executive Vice President</b>	<b>*David L. Holt</b>
<b>Vice President</b>	<b>Andrew H. Aitken</b>
<b>Vice President</b>	<b>Ralph E. Loomis</b>
<b>Vice President</b>	<b>John G. Cochrane</b>
<b>Vice President</b>	<b>Dan C. Delurey</b>
<b>Vice President</b>	<b>Peter G. Flynn</b>
<b>Vice President</b>	<b>Don F. Goodwin</b>
<b>Vice President</b>	<b>*David C. Kennedy</b>
<b>Vice President</b>	<b>Cheryl A. LaFleur</b>
<b>Vice President</b>	<b>Robert H. McLaren</b>
<b>Vice President</b>	<b>*Chester O. Paradise</b>
<b>Vice President</b>	<b>Thomas E. Rogers</b>
<b>Treasurer</b>	<b>Michael E. Jesanis</b>
<b>Assistant Clerk</b>	<b>Kirk L. Ramsauer</b>
<b>Assistant Treasurer</b>	<b>John L. Palmer</b>
<b>Controller</b>	<b>Howard W. McDowell</b>

\*      **Considered Primary Signers**

### Attachment 3

## NEPSCO Accounting System

The following is a basic description of how the NEPSCO accounting and billing system operates

There are five ways that costs are billed out to the companies served by NEPSCO

1. Direct charges
2. Allocated charges
3. Clearing accounts
4. Service company operating costs
5. Compensation for use of capital

### Direct charges

These costs include payroll, outside vendor costs, materials, personal expense, etc. When the costs are incurred, an identification is made as to which company or companies benefited from the services provided. This identification is made on a source document such as a time sheet, vendor invoice or expense account. All NEPSCO employees fill out time sheets indicating the account to be charged including the company for whom the work was performed.

### Allocated charges

The same type of costs described under direct charges can be billed out using a predetermined allocation formula which are shown on attachment 1. The allocation formulas are calculated annually and provided to all department heads and managers in NEPSCO with the instructions that:

Instructions are issued to all NEPSCO employees that the predetermined allocation formulas "should only be used when the resulting breakdown accurately reflects both the nature of the effort performed and the companies that benefit from such effort. However, when it is clear that the charges apply to an individual company, then that company should be charged directly. In addition there may be instances in which the percentage allocation is not appropriate. In those instances, the companies should be listed individually on the document along with the appropriate allocation of charges." The burden of making this determination is on the person preparing and the person approving the source document.

### Clearing accounts

A clearing account accumulates costs for a one month period and then distributes these costs at the end of the month. Clearing accounts are classified into three types:

The first type accumulates overhead costs such as fringe benefits (e.g., pensions, health insurance, other postretirement benefits, etc) and various support groups (e.g., personnel, reproduction, buildings and grounds, etc). The costs in these clearing accounts are distributed out to an individual department overhead clearing account which is the second type of clearing account. This distribution is based primarily on either each department's manpower (fringe

benefits, personnel) or floor space occupied (building and grounds). These department overhead clearing accounts also accumulate charges from within the department itself, such as office supplies and office equipment. The amounts accumulated in these department overhead accounts is then charged out to those companies to whom the department's payroll is charged in the same proportions calculated on a monthly basis.

The third type of clearing account accumulates and allocates costs based on the usage of specific services performed by NEPSCO such as the computer room, transportation, etc. The computer room costs are charged out based on an identification for each job that is run on the computer as to which company such job is being run for. Transportation costs are charged out based on vehicle usage tickets on which the user must identify which company should be charged for such usage.

A complete listing of all the clearing accounts is listed in Attachment 2.

#### NEPSCO operating costs

These costs are costs that are incurred for the operating of NEPSCO as a corporate entity. All costs in this category are allocated to each company based on the percent of total NEPSCO payroll charged to each company.

#### NEPSCO compensation for use of capital

NEPSCO is allowed by the SEC to earn a utility (NEP's) rate of return on its common equity. This rate of return is updated whenever NEP's return changes and this return including related income taxes is billed out to each company based on the percent of NEPSCO payroll charged to each company.

