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NATIONAL GRID GROUP PLC
Form U-1/A
January 15, 2002

File No. 70-9849

United States Securities and Exchange Commission
Washington, D.C. 20549

Amendment No. 3 to
Form U-1
Application/Declaration
Under the
Public Utility Holding Company Act of 1935

National Grid Group plc
(to be renamed National Grid Holdings
One plc)
New National Grid plc
(to be renamed National Grid Group plc)
National Grid (US) Holdings Limited
National Grid (US) Investments 4
National Grid (US) Partner 1 Limited
National Grid (US) Partner 2 Limited
NGG Finance plc
15 Marylebone Road
London NW15JD
United Kingdom

National Grid General Partnership
c/o RL&F Service Corp.
One Rodney Square
Wilmington,
New Castle County, DE 19801

New England Power Company
Massachusetts Electric Company
The Narragansett Electric Company
Granite State Electric Company
Nantucket Electric Company
New England Electric Transmission Corporation
New England Hydro-Transmission Corporation
New England Hydro-Transmission Electric Co. Inc.
Vermont Yankee Nuclear Power Corporation
Wayfinder Group, Inc.
NEES Energy, Inc.
EUA Energy Investments Corp.
National Grid Transmission Services Corp.
National Grid USA Service Company Inc.
Metrowest Realty LLC
National Grid USA
National Grid Holdings Inc.
25 Research Drive
Westborough, MA 01582

Niagara Mohawk Holdings, Inc.
Niagara Mohawk Power Corporation
Opinac North America, Inc.
300 Erie Boulevard West
Syracuse, New York 13202

(Names of companies filing this statement
and addresses of principal executive offices)

New National Grid plc
(Name of top registered holding company)

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Kirk L. Ramsauer
Deputy General Counsel
National Grid USA
25 Research Drive
Westborough, Massachusetts 01582
Telephone: (508) 389-2972
Facsimile: (508) 389-3518

Gary J. Lavine
Senior Vice President and Chief Legal
Officer
Niagara Mohawk Holdings, Inc.
300 Erie Boulevard West
Syracuse, New York 13202
Telephone: (315) 428-6947
Facsimile: (315) 428-5746

(Names and addresses of agents for service)

The Commission is also requested to send copies
of any communication in connection with this matter to:

Markian M. W. Melnyk
Thomas B. Reems
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Ave., N.W.
Washington, D.C. 20009-5728
Telephone: (202) 986-8000
Facsimile: (202) 986-8102

Steven Agresta
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W.
Washington, D.C. 20007
Telephone: (202) 424-7500
Facsimile: (202) 424-7643

Janet Geldzahler
Sullivan & Cromwell
125 Broad Street
New York, New York 10004-2498
Telephone: (212) 558-4000
Facsimile: (212) 558-3588 or (212)
514-5706

2

TABLE OF CONTENTS

Item 1.	Description of the Proposed Transaction.....	6
A.	Introduction.....	6
B.	General Request.....	9
C.	The Companies.....	10
1.	The Current NGG System.....	10
2.	The NiMo System.....	15
3.	Niagara Mohawk's Regulatory Environment.....	23
4.	Holding Company Financial Information.....	26
D.	Description of the Merger and the Restructuring.....	28
1.	The Merger.....	28
2.	The Restructuring.....	33
3.	Background of the Merger.....	35
4.	Financing the Merger.....	37
5.	Management and Operations of Niagara Mohawk Following the Merger.....	38
6.	Benefits of the Merger.....	40
E.	Financing the National Grid System Following the Acquisition.....	42
1.	Summary of Current NGG System Authorization.....	42
2.	Summary of Authorization Requested.....	44

