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Michael E. Guerin
Director
Customer Satisfaction and Strategic Planning

March 30, 2007

VIA ELECTRONIC MAIL
AND AIRBORNE EXPRESS

Sandra S. Sloane
Director of Office of Consumer Services
New York State Department of Public Service
Three Empire State Plaza
Albany, NY 12223-1350

Re: PSC Case No. 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition; Opinion and Order Authorizing Merger and Adopting Rate Plan, issued December 3, 2001.

Dear Director Sloane:

In compliance with Section 9.2.2 of Attachment 9 of the Joint Proposal approved by the Commission in the above referenced proceeding, Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid" or "Company") respectfully submits an original and five copies of the Company's Service Quality Assurance Program Report for the year ended December 31, 2006.

Additionally, in accordance with Section 9.3.1 of the Service Quality Assurance Program, Appendix A of this filed report provides National Grid's proposal to maintain the current portfolio of service quality standards for years 7 (2008) through 9 (2010).

Any questions concerning this report may be directed to me or Timothy Graham at 315-460-7076 or by email to Timothy.Graham@us.ngrid.com.

Sincerely,

Michael E. Guerin

Enclosures

xc:
Secretary Jaclyn A. Brilling
Robert Visalli
Jean Lowe
Jeremy Euto
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PSC Case No. 01-M-0075
National Grid USA and Niagara Mohawk Merger Joint Proposal
Service Quality Assurance Program Report
For the Quarter Ended December 31, 2006

Summary Sheet 1

TARGET			POTENTIAL ANNUAL PENALTY	ACTUAL YTD RESULTS THROUGH 31-Dec-2006	PENALTY INCURRED
Customer Service Measures:					
1. PSC Complaint Rate					
Rate Interval (per 100K customers)					
< 3.0			$0	0.98	$0
=3.0			$500,000		
>3.0 - 5.0			$500,000 to $4,000,000		
>5.0			$4,000,000		
2. Residential Transaction Satisfaction Index					
Residential Transaction Satisfaction Index Interval					
>82.0			$0		
=82.0			$250,000		
<82.0 - 78.0			$250,000 to $2,000,000	80.3	$993,750
<78.0			$2,000,000		
3. Small/Medium Commercial & Industrial(C&I) Transaction Satisfaction Index					
C&I Transaction Satisfaction Index Interval					
>79.0			$0		
=79.0			$250,000		
<79.0 - 75.0			$250,000 to $2,000,000	77.0	$1,125,000
<75.0			$2,000,000		
4. Percent Meters Read					
Percent Meters Read					
>96.0			$0	97.9	$0
=96.0			$250,000		
<96.0 - 95.0			$250,000 to $2,000,000		
<95.0			$2,000,000		
5. Percent Calls Answered Within 30 Seconds					
Percent Calls Answered Within 30 Seconds					
>76.0			$0	78.8	$0
=76.0			$250,000		
<76.0 - 71.0			$250,000 to $2,000,000		
<71.0			$2,000,000		
6. Low Income Customer Assistance Program(LICAP)					
Target	1/1/06 12/31/06 Goal	Performance Against Goal			
Enrollment	3,780	>95.0%	$0	4,096	$0
		=95.0%	$500,000		
		<95.0% - 90.0%	$500,000 to $1,000,000		
		<90.0%	$1,000,000		

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PSC Case No. 01-M-0075
National Grid USA and Niagara Mohawk Merger Joint Proposal
Service Quality Assurance Program Report
For the Quarter Ended December 31, 2006

Summary
Sheet 2

TARGET	POTENTIAL ANNUAL PENALTY	ACTUAL YTD RESULTS THROUGH 31-Dec-2006	PENALTY INCURRED
Electric Reliability Measures:			
7. System Average Interruption Frequency Index(SAIFI)			
SAIFI Interval (Number of outages per customer per year)			
Under 0.93	$0		
.93 and higher	$4,400,000	1.01	$4,400,000
8. Customer Average Interruption Duration Index(CAIDI)			
CAIDI Interval (Average hours per interruption)			
Under 2.07	$0	2.05	
2.07 and higher	$4,400,000		
9. Momentary Interruptions (MI)			
Interval:			
115KV			
<=200	$0	134	
>200 to <250	$366,500		
>=250	$733,000		
23 - 69KV			
<=725	$0	388	
>725 to <825	$366,500		
>=825	$733,000		
Distribution			
<=2000	$0	1,670	
>2000 to <2200	$366,500		
>=2200	$733,000		
Total Penalty Incurred			**$6,518,750**

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PSC Case No. 01-M-0075
National Grid USA and Niagara Mohawk Merger Joint Proposal
Service Quality Assurance Program Report
Calendar Year 2006 - Monthly Results

Summary
Sheet 3

Customer Service Measures:	January	February	March	April	May	June	July	August	September	October	November	December
1. PSC Complaint Rate	0.65	1.18	0.95	0.71	0.89	0.77	1.54	0.95	1.06	0.95	1.12	1.01
2. Residential Transaction Satisfaction Index	-	-	79.6	-	-	80.8	-	-	80.8	-	-	80.3
3. Small/Medium Commercial & Industrial(C&I) Transaction Satisfaction Index	-	-	76.2	-	-	76.0	-	-	77.7	-	-	78.1
4. Percent Meters Read	98.2	98.2	98.3	98.9	98.0	97.8	97.9	97.9	98.0	95.4	98.1	98.0
5. Percent Calls Answered Within 30 Seconds	80.2	80.0	83.6	79.2	76.6	77.5	74.7	69.8	67.4	83.6	85.2	89.1
6. Low Income Customer Assistance Program(LICAP) Enrollment	170*	169*	312	330	469	619*	513	695	475	184	102	58
Electric Reliability Measures:												
7. System Average Interruption Frequency Index(SAIFI)	0.058	0.032	0.102	0.052	0.095	0.109	0.132	0.092	0.080	0.106	0.053	0.095
8. Customer Average Interruption Duration Index(CAIDI)	2.05	1.97	1.37	2.36	2.52	1.83	2.37	2.47	1.86	2.31	1.96	1.45
9. Momentary Interruptions (MI) Interval:												
115KV	8	5*	8	7	13	16	33	8	11	12	6	7
23 - 69KV	40	7	27	22	33	46	83	38	34	31	17	10
Distribution	104	54	71	71	132	257	265	183	147	157	151	78

*Correction made to January, February and June.

Case No. 01-M-0075
National Grid USA and Niagara Mohawk Merger Joint Proposal
Service Quality Assurance Program Report
For the Year Ended December 31, 2006

I. INTRODUCTION

Niagara Mohawk Power Corporation d/b/a National Grid (the "Company") has prepared this report on the Service Quality Assurance Program for the year ending December 31, 2006, in compliance with requirements set forth in paragraph 9.2.2 (Reporting) of Attachment 9 to the Joint Proposal filed on October 11, 2001 (revised on October 7, 2004) in Case 01-M-0075, and approved by the Commission in Opinion No. 01-6, originally issued December 3, 2001, revised, approved and issued on March 11, 2005**.**

This report includes an overview of the performance of the Company's Customer Service organization during 2006, details on performance results for the six Customer Service measures with potential penalties for poor performance, details on the performance results for Collections Satisfaction, and an overall assessment of Customer Service for the year.

Additionally, performance results for the three Electric Reliability Measures for which there are potential penalties are presented. A more complete presentation and further discussion of those measures can be found in the separately filed Annual Reliability Report and the Annual Power Quality Report.

In accordance with section 9.3.1 of the Service Quality Assurance Program, **Appendix A** of this document provides National Grid's proposal as to whether the service quality measures should be modified for years 7 (2008) through 9 (2010).

II. CUSTOMER SERVICE 2006 OVERVIEW

January 2006 marked the fourth anniversary of the merger between Niagara Mohawk and National Grid USA. Generally, for Customer Service this was a year in which its services to customers were maintained or improved within a setting of continued change. Key initiatives such as automated meter reading (AMR) are now complete and customers are receiving the benefits of more timely and accurate meter readings. The Credit and Collections Improvement Initiative has continued implementation of its account initiation process for the commercial and industrial segment. Full deployment of Field Force Automation (FFA) has brought new technology for order management and field workforce scheduling, intended to create workforce efficiencies as well as substantially improve how we manage and fulfill customer orders in the field. The 2004 multi-year Labor Agreement, successfully negotiated with the IBEW Local 97 remained in effect for 2006, affording increased flexibility in work assignments and more opportunities to provide better service for customers.

