

STATE OF NEW YORK

Public Service Commission

Patricia L. Acampora, Chairwoman

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FOR RELEASE: IMMEDIATELY

07009/06M0878,06G1185,06G1186

PSC Seeks Public Comment on Proposed Merger of National Grid and KeySpan and on Proposed KeySpan Gas Rate Increases

Albany, NY—01/29/07—The New York State Public Service Commission (Commission) today announced it is seeking public comment as to whether to approve National Grid PLC's proposal to acquire KeySpan Corporation. National Grid PLC (National Grid) is the parent company of Niagara Mohawk Power Corporation which serves electric and gas customers in upstate New York under the business name: "National Grid." KeySpan Corporation (KeySpan) is the parent company of several companies including The Brooklyn Union Gas Company which serves gas customers in Brooklyn, Queens, and Staten Island under the business name KeySpan Energy Delivery New York (KEDNY); KeySpan Gas East Corporation which serves gas customers in Nassau and Suffolk counties under the business name KeySpan Energy Delivery Long Island (KEDLI); and other companies that provide assistance to the Long Island Power Authority (LIPA) in its service of electric customers in Nassau and Suffolk counties.

Simultaneously, public comment is sought concerning the requests of KEDNY and KEDLI for increases in the rates they charge for regulated gas delivery and commodity services in parts of New York City and Long Island, and concerning the terms of various rate proposals that could be adopted for KEDNY and KEDLI.

The date, location and time for the hearing are as follows:

Richmond County
THURSDAY, FEBRUARY 1, 2007
The Petrides School
715 Ocean Terrace
Staten Island, NY
7:00pm

Previously, the Commission held public statement hearings in Riverhead, Smithtown, Mineola, Brooklyn, and Kew Gardens in January 2007.

Purpose of Hearing

The Commission is conducting a hearing to accept comments from members of the public concerning whether it would be in the public interest for National Grid to acquire the common stock of KeySpan. Some of KeySpan's New York subsidiaries own and operate electric generation facilities in New York City and on Long Island, maintain and operate under contract the electric transmission and distribution system of the LIPA, and provide regulated gas delivery and commodity service in parts of New York City and Long Island.

Among the issues to be considered by the Commission are whether the long-term effects of the proposed acquisition on regulated service reliability, customer service, and rates are likely to be reasonable in New York given the specific features of the rate proposals. The public is also invited to comment on whether it would be reasonable for the proposed acquisition to be funded exclusively or primarily by debt given the possible consequences of such financing on the credit quality of the merged entity. Finally, comments are sought on whether the proposed acquisition of lightly regulated electric generation assets, some of which sell power into the wholesale market, would undermine New York's competitive wholesale electric market or create financial incentives for National Grid to act other than in the best interests of utility ratepayers.

Another key issue is whether the acquisition of KeySpan by National Grid will likely result, as claimed, in net synergy savings in excess of \$1.6 billion over the next 10 years and the

appropriate allocations of such savings between shareholders of National Grid and the ratepayers in New York as well as other states served by KeySpan and National Grid. National Grid proposes that \$518 million in net synergy savings over the next 10 years should be allocated to ratepayers within New York on the basis of relative transmission and distribution revenues, as follows:

<u>Customers of:</u>	<u>Percentage</u>
Niagara Mohawk d/b/a National Grid	39.19
The Brooklyn Union Gas Company d/b/a KEDNY	21.04
KeySpan Gas East Corporation d/b/a KEDLI	12.36
Long Island Power Authority	<u>27.41</u>
Total	100.00

Other issues to be considered by the Commission concern what rate plan terms should be adopted for KEDNY and for KEDLI. National Grid and KeySpan jointly submitted to the Commission rate plan proposals for 10-year terms if the stock acquisition is approved, as follows:

KEDNY

Gas delivery rate increases of \$62.5 million on 4/1/09, 4/1/11, 4/1/13, and 4/1/15 of 2.55%, 2.43%, 2.34%, and 2.28%, respectively, on the total gas bill, plus unspecified incremental annual gas delivery rate adjustments every 4/1 from 2009 through 2016, to recover deferred costs and actual cost increases greater than forecast, but with each such annual adjustment capped at 2.5%. Amounts in excess of 2.5% could be deferred by KEDNY for future recovery from ratepayers.

An increase in the gas commodity portion of the bill of \$73.7 million in October 2008 is proposed.