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3.	Specifics of Proposed Financing Arrangements.....	45
(a)	National Grid External Financing.....	45
(b)	Interest Rate and Currency Risk Management Devices.....	46
(c)	U.S. Subsidiary Company Financings.....	48
(d)	Money Pool.....	53
(e)	Guarantees.....	53
(f)	New System Financing Parameters.....	54
(g)	Payment of Dividends Out of Capital or Unearned Surplus.....	57
(h)	Tax Allocation Agreement.....	60
(i)	Changes in Capital Stock of Subsidiaries.....	63
(j)	Financing Entities.....	63
(k)	EWG-FUCO Financing Limits.....	64
F.	Intra-System Service Transactions.....	70
G.	Nonutility Reorganizations.....	71
H.	Certificates of Notification.....	73
Item 2.	Fees, Commissions and Expenses.....	77
Item 3.	Applicable Statutory Provisions.....	80
A.	Applicable Provisions.....	80
B.	Legal Analysis.....	80
1.	Section 10(b).....	80
a.	Section 10(b)(1).....	81
i.	Interlocking Relations.....	81
ii.	Concentration of Control.....	82
b.	Section 10(b)(2).....	85
i.	Fairness of Consideration.....	85
ii.	Reasonableness of Fees.....	87
2.	Section 10(c).....	90
i.	Section 10(c)(1).....	90
(a).	Section 11, Integrated Utility System.....	91
(b).	Section 11, Retention of the Additional Gas System.....	98
(c).	Non-Utility Subsidiaries.....	105
ii.	Section 10(c)(2).....	111
3.	Section 10(f).....	113
4.	Exemptions Under Section 3 of the Act.....	117
4.	Exemptions Under Section 33 of the Act.....	117
Item 4.	Regulatory Approvals.....	122
A.	State Regulation.....	122
B.	Federal Regulation.....	124
Item 5.	Procedure.....	126
Item 6.	Exhibits and Financial Statements.....	127
Item 7.	Information as to Environmental Effects.....	130

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Defined Terms

Term	Definition
National Grid	New National Grid plc (to be renamed National Grid Group plc), the proposed successor to NGG according to the Restructuring.
NGG	National Grid Group plc., the current registered holding company parent of the system and, post-Restructuring, a subsidiary of National Grid and top-level FUCO holding company. Post-Restructuring NGG will be renamed National Grid Holdings One plc.
NiMo	Niagara Mohawk Holdings, Inc.
Niagara Mohawk	Niagara Mohawk Power Corporation.
Utility Subsidiaries	All current National Grid USA public utility subsidiary companies and Niagara Mohawk.
Nonutility Subsidiaries	All nonutility subsidiary companies set forth in Exhibit L-1 (including the nonutility subsidiaries of National Grid USA, NiMo and its nonutility subsidiaries, and CNP Limited and CNP Inc). The term Nonutility Subsidiaries also includes other direct or indirect subsidiaries of National Grid USA that are formed or acquired in accordance with an order of the Commission or applicable exemption subsequent to the issuance of an order by the Commission in this file.
Subsidiaries	The Utility Subsidiaries and the Nonutility Subsidiaries, collectively.
National Grid System	National Grid and all its associate companies.
National Grid USA Group	National Grid USA and its direct and indirect subsidiaries.
Intermediate Companies	All holding companies in the chain of ownership of National Grid USA that are direct or indirect subsidiaries of NGG (currently) or National Grid (post-Restructuring) including National Grid (US) Holdings Limited, National Grid (US) Investments 4, National Grid (US) Partner 1 Limited, National Grid (US) Partner 2 Limited, National Grid General Partnership, National Grid Holdings Inc. and any new companies in the chain of ownership as the structure may be revised from time to time.

This pre-effective Amendment No. 3 replaces and revises the Form U-1 Application-Declaration in this proceeding, originally filed in File No. 70-9849 on February 6, 2001 and Amendments No. 1 and 2 filed on May 10, 2001 and October 30, 2001, in their entireties, except that it does not replace exhibits previously filed.