Shortly after the merger, a new Customer Service Organization was announced with all customer-facing functions and support housed within the Customer Service organization. In 2003 this evolved further with the integration of Web and E-business functions, and the initial formation of an umbrella Metering Services organization. By year-end 2004 that department moved further toward integrating all of the services involving work around the meter (meter reading, field collections, service). This process accelerated with the

conclusion of AMR, and benefited from efforts to deploy Field Force Automation and opportunities for more flexible field work assignments accompanying the labor agreement. Recognizing the proximity of Metering Services to the operational field force, the function became part of Customer Operations in 2006. Highlights of 2006 include:

- Successful implementation of Field Force Automation (FFA) to metering services employees. We continue to work toward updating reports to gain better insight on workforce efficiencies.
- Continued AMR deployment for access troubled meters.
- Successful implementation of enhancements to the "DSS Government Service" website.
- Successful implementation of our "Storm Central" website. This website gives customers real-time access to outage information affecting them.
- In the spring of 2006 the Buffalo Contact Center moved its operations to Niagara Falls. With the successful training of Reps to handle any kind of call, the Niagara Falls and Syracuse Contact Centers now run as one virtual Contact Center.
- Implementation of remaining recommendations for Credit & Collections initiatives regarding C&I customers.

We have shifted members of the Customer Service management team among functions to cross-train and build a more integrated team, providing development and improvement opportunities for both the individual and affected function. In addition, we recruited and hired externally for some entry-level management positions to introduce different perspectives and further support diversity in the workforce.

III. CUSTOMER SERVICE MEASURES

1. Annual PSC Complaint Rate

a. Description of Measure:

National Grid has a process in place for handling customer complaints beginning with an internal escalation procedure. Most customer complaints are resolved through this internal process. Some customers prefer to go directly to the PSC, who in turn refer them back to the company for resolution.

A PSC complaint is initiated when a dispute is filed by a customer or on behalf of a customer, with the staff of the DPS Office of Consumer Services. DPS staff determines whether or not a complaint is charged to the utility based on the actions of the company and the handling of the subsequent customer contact.

The issue forming the basis for the complaint must be within the utility's responsibility and control, including an action or practice of the utility or its employees. Matters within the responsibility or control of an alternative service provider(s) do not count against National Grid (also referred to throughout as NGRID or the Company).

In June 2002, the Department of Public Service implemented a new customer complaint process, i.e., Quick Resolution System (QRS) to provide NYS utilities increased opportunities to address and resolve customer issues before they are designated as charged complaints. The net effect of the QRS approach has been an

increased number of customer contacts, but an overall reduction in the number of charged complaints.

The PSC Complaint Rate for the year includes the total number of customer complaints charged to the Company - expressed in incidences per 100,000 customers. The PSC Complaint Rate is reported for the year on the PSC December Report "Complaint Rates of Major New York Utilities".

b. PSC Complaint Trends:

Over the past ten years, the Company's complaint rate has ranged from a high of 10 per 100,000 customers in 1997, to less than 3 per 100,000 customers in the last three years. Since the Customer Service System (CSS) conversion the company has made steady progress in reducing PSC complaint levels. Examining the root cause of complaints and implementing permanent solutions to service failures has helped us reduce complaint levels.

The Joint Proposal Service Quality Assurance Program provides for penalties incurred at a complaint rate of 5.0 or greater for the first three years of the program. For years 4 (2005) through 6 (2007) the program provides for penalties incurred at a complaint rate of 3.0 or greater. The maximum penalty is incurred at a rate of 5.0 per 100,000 customers or greater (the threshold for penalty in the programs first three years). As the table indicates, in the first three years of the Joint Proposal the complaint rate was at levels that avoided penalty.

Year	PSC Complaint Volume	PSC Complaint Rate
2006	199	0.98
2005	230	1.14
2004	308	1.5
2003	405	2.0
2002	235	1.2
2001	562	2.8
2000	785	3.9
1999	1,634	8.1
1998	1,308	6.3
1997	2,106	10.3
1996	1,968	9.9

c. 2006 Performance:

2006 was the company's fourth full year under the new complaint management process and counting methodologies (2002 data was the product of a hybrid of two complaint and measurement processes). 2006 was the fourth straight year the Company realized a decline in charged complaints (SRS). It was also the fourth full year of modified Credit and Collections policy and procedures. Several new Account Initiation and other modified Credit and Collections policies and procedures were introduced for the commercial and industrial segment in 2006. Although Credit and Collections issues continue to account for the majority of charged complaints, 2006 showed stability and consistency in the administration of the credit and collections program, at least for the residential segment. It is expected this trend will continue,

although at a slower rate, for the next several years as there will be continued focus on improving credit and collections performance. Overall, total contacts (QRS, SRS, phone referrals etc.) between the Company and OCS were up in 2006 (mainly due to high bill issues), however, the company has been able to resolve most initial contacts and avoid charged complaints.

The top 11 complaint types account for 60% of the company's charged complaints in 2006. Electric Outage Related is now the top ranked complaint for the Company. High bill related complaints were again the second ranked complaint type. Complaints related to Cut-out for Non-Payment (CONP) dropped from the number one ranked complaint in 2003 to the 11th ranked complaint type in 2006. With a reduction of nearly 80% compared to 2005 and 94% compared to 2003. In general all collection related complaints decreased in 2006. The Company believes that a key reason for this decline is its consistent collection practices with residential and commercial customers. Customers are now contacting the Company prior to service being terminated to resolve their collection issue. Also, the Company has worked with the Office of Consumer Services to minimize the number of CONPs we perform by accepting all HEAP grants to restore customers payment agreements during the heating season. In most cases of the top-ranked complaint types, their actual incidence rate is lower than in the previous year. In the 4th Quarter of 2005 we piloted a centralized clerical function in our Eastern Division responsible for all customer contact during the course of new construction orders. We believe this pilot was successful based on the reduction in both QRS and SRS cases received in 2006 for the Eastern Division. This process will be adopted throughout the Company in 2007.

Compliant Type	2003	2004	2005	2006
Electric Outage Related	13 (8)	8 (8)	13 (5)	26 (1)
High Bill	34 (3)	23 (1)	21 (2)	22 (2)
Backbilling	14 (7)	17 (3)	8 (7)	17 (3)
Final Termination Notice Rec	37 (2)	10 (6)	14 (4)	9 (4)
Responsibility for bill	12 (9)	17 (3)	16 (3)	8 (5)
Acct Init – UCB	15 (6)	9 (7)	11 (6)	8 (5)
Service Delay – New	5 (13)	6 (10)	14 (4)	6 (7)
Initial/Final bill	6 (12)	11 (5)	11 (5)	6 (7)
Transfer	2 (16)	14 (4)	8 (6)	6 (7)
Line Extension Charges	8 (10)	8 (8)	6 (8)	6 (7)
CONP	83 (1)	23 (1)	24 (1)	5 (11)

2. Residential Customer Transaction Satisfaction Index

a. Measure Description:

The Company has been measuring residential customer satisfaction for over ten years. The same questionnaire, sampling methodology, administration procedures and calculations have been used since then to provide a reliable and valid measure for tracking performance.

1) Questionnaire

The residential transaction satisfaction survey asks customers to evaluate a recent transaction they've had with the company. Respondents are asked to evaluate their contact with the company's telephone representatives, field service representatives where applicable, and their satisfaction with the resolution of their request. In addition to questions about their recent transaction and contact, the survey asks customers to provide perceptions of other company attributes and activities such as meter reading, billing, pricing, etc.

2) Sampling

Residential transaction satisfaction is based on a sample of customer transactions with the company in each quarter. Transactions occurring in January, April, July and October are used. A stratified design is used for obtaining a sample of six key transaction types from customers in each of seven operating regions.