#### Attachment 1

##### Allocation Methods

0232	Retails only maintenance (O&M) ex wheeling costs plus customer service sales expenses	Transmission and Distribution (T&D) operation and maintenance and
0235	Retails & NEP	Same as 0232
0243	Material control	Inventory ex fuel
0247	Cust Acctg	# of customers All retails
0249	Diversions	# of customers - All retails
0253	Engineering Dist	Capital budgets - All retails
0256	T&D supv	T&D O&M Budget by company
0257	T&D supv(Ex Narra)	T&D O&M budgets by company (ex Narra)
0272	Shareholders Svcs	Total NEPSCO billings - assoc. companies
0282	Other Svcs NEES	NEES 25%; remainder based on 0235
0297	Shared Microwave Sys	Air line circuit miles
0342	Payroll acctg	# of employees
0345	Empl Info system	# of employees

0346	Time entry	# of employees
0352	Personnel & Labor	# of employees
0354	Purchasing	# of purchase orders
0358	Dielectric testing	# of aerial devices
0369	HR	# of nonunion employees
0375	Purch,Mtl & payable	Checks process, purchase orders, inventory ex fuel
0380	All Company Alloc.	Same formula as 0232 but including all companies
0471	Archives	# of records stored
0447	Customer acctg (I/S)	# of customers - All retails - same as 0247
0435	Legal/Prop. Records (I/S)	Same as 0235
0472	Shareholder Svcs (I/S)	Same as 0272

## Attachment 2

### Clearing accounts

#### Building & grounds

##### Thrift Plan

Fringe benefits (Group Ins, Health Ins, Medicare, Pension, FAS 106, FAS 112, etc)

General Liability Insurance & Workers Comp

Office service

Reproduction

Computer Operations

Remote computer operations

Engineering supervision

#### Department overhead

Rubber gloves testing

Construction department clearing accounts\*

Communications and controls

Transportation supervision

R&D

Transportation expense

Heavy equipment expense

Shared Microwave System

Millbury Training Center

Central Warehouse

Although labelled as the Construction department, this group does a variety of physical work which may be construction or maintenance related.



#### **Attachment 4**

Incorporated by reference to Exhibit B-2.1 (Central Administrative Services Provided to NEES to SEC File No. 70-9473).

#### **Attachment 5**

Incorporated by reference to Exhibit B-2.2 (Analysis of Corporate Cost Allocation - 1999 Business Plan), Exhibit B-2.3 (Overhead Accounts for National Grid Company Services), Exhibit B-2.4 (Reallocation of Estimated National Grid Bill), and Exhibit B-2.5 (NEES/Grid Domestic Cost Savings) to SEC File No. 70-9473.

#### **Cost Collection and Control within NGC**

Individual departmental costs are the responsibility of departmental managers, and are subject to a range of internal controls from initial procurement to final payment.

#### **Procurement Controls**

Access to raise purchase orders for goods and services is restricted to personnel with relevant authority, as delegated from management. The levels of authority are detailed, and are subject to periodic review. Furthermore individuals are restricted in the budgets against which orders are raised.

Segregation of duties ensures that individuals who raise purchase orders cannot approve invoices relating to that order.

Invoices are coded to specific budgets based on the information on the purchase requisition.

In the case of invoices approved by goods receipt notes, once again segregation of duties ensures that individuals who raised orders cannot raise a goods receipt note for that purchase order.

#### **Payment Controls**

Invoices are not paid unless supported by a purchase order and goods receipt note.

#### **Cost Controls**

Individual departmental budgets are approved by senior management through the business planning and budget process. Each departmental budget is reviewed individually by senior management staff. Following this review, the consolidated plans and budgets are presented for approval to the Board of Directors.

Throughout the year, departmental results are continually measured against budget, and latest forecast, with detailed variance analyses required for inclusion in senior management reports.

Departmental managers receive dedicated support from finance staff in order to monitor costs, and investigate variances.

**Audit**

Individual departmental expenditure is subject to annual review by external auditors, and periodic review by internal auditors.

**Regulatory Review**

In addition to the above controls, it should be noted that NGCs costs are subject to rigorous review by OFGEM, the UK regulator, a process that is currently underway.

## Attachment 6

**MUTUAL ASSISTANCE AGREEMENT**

WHEREAS, the Massachusetts Electric Company, Nantucket Electric Company, The Narragansett Electric Company, Granite State Electric Company, New England Power Company, New England Electric Transmission, New England Hydro-Transmission Corporation and New England Hydro-Transmission Electric Company Inc. (individually, a Company and together, the Companies) are each an operating electric utility and an affiliated company within the New England Electric System in Massachusetts,

WHEREAS, each of the Companies from time to time have required and may continue to require limited incidental assistance and services to ensure that their electric utility operations and equipment are maintained and perform in accordance with good utility practice,

WHEREAS, each of the Companies may find it from time to time economic and efficient to obtain from one another such needed services and assistance, and provide the same to one another at cost,

NOW, THEREFORE, the Companies enter into this Mutual Assistance Agreement.