KEDLI

Overall delivery rate increases of \$39.4 million on 4/1/09, 4/1/11, 4/1/13, and 4/1/15 of 2.46%, 2.37%, 2.28%, and 2.20%, respectively, on the total gas bill. There would also be unspecified incremental annual gas delivery rate adjustments every 4/1 from 2009 through 2016, to recover deferred costs and actual cost increases greater than forecast, but with each such annual adjustment capped at 2.5%. Amounts in excess of 2.5% could be deferred by KEDLI for future recovery from ratepayers.

An increase in the gas commodity portion of the bill of \$30.9 million in October 2008 is proposed.

The percent (%) bill increases shown above assume a constant level of gas commodity prices. Those gas commodity prices are not set by the Commission and fluctuations in those prices may result in actual bill changes that differ from those shown above.

KEDNY and KEDLI also submitted, for simultaneous consideration by the Commission in case the merger is not approved, one-year rate plan proposals. A rate plan for these two delivery companies has to be developed, whether or not the proposed stock acquisition is approved. The one-year rate plan proposals are as follows:

KEDNY

Gas delivery rate increase of \$180 million and gas commodity increase of \$33 million for a total bill increase of \$213 million (9.1%) on 9/1/07. No rate request is made for the period beyond September 2008.

KEDLI

Delivery rate increase of \$145 million and gas commodity increase of \$14 million for a total bill increase of \$159 million (10.9%) on 9/1/07. No rate request is made for the period beyond September 2008.

The percent (%) bill increases shown above assume a constant level of gas commodity prices. Those gas commodity prices are not set by the Commission and fluctuations in those prices may result in actual bill changes that differ from those shown above.

The mechanisms for recovery of gas commodity and related costs under the one-year rate plan filings and the 10-year rate plan proposals are very similar, except with respect to the timing of the recovery of some costs. The mechanisms for recovery of gas commodity and related costs in KEDNY and KEDLI one-year rate cases are identical.

The retail rates charged by the Niagara Mohawk Power Corporation d/b/a National Grid and by LIPA are not subject to review in these proceedings. Likewise, the Commission will not be involved in how LIPA might apply any actual savings for the benefit of its customers. Accordingly, comments concerning these issues will not be entertained at the public statement hearing.

The Commission may adopt in whole or in part or reject the various pending proposals.

Public Statement Hearing

Members of the public may provide their comments about the reasonableness of the pending stock acquisition and rate plan proposals at the public statement hearing. The hearing session will remain open for at least one hour and not more than two hours. Persons will be called after completing a request card. It is not necessary to make an appointment in advance or present written material to speak at a public statement hearing.

Disabled persons requiring special accommodations should contact the Department of Public Service's Human Resource Management Office at (518) 474-2520 as soon as possible.

Other Ways to Comment

Interested persons not wishing to attend, or who are unable to attend, the public statement hearing may comment in English or Spanish by mailing written comments to Honorable Jaclyn A. Brillling, Secretary, New York Public Service Commission, Three Empire State Plaza, Albany, New York 12223-1350. Statements should reference "Cases 06-M-0878, 06-G-1185, and 06-G-1186 – National Grid/KeySpan Merger Proposal and Gas Rate Plans." Comments should be submitted or mailed and postmarked no later than Monday, February 19, 2007.

Other alternatives available for submitting comments for consideration by the Commission include:

Toll-free Opinion Line: Interested persons may call a special toll-free Opinion Line at 1-800-335-2120. This phone line is set up to receive comments about these proceedings from in-state callers, 24 hours-a-day. Callers should select English or Spanish and press "1" to leave comments.

Internet: Comments also may be submitted via the "PSC Comment Form," in the "Contact Us" file, accessed through the homepage of the Commission's Consumer Web site. The Web site address is <http://AskPSC.com> and comments are downloaded regularly. Many libraries offer free Internet access.

All comments submitted by one of these alternative means should be submitted as soon as possible and no later than Monday, February 19, 2007. All statements and comments received by the Commission will become part of the record, be made available for inspection in the Commission's Central Files Office, and be reported to the Commission for its consideration.

Additional information regarding the cases is available at <http://www.dps.state.ny.us>; click on "What's New" and "Case 06-M-0878 – National Grid – KeySpan Merger." Documents pertaining to the Cases 06-M-0878, 06-G-1185, and 06-G-1186 can also be obtained from the Commission's Central Files Office, 14th Floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).