The transactions may originate from phone calls, emails, or correspondence to the Customer Service Center. The six transaction types include; (1) connects; (2) disconnects; (3) service requests or orders; (4) budget plan orders; (5) high bill investigations; (6) ESO (electric service orders) or GSO (gas service orders). Customers who were surveyed in the preceding two quarters or who have specifically asked not to be surveyed are excluded from the sample.

Surveys are also administered to customers with collection transactions and electronic fund transfer transactions (automatic payment plan). These transactions are reported separately and are not included in the index calculation.

3) Administration

The questionnaire is sent via US mail to customers with a cover letter explaining the process and replies are returned via U.S. mail. It is sent two times to encourage customer response. A unique numeric code is attached to every survey for identification by year, quarter, transaction type, and region. Prior to 2005 the mail survey was administered by National Grid; for the revised program years 2005-2007 the survey is being conducted by an independent third party chosen from a list of qualified bidders acceptable to Staff. Opinion Dynamics Corporation (ODC) was chosen and contracted with at the conclusion of a competitive bidding process to administer the survey for the next three program years.

4) Index Calculation

To track satisfaction for residential customers doing business with National Grid, the service quality provisions of the Joint Proposal adopted the annual Residential Customer Transaction Satisfaction Index. This Index has been used in successive rate case agreements for monitoring the company's Customer Service performance. At various times, it has been used as a potential incentive for improvement, as a potential penalty for deterioration in service levels, or as in the current agreement, a potential penalty for failure to show improvement.

In the ten-year agreement, the threshold at which penalty is incurred on Residential Transaction Satisfaction was 80.0 for the first rate year, 81.0 for the second rate year, and 82.0 for the third year. With the revised program, an index of 82.0 was maintained as the threshold for penalty during the next three years (2005-2007).

The Residential Transaction Satisfaction Index is based on three key survey questions: (1) customer satisfaction with the telephone representative; (2) customer satisfaction with the field service representative; and (3) customer satisfaction with problem resolution.

The average customer satisfaction rating on each of the three questions is determined for customers responding from each of the seven operating regions: (1) Frontier; (2) Western; (3) Central; (4) Northern: (5) Mohawk Valley; (6) Capital; and (7) Northeast. These average ratings are used in calculating a System Contact Resolution Rating and a System Representative Rating.

To determine the System Contact Resolution Rating, each region's average Contact Resolution Rating is weighted by the percentage of customers it represents compared to the total customer base. The seven resulting values are added together to represent the System Contact Resolution Rating. For example, if a region has an average Contact Resolution Rating of 8.0 and it contains a quarter of the customer base, its contribution to the System Contact Resolution Rating would be 0.25 x 8.0 = 2.0 then converted to a 100-point scale for a score of 20.

To determine the System Representative Rating, a composite score of the telephone representative and field representative ratings is calculated for each region. The composite representative score reflects the proportion of customers' rating telephone and field reps in each region. It is obtained by multiplying the average representative (telephone and field service, respectively) rating for a region by their share of total respondents rated in the region, and then adding these two values.

On average, if 200 customers gave a rating of 8.0 to the telephone representatives, and 100 customers in that region gave an average rating of 9.0 to the field service representatives with whom they had contact, the Composite Representative Rating for this region would be [(200/300) x 8.0] + [(100/300) x 9.0] or [0.67 x 8.0] + [0.33 x 9.0] or 5.33 + 3.00 = 8.33, converted to a 100-point scale equals 83.3.

To determine the System Representative Rating, each region's Composite Representative Rating is weighted by the percentage of customer's it represents out of the total customer base. Thus, if the region above with a Composite Representative Rating of 83.3 had a quarter of the customer base, its contribution to the System Representative Rating would be 0.25 x 83.3 = 20.825. The resulting values for each region are added to obtain the System Representative Rating.

The Customer Satisfaction Index for the system is the average of the System Contact Resolution Rating and the System Representative Rating. Thus,

customer satisfaction with the representatives with whom they had contact accounts for 50 percent of the Index. Performance in resolving the customers' problems accounts for the other 50 percent of the Index.

b. Recent Performance:

The table below displays the annual residential transaction satisfaction index for the last ten years. Events over the past ten years such as regional telephone center consolidation and CSS conversion significantly impacted the ratings of telephone representative and problem resolution performance. When consolidation of the Regional Call Centers was completed, the company attained two successive years of new highs in the Satisfaction Index at 82.8 in 1997 and 1998. Following the conversion to the new Customer Service System and the resulting "storm" period, the company resumed its improvement trend in 2000. During 2001 and 2002, the annual index achieved levels not previously seen. Indeed, on every index component during that period we were able to attain a new level of performance. Although we were able to maintain the historically high scores on phone rep performance in 2003, the company's field rep scores dropped, and there was a decline in the problem resolution score. We saw improvement or recovery in all three index components during 2004. The phone rep score in particular attained a new level of performance, perhaps reflecting the sustained investment being made in training, and preparing more reps to handle more diverse calls, as well as in monitoring and providing feedback to reps and their coaches on call quality.

During 2006, the Company has seen the effect of increased commodity cost of energy on the survey results. Phone Rep & problem resolution scores declined to pre-merger levels, as customers, began to blame the Company for their rising energy cost. Whatever their particular transaction experience, it is clear from customer comments that commodity prices are an ever-present concern and potentially color their satisfaction ratings.

Year	Problem Resolution	Phone Rep Score	Field Rep Score	Annual Index
2006	78.2	82.8	85.5	80.3
2005	80.5	84.0	85.9	82.5
2004	82.3	85.2	86.9	83.7
2003	80.3	83.2	84.2	82.0
2002	84.6	83.2	87.6	84.4
2001	84.1	81.3	86.6	83.5
2000	80.5	77.5	83.5	79.8
1999	78.2	74.7	84.9	77.8
1998	82.9	80.5	87.4	82.8
1997	83.2	80.1	87.3	82.8
1996	80.1	76.9	85.0	79.8

c. 2006 Performance:

The annual index was 80.3, 1.7 points below the penalty threshold of (82.0) for 2006. Performance on all three key components of the index declined when compared to 2005: Resolution declined 2.3 points, Phone Rep performance declined 1.2 points,

and Field Rep performance declined less than half a point. Problem resolution and phone rep performance are at their lowest level since 1999 and 2001 respectively.

2006 Quarter	Problem Resolution	Phone Rep Score	Field Rep Score	Satisfaction Index
Annual	78.2	82.8	85.5	80.3
IV	79.3	83.0	85.6	80.3
III	78.0	82.9	85.2	80.8
II	77.9	82.9	86.3	80.8
I	77.6	82.5	84.6	79.6

To understand why scores declined, consider the events at the end of 2005 through much of 2006. Several hurricanes in the Gulf of Mexico put significant stress on an already volatile energy market. The country was in the midst of the largest energy price increase in its history and gas commodity prices for the winter were projected to be 35-50% higher for National Grid customers. Electric commodity price increases were projected to be in the 15-25% range. National Grid took immediate steps to try to help customers cope with these price increases, including:

- a media campaign on how customers can decrease consumption (How-To Campaign);
- promotion of our budget billing program to help shave the winter peak bills;
- working with the Office of Consumer services at the PSC to ensure that active customers who receive HEAP grants are guaranteed another payment agreement on past due money; and
- adjusting the Contact Center staffing to handle the expected increase in volume due to high bill calls.