**COVENANTS**

1. Each Company will, to the extent possible, respond to requests from any other Company for specific or general incidental assistance and services. Such requests may be modified or cancelled by the requesting Company and may be refused by the responding Company.

2. Requests for incidental assistance and services shall generally be for the types of services set forth in Exhibit A, attached hereto and incorporated by reference.

3. All incidental assistance and services rendered under this Mutual Assistance Agreement will be at actual cost thereof. Direct charges will be made for assistance and services.

4. Bills for incidental assistance and services will be rendered as soon as practicable after the close of each month. Bills shall be paid as promptly as practicable following receipt.

5. This Mutual Assistance Agreement is subject to modification or termination at any time to the extent that its performance may conflict with any federal or state law or any rule, regulation or order of a federal or state regulatory body having jurisdiction thereover. This Agreement is furthermore subject to approval of any federal or state regulatory body whose approval is a legal prerequisite to its execution and performance.

6. This Agreement shall be in effect for calendar year 2000.

7. Any number of counterparts of this Mutual Assistance Agreement may be executed, and each shall have the same force and effect as an original instrument, as if all parties to all counterparts had signed the same instrument.

MASSACHUSETTS ELECTRIC COMPANY

By s/Larry Reilly

Title President

NANTUCKET ELECTRIC COMPANY

By s/ Larry Reilly

Title President

THE NARRAGANSETT ELECTRIC COMPANY

By s/ Larry Reilly

Title President

GRANITE STATE ELECTRIC COMPANY

By s/ Larry Reilly

Title President

NEW ENGLAND POWER COMPANY

By s/ John G. Cochrane

Title Treasurer

NEW ENGLAND ELECTRIC TRANSMISSION

By s/ John G. Cochrane

Title Treasurer

NEW ENGLAND HYDRO-TRANSMISSION CORPORATION

By s/ John G. Cochrane

Title Treasurer

NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY

By s/ John G. Cochrane

Title Treasurer

## **Exhibit A**

### **Description of Assistance and Services Available**

#### ***Construction and Maintenance***

Manpower and equipment for construction, extension, improvement, maintenance or repair of electric properties.

#### ***Emergencies***

Assistance in emergency maintenance and restoration of utility service and in mobilization of personnel and equipment.

#### ***Engineering***

Engineering services; technical advice, design, installation, supervision, planning, research, testing, operation of communications, and operation and maintenance of specialized technical equipment.

#### ***Stores***

Services re storing of materials, supplies and equipment.

#### ***Miscellaneous***

Consulting and monitoring services; land and/or real facilities rentals related to transmission or wholesale power sales; reimbursement of convenience expenses.

**Exhibit B****Determination of Cost of Service**

Cost of service will be determined in accordance with the rules, regulations and orders of the Securities Exchange Commission, and will include all costs of doing business incurred by the providing Company.

Records will be maintained for each unit of the providing Company in order to accumulate all costs of doing business and to determine the cost of service. These costs will include wages and salaries of employees and related expenses such as insurance, taxes, pensions and other employee welfare expenses, and general administrative costs.

Charges for services rendered and related expenses and non-personnel expenses (e.g., use of automotive equipment, etc.) will be billed directly to the requesting Company.

Charges for services will be determined from the time sheets of employees and will be computed on the basis of each employee's hourly rate plus a percentage factor to cover related expenses and general administrative expenses. Records of such related expenses and general administrative expenses will be maintained and subjected to periodic review.

Out-of-pocket expenses which are incurred for the requesting Company will be billed at cost. Charges for non-personnel expenses, such as for use of automobiles, trucks and heavy equipment, will normally be computed on the basis of costs per hour or per mile.

## Attachment 7

**Overhead Rates for Indirect Charges of NEES's Intercompany Billing**Types of Costs Billed to Associated Companies

**Direct Charges** - include payroll, outside vendor costs, materials, transportation, personal expense and computer expenses. When costs are incurred, an identification is made as to which company or companies benefited from the services provided. The identification is made on a source document such as an employee time sheet, vendor invoice, or transportation ticket.

**Indirect Charges** - applied as a percentage to payroll dollars or value of inventory issued and include overhead costs such as:

- a. Time not worked: (an accrual for the payment of hours an employee does not work, examples are paid vacation, holidays, and sick time).
- b. Bonus & Goals programs: (employee compensation programs.)
- c. Stores handling: (loading percentage added to inventory issues to recover the cost of operating the stockrooms.)
- d. Employee Benefits: (pensions, health insurance, payroll taxes, etc.)
- e. Supervision & Admin: (loading percentage to recover supervision, support departments, other general and administrative costs that support the employee performing the service.)