Even with these steps, customers remained upset with the price they were paying for energy. These commodity prices were not within the control of the Company. The commodity costs are simply passed on to customers and National Grid does not earn a return on this component of the bill. However, customers still perceived that National Grid would benefit from or was directly responsible for these price increases. This price issue played a significant role in the decline in satisfaction in 2006. Although, customers were asked to score us on their specific transaction with us, price still influenced their scores. In the first quarter of 2006 the satisfaction scores dipped to 79.6 compared to 82.3 in the first quarter of 2005. In the analysis of this decrease, the third party vendor administering the survey (Opinion Dynamics Corporation or "ODC") wrote the following based on customer feedback:

> *"High prices and negative bill impacts (exacerbated by publicity) may have impacted the level of customer satisfaction. These are outside factors beyond National Grid's customer service.*
>
> *In fact, most complaints squared on prices or requesting help with bill payment or budget plan. Customers were upset with a jump in their bill amounts and did not understand why prices would be raised even when the temperatures were mild or they used less energy."*

National Grid satisfaction scores did increase slightly during the remainder 2006, however, scores remained below the penalty threshold (82.0) for all 4 quarters on 2006. In the fourth quarter of 2006 the vendor still emphasized the effect of price on the survey results

> *"Again, many customers are unhappy with their increasing electric bills and several are confused why their bills are increasing, with some associating the increase to the change from Niagara Mohawk to National Grid."*

To better understand why this price issue would have such a negative impact on a transaction survey and determine if there are additional steps we can take to improve scores, National Grid hired a third party vendor to hold focus groups to gather residential customer feedback. The Company is reviewing the results of these focus groups to gather more qualitative data on pricing and other drivers of satisfaction. Another impact on the survey result was the Western Division (Frontier Region/Buffalo area) snow storm related electric outages in October of 2006. Comparing prior index scores to the 4th quarter of 2006:

2004	2005	2006 YTD	Q3 2006	Q4 2006
83.6	**83.7**	**81.2**	**85.5**	**73.9**

In fact, the 73.9 index score is significantly lower than any score for this area since the merger. Although we might be inclined to think the reason for the low score is our response to the outages, this was not the case. Many customers commented positively about our outage response. In the 4th quarter survey report ODC wrote;

> *"Many customers were pleased with National Grid's dedication to restoring power following the devastating October snowstorm in the Western Division. They were appreciative of the hard work and long hours our crews worked and the fact that the company brought in crews from elsewhere to help with the restoration. '[I] was amazed how fast [the] power was being restored. Great job!'"*

ODC did comment about customer's concerns with the outage, however, the comments were generally around the length of the outage, especially for those with medical conditions. Basically, because of the nature of the tree damage due to the storm, trimming issues were a major concern of customers responding to the survey from this area.

Regardless of the price and Buffalo storm outage impacts, National Grid continued to take steps to identify opportunities to improve customer satisfaction through process improvements. A cross-functional customer satisfaction team was formed to look at ways we could improve transaction scores. To date this team has recommended and implemented several improvements within the Company. The Contact Center, in an effort to get real-time feedback on how customer reps are handling interactions with customers, instituted an after-the-call survey. The results of this survey have helped the Contact Center identify specific coaching needs for individual reps. The Company also increased the level of communication of the survey results to employees. We used a Live Net Meeting format to do presentations to employees across our service territory. With this format employees can participate in a

presentation from their work location. This allowed us to deliver more detailed information about the survey results to a greater number of employees. The Company also developed an internal website where employees would have access to published reports and survey data. While we acknowledge the rising influence of factors outside of the Company's control, the Company remains committed to improving transaction satisfaction scores.

3. Small Commercial Customer Transaction Satisfaction

a. Measure Description:

The Company has been measuring small commercial customers' satisfaction with the company since 1998. The same questionnaire, sampling methodology, administration procedures and calculations have been used since then to provide a reliable and valid measure for tracking performance.

Small commercial transaction satisfaction is based on surveying a random sample of small commercial customer transactions with the company in each quarter. Transactions occurring in February and March, May and June, August and September and November are used. These transactions may originate from phone calls, emails, or correspondence. Since a pure random sample is used, results are not weighted by regional share of customer population.

To track small commercial customers' satisfaction in doing business with National Grid, the service quality provisions of the Joint Proposal adopted the annual Small Commercial Customer Transaction Satisfaction Index. In the ten-year agreement, the threshold at which penalty is incurred on the Small Commercial Transaction Satisfaction Index is 75.0 for the first rate year, 77.0 for the second rate year, and 79.0 thereafter. This threshold of 79.0 for penalty was affirmed in the 2004 revised and approved program filing for 2005-2007.

With the revised program, the Company agreed to have this mail survey conducted by an independent third party for these program years. As a result of a competitive bidding process, Opinion Dynamics Corporation (ODC) was selected and contracted with to administer the survey for the 2005-2007 program years.

The commercial transaction satisfaction index is based on three key survey questions: (1) customer satisfaction with the telephone representative; (2) customer satisfaction with the field service representative; and (3) customer satisfaction with problem resolution. Customers are asked to rate their satisfaction on a ten-point scale.

As in the Residential Transaction Satisfaction Index calculation, half of the Small Commercial Index is driven by Problem Resolution, the other half by a composite of Call Representative and Field Representative performance.

b. Recent Performance:

The table below displays the index and performance on its key components since this C&I survey was first administered in 1998. As the table shows, substantial progress has been made in C&I customer satisfaction index, moving from a starting

index of 70.6 in 1998 (and even lower – 66.8 – post-CSS conversion) to 80.5 in 2005. The 2006 score declined to 77.0. The business team in the Customer Service Center has been very focused on improving its customer satisfaction scores, and in collaborating with regional operations to improve overall service to this customer segment. During 2006 the increases in commodity price as well as implementation of several collection related initiatives affected scores across the board for problem resolution, phone rep performance and field rep performance.

Year	Problem Resolution	Phone Rep Score	Field Rep Score	Annual Index
2006	73.6	79.4	83.1	77.0
2005	78.0	82.6	84.2	80.5
2004	76.4	81.2	83.9	79.2
2003	75.1	80.5	84.8	78.4
2002	81.3	84.5	86.8	83.2
2001	77.3	75.9	82.7	77.6
2000	74.8	73.7	80.1	75.1
1999	65.5	64.9	77.9	66.8
1998	70.0	69.4	77.5	70.6

c. <u>2006 Performance</u>:

The C&I annual satisfaction index for 2006 was 77.0, below the penalty threshold of 79.0. This represents the first time the Company has missed the C&I transaction satisfaction target since before the merger in 2001. The table below displays the quarterly performance on the index and its key components in 2006.

2006 Quarter	Problem Resolution	Phone Rep Score	Field Rep Score	Satisfaction Index
Annual	73.6	79.4	83.1	77.0
IV	74.8	80.6	84.0	78.1
III	73.8	80.2	84.9	77.7
II	72.5	78.7	81.2	76.0
I	73.2	77.8	82.2	76.2

As with the residential survey result, commodity price did play a role in customer dissatisfaction. Opinion Dynamics wrote the following about the declining score in the first quarter of 2006;

> *"Many comments from the customers involved issues beyond National Grid's direct control. Most notably, the high cost of energy often elicits many complaints, with some small C & I customers saying that the cost is 'driving us out of business.'"*

Problem resolution and phone rep performance in each quarter of 2006 declined compared to 2005 performance. This decline is especially evident in the customers who had a Connect transaction. The following chart shows problem resolution scores for this transaction by quarter in 2006:

Q1 2006	Q2 2006	Q3 2006	Q4 2006
73.4	76.9	69.4	74.6

To understand these low problem resolution scores, it is important that we first understand changes the Company made with its service application and deposit policy in 2006. In January of 2006, following review by Staff, the Company instituted three new policies related to this customer segment:

1. C&I customers are now required to complete a service application, which includes business papers, prior to receiving service;
2. new C&I customers and those with poor credit history are required to post a deposit prior to receiving new service; and
3. C&I customers who have service and have a delinquent payment history, may be charged a deposit if the poor payment history continues.

In their analysis of the C&I survey results ODC commented on the affect of these three changes:

> *"While 74% of customers surveyed had connect or disconnect transactions, most of the complaints were regarding service deposits or switching accounts."*

Consistent with what we experienced in prior collection initiatives, The Company understands that it might take some time for customers to adjust to these new policies. The Company has seen a steady improvement in satisfaction scores as customers became more familiar with these new policies. Satisfaction in the 4th quarter of 2006 was 78.1 compared to 76.0 in the 2nd quarter. The Company expects satisfaction scores to continue to rise in 2007 as customers become more accustomed to these service related changes.

As with the residential transaction survey, regardless of the effect of these collection changes, the Company continues to take steps to improve its transaction scores. Contacts from this important segment are handled by a specialized Small Business Team (SBT). In 2006, based on increased contact volume associated with account initiation, the Company increased the number of Customer representatives on the SBT. As satisfaction scores declined the Company also recognized the need to provide more training, quality monitoring and individualized coaching for these new team members. The Company instituted a detailed training and quality monitoring program to improve Customer representative satisfaction scores. These programs resulted in phone representative scores rebounding from a low of 77.8 in the first quarter of 2006 to a high of 80.6 in the 4th quarter of 2006.

Field rep performance scores declined slightly in 2006 vs. 2005 (84.2 in 2006 and 83.1 in 2006). Although the field reps enjoyed high ratings on many attributes (see the table below), there is still some room for improvement in field performance.

Field Representative Score Card Measures,
Quarterly Comparison

Percent who agree	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Did a good job explaining the solution or repair	89%	86%	89%	93%	90%
Arrived at the time that I expected	82%	89%	78%	90%	88%
Was very thorough in their work	82%	87%	87%	93%	92%
Impressed me as someone to trust	91%	86%	90%	94%	91%
Finished the job or scheduled a follow-up visit	87%	88%	90%	92%	91%

The Company is committed to improving all areas of customer satisfaction for small C&I customers. C&I transaction improvements are also part of the cross-functional customer satisfaction team responsibilities and SBT customer representatives also participate in the Contact center "After Call" survey. Results of this survey are also communicated to an expanded employee population through the ongoing Webinars.

4. Percent of Meters Read

a. Measure Description:

Percentage of Meters Read is a key Meter Reading performance metric. It is the percentage of total meters read for billing purposes.

Since conversion to CSS, Percent of Meters Read has been based on scheduled meters read within a brief (4 day) meter reading window. This measure is more rigorous compared to measurement prior to CSS.

For purposes of the Service Quality Assurance Program, the measure of meter reading performance includes the percent of all meters read, regardless of their source. Thus, the focus is on readings obtained within the meter reading window, but includes readings obtained from any source, i.e., meter readers, customers, service representatives, and AMR. It also includes readings called into an IVR or self-help function, as well as to our website, and that are recorded within the four day window.

For the first three years of the program, the threshold for penalty was 89.5% of meters read. For program year 2005, the threshold was raised to 93.0% and for programs years 5 (2006) and 6 (2007) the penalty threshold is 96.0% of meters read.

b. 2006 Meter Reading Performance:

The primary driver of meter reading performance has historically been access. In 2003, NGRID scheduled readings on an average of 1.9 million meters per month; 35 percent of those scheduled reads were on inside meters. Approximately 75 percent of inside meters were located in one of our three metropolitan areas, where access on a regular basis was increasingly difficult. Even outside access would

vary as much as 10 percentage points from best to worst months, especially but not exclusively in more seasonal areas, as meters or premises became inaccessible due to weather.

Because of these factors, and as there was no reason to expect that access to inside meters would improve, and because the resulting bill estimates are an inconvenience to many customers and a source of rework, the company decided late in 2002 to deploy Automated Meter Reading (AMR). By the end of 2004 the company had installed nearly 2.1 million AMR meters, with nearly that number being read by vehicle, an average of 106,000 meter each day. Although we will continue to make improvements in AMR routing by rerouting at the peripheries, the balance of the major rerouting necessary to move to AMR routes (i.e., our remaining former bi-monthly read geographic area – Northern and part of Northeast region) was completed successfully in the fall 2004. The 46,000 devices remaining to be installed at the end of December 2004 were integrated into Metering Services' daily work as change opportunities presented themselves and as a segment of the remaining meter changes make their way through the replevin process. Replevin is the legal follow-on process to the Access to Meters Program whereby owners of record for the no access properties receive a series of letters suggesting the legal measures to be taken by the Company in the absence of their response and cooperation on access. A small share of these cases ultimately require legal action.

In 2006, the company continued to pursue conversion of the remaining 19,000 meters associated with either difficult to access premises or demand meters to be converted. More than half of those were converted during 2006 (10,000) in the course of Metering Services performing its regular work, and in some cases as a result of the Replevin process. Of the 10,000 remaining to be converted, at least half of them are inactive meters.

2006 Month	**Meters Scheduled**	**Meters Read During Window**		**Percent Meters Read – All Sources**
		By Meter Reader on Route	Other Company or Customer Read	
January	2,185,447	2,144,384	9,382	98.6%
February	2,186,852	2,146,566	2,806	98.3%
March	2,187,629	2,148,768	2,738	98.3%
April	2,188,491	2,162,061	2,744	98.9%
May	2,246,561	2,198,465	2,890	98.0%
June	2,248,524	2,197,682	2,700	97.9%
July	2,248,068	2,198,501	2,496	97.9%
August	2,250,198	2,199,443	2,562	97.9%
September	2,249,961	2,203,390	2,537	98.0%
October	2,252,516	2,146,362	2,326	(Buffalo Snow Storm)95.4%
November	2,195,410	2,152,393	2,177	98.1%
December	2,196,736	2,151,024	2,010	98.0%
Annual	26,636,393	26,049,039	37,368	97.9%

National Grid ended 2006 with an annual Percent Meters Read of 97.9% from all sources, a slight increase from the 2005 performance level. The penalty threshold for Percent Meters Read from all sources, is 96.0% for 2006 and 2007.

As the monthly data illustrate, meter reading access performance improvements were harder to achieve in 2006. With the vast majority of conversions already done in 2006 and the company integrating conversion to AMR into its regular work, additional conversions did not average much above a few hundred a month. Monthly access performance was generally consistent over the 12 months, from a low of 95.4% to a high of 98.9%. The low was due largely to Buffalo Snow Storm damage and downed trees blocking vehicle access and preventing meter reading vans from driving routes for several days in October. The Buffalo snow storm is the only major event in 2006 that had a significant effect on meter reading operations.

Meter reading access also benefited from the integration of the meter reading, field collections and service functions. The new organization, together with the flexibility introduced by the last labor agreement provides additional capability for the organization to better when absences occur. For example, we are able to rely on field collections personnel to shore up meter reading when necessary.

5. Percent of Calls Answered within 30 Seconds

a. Measure Description:

Percent of Calls Answered within N Seconds is a commonly used service level measure for call centers. The service level variables to be set are:

- timeframe, i.e., the number of seconds; and
- percentage of calls to be targeted for answering within that timeframe.

For National Grid's Contact Centers the internal service level target is 80 percent of calls answered within 30 seconds. The measure is determined by calculating the percentage of calls answered by a customer service representative within 30 seconds versus all calls answered by a representative.

The clock starts as soon as the customer calling the Customer Service Center makes a selection from the auto-attendant. If the customer fails to make a selection in the auto-attendant, makes a selection that is not available to them, or presses one of the symbols on their phone, they will be routed to the queue to speak to a customer service representative. If a representative answers a call within 30 seconds of that call entering the queue, the call is included in the count of total calls answered within the service level standard.

The count excludes customers calling an IVR 800 number (or who select an IVR application from the main auto-attendant menu) and those whose call was also resolved in the IVR. In our current measurement methodology, a call is considered resolved by the IVR if a customer uses one of its self-help functions and does not speak to a customer service representative. However, if a customer using an IVR application is automatically transferred to a representative (this happens if they error and are being transferred for assistance) or if they elect to speak to a representative

after having used the IVR (regardless of their IVR experience), the call will be counted toward the service level measure.

National Grid's IVR or self-help applications are *OnCall* for outage reporting and restoration updates, and *Customer Connection* or what we now call Automated Account Services for account information, customer meter reads, and budget information and enrollment. Late in 2003 we added a new application for *Auto-Complete,* this application accepts customer reads that customers have arranged in advance for starting or stopping their service at qualified residences. In addition to being able to perform certain transactions (enroll in budget plan; report a meter read) we also provided an information submenu enabling customers to listen to different questions and answers on certain topics. During 2004 we integrated some IVR functionality more fully into the auto-attendant menu to increase the chances of customers being able to get to automated functionality, including their routing to an outage IVR application for quick updates on restoration.

Over the past three years, the Company's penalty threshold for service level has increased to 78.0% of calls answered within 30 seconds for the Customer Service Center. With the revised Service Quality Assurance Program, the threshold for service level is based on all customer calls to National Grid, and thus was adjusted to a threshold for 2005 of 75.0%, for 2006 of 76.0% and for 2007 of 78.0%. This new measure includes all customer calls to the Company, whether directed to its Syracuse or Buffalo Contact Centers or its outsourcing contact center. Previously, the Company's Buffalo Contact Center used a different measure of service level and had a different targeted performance level than the Syracuse Contact Center primarily because it was dedicated to answering collections related calls. Since 2004 the Company has been in the process of transforming both its Contact Centers to handle all calls and using an outsourced contact center to handle its collections calls. In 2005, the Syracuse, Buffalo and Outsourcer (NCO) contact centers began using the same service level measure and a common performance target of 80 percent of calls in 30 seconds. Effective in 2006, the Buffalo Contact Center now handles only customer service related calls, as all collection calls have been outsourced to NCO. This is expected to continue in 2007.

b. <u>Recent Performance</u>:

The table below displays the annual service level for the past two years since the Company began integrating its Contact Centers in Syracuse and Buffalo. It includes calls handled by the outsource contact center. To the extent customers are able to get their needs successfully resolved with the availability and use of an IVR application, it also means fewer calls presented to a representative to handle, with positive implications for service level. As the table shows, the Company experienced an increase in its call volume handled by reps for 2006 compared to 2005; a 5 percent increase in calls answered. However, 57 percent more customer calls were resolved by an IVR application.

TREND IN CALL TRAFFIC WITH IVR CALLS INCLUDED					
Year	**Calls Received**	**Calls Answered**	**Resolved by IVRU**	**Calls Answered ≤ 30 Seconds**	**% Calls Answered ≤ 30 Seconds**
2006	3,605,802	3,529,291	1,286,396	2,782,452	78.8%
2005	3,418,363	3,350,888	816,645	2,647,224	79.0%

2004	3,828,371	3,729,073	564,563	2,931,160	78.6%

c. 2006 Performance:

The table below displays monthly service levels for 2006, excluding IVR calls. By year-end, over 2.7 million customer calls were answered by a representative within 30 seconds or less. Representatives answered over 3.5 million calls during the year, 178,400 more calls than in the preceding year. For 2006, a service level of 76.0% or less of all calls answered within 30 seconds would trigger a penalty. The 2006 service level was 78.8%, above the threshold for penalty. Throughout 2006, the monthly service levels were maintained at levels close to or above the penalty threshold ensuring a more consistent service experience for customers.

The conclusion of the labor agreement in 2004 was a milestone in the evolution of a universal call rep with the basic premise that any rep will be able to handle any kind of call. Throughout 2006 we have continued putting this premise to work by training and preparing the balance of the Contact Center workforce to handle all calls which affords us the ability to maintain a consistent service level for customers. NCO continued to handle a significant share of our collections call traffic. In May of 2006, the Buffalo contact Center moved from downtown Buffalo to Niagara Falls.

CALL TRAFFIC WITHOUT IVR CALLS				
2006 Month	**Calls Received**	**Calls Answered**	**Calls Answered within 30 Seconds**	**Percent Calls Answered within 30 Seconds**
Annual	3,605,802	3,529,291	2,782,452	78.8%
December	253,784	250,786	223,514	89.1%
November	268,957	265,995	226,569	85.2%
October	434,464	422,830	353,654	83.6%
September	300,232	292,716	197,354	67.4%
August	323,681	316,295	220,677	69.8%
July	298,040	290,347	216,752	74.7%
June	300,681	294,997	228,759	77.5%
May	294,783	288,103	220,546	76.6%
April	240,749	236,258	187,120	79.2%
March	277,904	272,836	228,225	83.6%
February	310,724	301,827	241,506	80.0%
January	301,803	296,301	237,776	80.2%

6. Low-Income Customer Programs

a. Low Income Customer Assistance Program (LICAP)

LICAP is National Grid's program which has historically provided integrated services to payment troubled income eligible customer. The program's components include deferred payment agreements with arrears forgiveness, energy education, and energy services or weatherization where economically beneficial. The payment agreement aspect of LICAP is rate-payer funded, while the education and energy services components have been supported by the System Benefits Charge (SBC).

Until July 1, 2004, National Grid provided all aspects of LICAP. However, under a series of orders under PSC Cases 94-E-0952 and 01-M-007, the implementation of SBC supported services provided under LICAP was transferred to NYSERDA. Niagara Mohawk enrollments into AffordAbility, the deferred payment agreement program, became direct referrals to the NYSERDA energy education and energy services program. The transition resulted in an adjustment to the original LICAP performance goals for the last six months of 2004. Niagara Mohawk goals related to energy education and provision of energy services were eliminated for the last six months of the program year, and enrollment goals were reduced by 10% to allow for referrals from county Offices For the Aging directly to NYSERDA.

Effective with the 2004 approved filing for the Quality Service Assurance Program, the Company is now only responsible for LICAP enrollments which is adjusted on an annual basis from 4,200 to 3,780 based on the OFA referrals being managed by the NYSERDA EmPower NY program. The threshold for penalty is LICAP enrollments of 3,591 or fewer for the years 2005-2007 which is 95% of the target of 3,780 enrollments.

b. 2006 Performance

During 2006, the Company enrolled 4,038 customers for LICAP, 106% of its annual goal of 3780 customers. A variety of methods are used to contact customers who may be eligible for enrollment, including outbound automated messages to eligible customers with an 800 number to call for additional information; an outbound mailing campaign to those who do not return a call based on the outbound call; a combination outbound calling and letter campaign to customers approved for HEAP in the current season; review of inbound collections calls from customers for their eligibility for LICAP enrollment with referral to a program specialist. During 2006 the responsibility for enrolling customers moved from the Buffalo Contact Center to the Syracuse Contact Center. The Company still continued to extend its hours to improve customer access to enroll in this program.

IV. COLLECTIONS SATISFACTION INDEX

1. Measure Description:

A significant number of National Grid customers are in arrears and subject to collection action. A Customer Satisfaction Survey with Collections Services has been conducted since 1996 for internal purposes. Through 2001 the survey was administered twice a year to a random sample of 3,000 customers who had contact with Collections Services during January and July. Survey has been administered quarterly since 2002.

The focus of the survey is on contact with the call center representative (customer or company-initiated). Unlike the Residential Transaction Satisfaction Survey, there are no questions about contact with Field Collectors. The focus is also on customers' assessment of the quality attributes of the call center representatives, their perceptions of actions taken by the representative, and their satisfaction with the resolution of their problem.

The Collections Satisfaction Index is an average of two ratings: the mean Problem Resolution rating and the mean Representative Quality rating. Beginning in 2002, and

per the Service Quality Assurance Program, National Grid began administering the survey on a quarterly basis. The annual Index is the result of averaging the same two ratings; however, the year-to-date and annual mean ratings of Problem Resolution and Representative Quality use the cumulative customer ratings.

With the approval of the 2004 Quality Service Assurance Program filing, the Company continues its measurement of collections customer satisfaction as in the past, but with a third party provider. Like the other two transactions satisfaction surveys through a competitive bidding process, Opinion Dynamics Corporation (ODC) was chosen to administer this survey.

2. Recent Performance:

The table below indicates customer ratings on the key questions. The survey originated with the consolidation of the former regional call centers within Customer Service and the creation of a Buffalo Collections Services operation. As the table shows, there had been general improvement on each rating and the Satisfaction Index over the last several years until the current year.

Year	Rep Actions Rating	Rep Quality Rating	Problem Resolution Rating	Satisfaction Index
2006	79.2	79.5	74.9	76.8
2005	82.8	82.4	80.2	81.3
2004	79.3	79.9	77.9	78.9
2003	76.8	77.6	73.7	75.7
2002	76.9	77.6	73.9	75.8
2001	75.7	76.7	74.3	75.5
2000	75.4	76.2	71.8	74.0
1999	74.4	74.2	70.5	72.3
1998	73.9	75.3	72.3	73.8
1997	68.7	69.2	66.1	67.7
1996	73.8	77.0	72.3	74.7

As indicated previously, Collections Services became a part of a reorganized Customer Service organization in 2002. Similarly, Field Collections formerly organized within Collections, has been relocated under the Metering Services organization.

The new Credit & Collections department within Customer Service is responsible for overall Collections policy and procedures as well as Low-income programs, Operations/Industrial Collections, and Administration and Consumer Advocacy. During 2002 the new Collections organization began its review and reengineering of all collections practices and procedures as part of the Credit and Collections Process Improvement Program (CCPIP). Individual initiatives began to be implemented in late 2002 and continued into 2006, in particular for the C&I customer segment with new account initiation procedures.

3. 2006 Performance:

The table below displays the customer ratings of Collections Services over the four quarters of 2006. In general, the year ended with reductions on all attributes. The Company believes collection satisfaction was negatively impacted by increasing commodity cost as more customers had concerns with the affordability of energy. The Company continues to see benefits to customers of the stable and consistent application of collection policy and practice accompanying the Credit and Collections Improvement Initiatives. Indeed, the hallmark of those initiatives is consistent implementation of policy and procedures; from the customer perspective this means they know exactly what to expect every time they have a collections related issue.

Quarter	Rep Actions Rating	Rep Quality Rating	Problem Resolution Rating	Satisfaction Index
Annual	79.2	79.5	74.9	76.8
IV	81.7	81.8	78.3	80.0
III	77.2	77.1	73.8	75.4
II	77.5	79.0	73.5	76.2
I	80.4	80.2	74.1	77.1

V. OVERALL ASSESSMENT OF CUSTOMER SERVICE

2006 was a year in which National Grid's Customers continued to feel the impacts of increased energy prices. These increases contributed to National Grid missing the Residential transaction and Small C&I Transaction targets for the first time since before the merger in 2001. Despite the influence of energy commodity prices, which are beyond the Company's control, National Grid continued to work diligently to make improvements to its customer transaction processes. The changes in the Company's Small C&I collection practices were expected to further affect customer satisfaction, however, the company anticipates that as customers become more familiar with these practices, satisfaction should continue to improve for this segment. We continued to see a positive trend in the PSC complaint levels as we realized the 4th consecutive year of a declining complaint rate. The Company's meter reading performance continues to trend positively. The implementation of AMR provides direct benefits to customers as we read nearly 98% of meters on average each month. The Contact Center service level has been consistent from 2005 to 2006 with a combined service level for both years above 78%. The Company has also managed to maintain a consistent monthly service level, notwithstanding organizational change in the Company Contact Centers. This change included outsourcing inbound collection calls and the relocation of the Buffalo Contact center to Niagara Falls. National Grid also assisted (to targeted levels) those most in need of help through the enrollment of eligible customers into the Low Income Customer Assistance Program (LICAP) by which such customers receive discounted service and partial arrears credit for their participation in the NYSERDA administered Energy Services program. Overall, excluding some factors outside of the Company's control, the Company believes it has maintained a high level of customer service in 2006.

In 2007 the Company will continue to work at improving its customer satisfaction transaction scores through actively analyzing data to improve transaction processes for customers. We will also continue to reorganize and move staff to optimally deploy skills, including working to implement best practices related to customer service quality derived from the KeySpan

merger. Although commodity price increases could make it difficult to meet transaction satisfaction targets in 2007, the Company is committed to working within its organizations to improve satisfaction with its residential and C&I customers.

VI. ELECTRIC RELIABILITY MEASURES

There are three measures for Electric Reliability:

1. System Average Interruption Frequency Index (SAIFI)
2. Customer Average Interruption Duration Index (CAIDI)
3. Momentary Interruptions

Data for electric reliability reporting are captured in the SIR (System Interruption Reporting) system.

1. System Average Interruption Frequency Index (SAIFI)

The annual SAIFI performance achieved in 2007 was 1.01, which exceeds the negotiated target of 0.93. There were three main reasons the Company exceeded the SAIFI target. They were: (i) increased tree-related and deteriorated equipment/lightning interruptions; (ii) abnormal weather; and (iii) changes in data recording. Reviewing root cause information presented in Figure 1. , the key performance drivers are interruptions caused by trees, distribution equipment and subtransmission events.

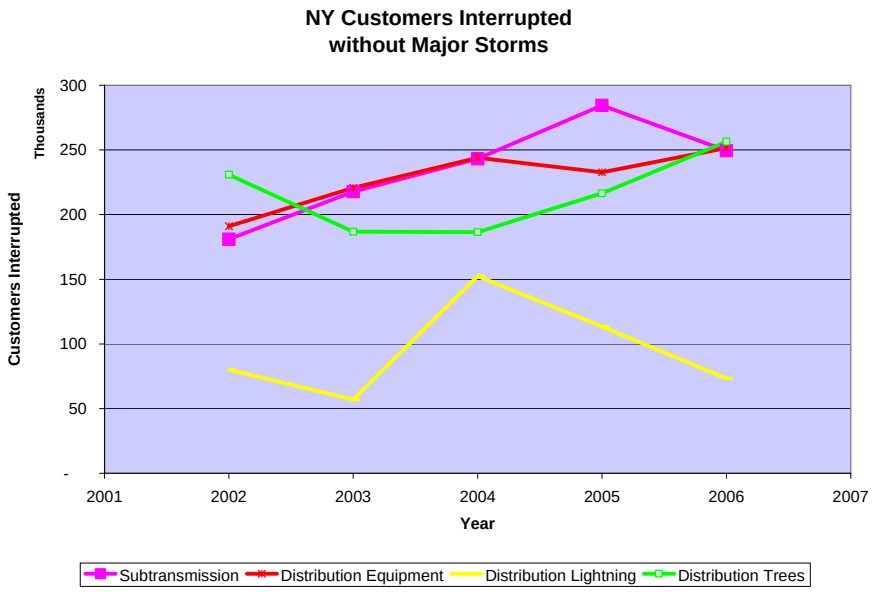

Figure 1.

In 2004 and to some degree in 2005, the Company experienced an abnormally high amount of lightning striking the service territory. Not only was there an abnormally high amount of lightning strikes during major storm events, but also during non-major storm days. Lightning can strike near power system equipment without causing an immediate interruption to customers. In certain cases, these strikes can weaken the infrastructure and ultimately result in conditions that lead to an interruption that occurs at a later time. For example,

extruded distribution cables frequently fail during or shortly[1] after a thunder storm. Transformers have also failed after lightning storms.[2] The later interruption is attributed to deteriorated equipment because it cannot be definitively traced to lightning. These interruptions would contribute to a rise in SAIFI.

Between 2004 and 2006, the Northeast US has experienced different weather patterns than in other years. For example, in 2004, the Northeastern United States experienced a much colder than average summer, and in 2005, experienced a record wet October and heavy rain and flooding in April, and in 2006, experienced the wettest summer on record as well as record snow fall in New York city (February) and Buffalo (October).[3] Consistent with these weather patterns, rainfall in the northeast region of the service territory was above average from 2004-2006. In 2004, a portion of I-87 above exit 23 washed away in June. 2006 was the wettest year on record. The rain fall, combined with less snow and cold weather, has provided a longer growing season for trees. In addition, the ground remained unfrozen for the majority of the winter months contributing to a high incidence of tree uprooting due to the soft soil conditions. In January and February of 2006, the Company experienced the highest levels of customers interrupted due to tree-caused interruptions recorded for each of those two months in eight years. We anticipate that tree-related interruptions will accelerate in the Buffalo area in 2007 and 2008 due to the October 2006 snow storm. Many of the trees affected by the Buffalo storm were severely damaged and could continue to drop limbs over that time period.

The Company took a proactive approach to resolving certain of these Vegetation Management (VM) issues and spent three months and $6.258 million performing additional vegetation work in the areas hardest hit by the recent Buffalo snow storm. The post storm hazard mitigation work focused on removing uprooted and leaning trees, broken limbs and storm damaged vegetation from above three phase primary lines on fifty-nine (59) circuits within the original storm footprint area. The majority of work was concentrated in backyard areas and required more than sixty (60) climbing crews, all supplemental to the crews performing our normal maintenance for the year. In addition, four (4) additional contract arborists were hired to supplement National Grid's management team on this process. Part of the project also included some work on transmission rights-of-way in the same area where edge tree damage was mitigated to prevent future outages.

During 2004 through 2006, the number of customers affected by subtransmission interruptions was higher than in previous years. The root causes of subtransmission interruptions are shown in Figure 2.

[1] "Effects of voltage surges on extruded dielectric cable life project update," Hartlein, R.A. Georgia Power Co., Atlanta, GA, USA ; This paper appears in: Power Delivery, IEEE Transactions on Publication Date: April 1994 Volume: 9 , Issue: 2 On page(s): 611 - 619 ISSN: 0885-8977 CODEN: ITPDE5INSPEC Accession Number:4718372 Digital Object Identifier: 10.1109/61.296236 Posted online: 2002-08-06 19:25:34.0

[2] "Reduction in distribution transformer failure rates and nuisance outages using improved lightning protection concepts" Cooper Power Syst., Pewaukee, WI, USA ; This paper appears in: Power Delivery, IEEE Transactions on Publication Date: April 1995 Volume: 10 , Issue: 2 On page(s): 768 - 777 ISSN: 0885-8977 CODEN: ITPDE5 INSPEC Accession Number:4954031 Digital Object Identifier: 10.1109/61.400854 Posted online: 2002- 08-06 19:44:26.0

[3] Source: National Climatic Data Center (http://www.ncdc.noaa.gov/oa/climate/research/monitoring.html)

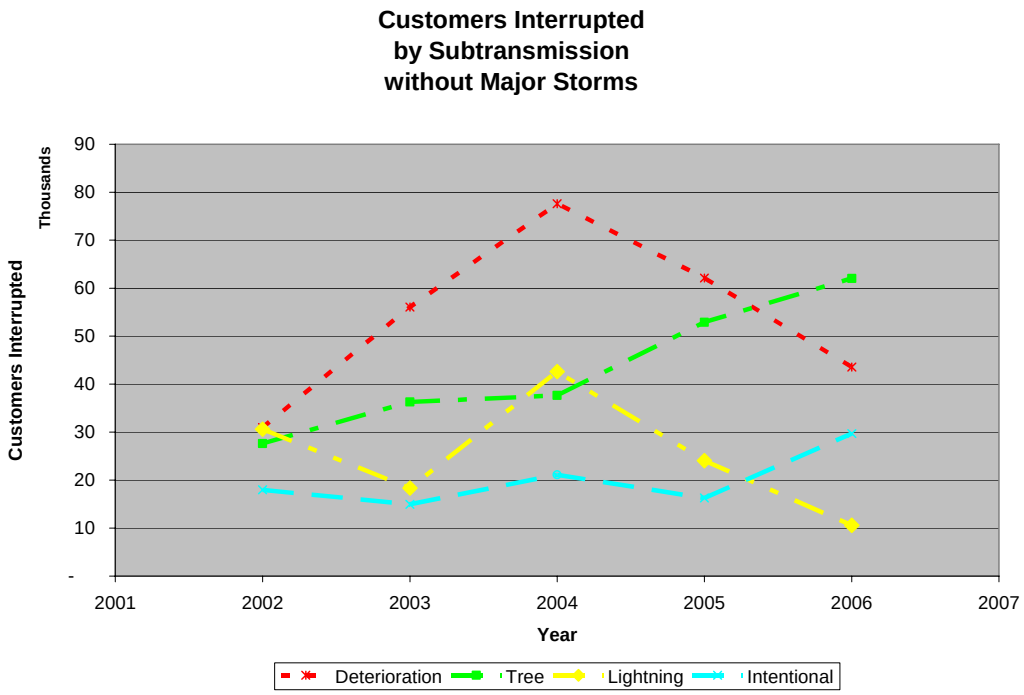

Figure 2.

Lightning and deterioration are tracking on the same trend in 2004 – 2006. Tree related interruptions have been steadily rising because of the reasons outlined above. The Company is taking a proactive approach to widening the rights of way on the subtransmission system and currently plans to widen about 1,000 miles of subtransmission rights of way by 2011.

The number of customers affected by intentional interruptions increased in 2006. These interruptions are consistent with good utility practice and necessary to complete required work however, they do contribute to the decline in reliability performance. The subtransmission capital budget has been more than doubled above the current rate plan to address load, asset replacement and reliability issues. These projects along with continued widening of the ROWs should make a significant positive impact on reliability over time. Utilities across the nation that have been changing their outage management processes and their associated IT systems have experienced changes in their reported indices. Even though the actual underlying reliability performance may not have changed, the indices appear to show a step change in worsening performance that is actually a function of more accurate data collection. Legacy outage management systems were implemented to assist operators with power restoration. As industry restructuring occurred, reliability index tracking became the mainstay of distribution regulation and hence the need for very accurate information from legacy systems became imperative. Since these systems were not originally designed for this purpose, they did not provide this extremely accurate information.

As utilities move to improve processes and replace legacy systems, in most cases they experience an index rise between 25% and 75% from previous numbers. A few have seen even higher rises. The Company does not yet know what impact the enhanced capabilities of the new system will have on future reliability statistics. However, it is possible that National Grid will see increases in reported SAIFI and CAIDI independent of actual

underlying system performance, as has been the case at other utilities who have implemented similar systems. The main sources of error in the legacy systems stem from: (i) missing events – those not captured in the system; (ii) lack of accurate numbers for customers interrupted – many legacy systems were paper-based and relied on field estimates for customers interrupted or did not have fully connected GIS models that help to provide accurate customer counts; (iii) lack of accurate recording of duration of events – legacy systems depend on the time the first customer calls to begin an event and the time the line personnel reports the end of the event; (iv) training – when new systems are implemented there is often a steep learning curve for those using it and the initially collected data often has numerous errors – these are corrected over time with experience and training.

National Grid plans to use GE's PowerOn product in the future, although it should be noted that National Grid is not reporting reliability results using this system in 2006. National Grid has been running its SIR system in parallel with its newly implemented PowerOn system, which is integrated with its interruption disturbance system (IDS). The PowerOn system has been used for restoring customers, however, it has not been used fully to record reliability information since its inception. A test year gathering twelve consecutive months of data for a comparison of the SIR reporting system and the PowerOn system began on September 1, 2006. We currently anticipate completing twelve consecutive months of parallel operation on August 31, 2007. At that time, the data will be reviewed and a report will be written and submitted to the PSC detailing the findings of the review, and the quantification of any index differences that result from the system/process changes.

2. Customer Average Interruption Duration Index (CAIDI)

The annual CAIDI performance achieved in 2007 was 2.05 hours, which met the negotiated target of 2.07 hours.

3. Momentary Interruptions (MI)

Company facilities met their momentary interruption target levels for 2006. The 115 kV facility level finished at 134 MI versus a target of 200, the 23-69 kV facility level finished at 388 MI versus a target of 725 and the Distribution facility level finished at 1,670 MI versus a target of 2,000.

Appendix A

National Grid's Proposal
Regarding Whether the Service Quality Measures Should be Modified

Except as noted below regarding implementation of an outage restoration system, the Company believes that taken as a whole, the current portfolio of service quality and electric reliability measures are sufficient to ensure that the Company continues to provide safe and adequate electric service, and thus, the Company is not recommending any changes to its current service quality program at this time.

While the Company is willing to accept the current service quality and electric reliability measures as a whole, we reserve the right to seek adjustment of any or all of the measures in the event a proceeding is commenced to modify any one or more of the existing measures under Section 9.3.1 of the Service Quality Assurance Program (Attachment 9 of the Joint Proposal, as revised October 7, 2004).

With regard to the implementation of the automated outage restoration system, and as further described in Section 9.5.4 of the Service Quality Assurance Program, to the extent National Grid seeks to utilize the new automated outage restoration system (PowerOn) for reliability reporting purposes, the Company is currently gathering twelve consecutive months of data from operating the new system in parallel with the old system (SIR) for all regions of the system. Once these data become available, the Company intends to conduct a review and file a report calibrating the new automated system results with the results from the old system and recommending a plan for adjusting reliability targets going forward. We currently anticipate completing twelve consecutive months of parallel operation on August 31, 2007, and will work to complete the review and file the report as soon as practicable following that date.