Item 1. Description of the Proposed Transaction

A. Introduction

This Application-Declaration ("Application") seeks approvals relating to the proposed acquisition of NiMo, a New York public utility holding company exempt from registration under Section 3(a)(1) of the Public Utility Holding Company Act of 1935 (the "1935 Act" or "Act"). Applicants/1 propose that upon the satisfaction of certain conditions, including receipt of all necessary regulatory approvals, (i) New National Grid plc will become a holding company of NGG with a share-for-share exchange of the outstanding common stock of NGG for New National Grid plc stock (the "Restructuring"), and (ii) a wholly-owned direct subsidiary of New National Grid plc, Grid Delaware, Inc. ("Grid Delaware"), will merge with and into NiMo, with NiMo as the surviving corporation (the "Merger")./2 New National Grid plc will be renamed National Grid Group plc after the implementation of the Merger and Restructuring and is hereinafter referred to as National Grid./3

NGG currently holds the utility and nonutility operations of the former New England Electric System ("NEES") and Eastern Utilities Associates ("EUA") in its wholly-owned indirect subsidiary, National Grid USA. After the Merger, National Grid USA

1 Applicants are identified on the cover page of this Application and to the extent new Intermediate Companies are formed, will include such companies. Where the relief requested herein would apply to nonutility subsidiaries of the Applicants, for example requests for authorization to pay dividends out of paid in capital or capital surplus, change the terms of capital stock or reorganize nonutility holdings, such nonutility subsidiaries would also be deemed Applicants hereunder.

2 The current holders of the common stock of NiMo will receive: (a) cash; (b) a number of Newco American Depositary Shares ("ADSs"); or, (c) a combination of Newco ADSs and cash. Details of the exchange are explained more fully infra at note 37 and the accompanying text.

3 National Grid has filed with the SEC a registration statement on Form F-4 to register the ordinary shares to be issued by it to holders of NiMo common stock in the Merger. SEC File No. 333-47234.

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will also hold NiMo as a direct subsidiary.⁴ NiMo's most significant subsidiary is Niagara Mohawk Power Corporation ("Niagara Mohawk"), a public utility company with electric and gas operations in the state of New York.

As of and for the 12 months ended March 31, 2001, certain key financial information, in millions, for the companies was as follows (in U.S. GAAP).

	NGG	National Grid USA	NiMo	Niagara
Operating Revenues	5,371	3,118		4,712
Net Income	1,151	105		(20)
Net Utility Assets	7,917	2,933		5,717
Net Nonutility Assets	6,839	5,422		6,664
Total Net Assets	14,756	8,355		12,381

As of and for the 12 months ended September 30, 2001, certain key financial information, in millions, for the companies was as follows (in U.S. GAAP).

	NGG	National Grid USA	NiMo	Niagara
Operating Revenues	5,757	3,375		4,791
Net Income	575	170		(79)
Net Utility Assets	8,229	2,962		4,587
Net Nonutility Assets	6,573	5,400		7,710
Total Net Assets	14,802	8,362		12,297

⁴ An organizational chart showing the entities comprising the National Grid System after the Merger is included in Exhibit N-3.

The Merger, which values NiMo's common stock at approximately \$3.1 billion,

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will create a stronger combined company, yielding significant benefits for customers, communities, shareholders, employees and the region. The Merger builds on National Grid's existing New England base and gives it a much stronger U.S. presence with neighboring regional territories in New England and New York. Niagara Mohawk's electricity system, which interconnects with the National Grid USA's system, consists of 9,327 pole miles of transmission lines and 41,125 pole miles of distribution networks. In terms of customer numbers, Niagara Mohawk is of a similar size to National Grid USA, serving in excess of 1.5 million electric customers. Niagara Mohawk is also the third largest gas distribution company in New York State, serving over 540,000 gas customers. The Merger will form the ninth largest electric utility in the U.S. with pro forma U.S. revenues of approximately \$10.5 billion, a customer base of 3.4 million and a service territory of approximately 29,450 square miles.

Customers and the economy in New York will benefit from National Grid's commitment to work closely with regulators to provide stable pricing for energy delivery services for customers in Niagara Mohawk's upstate New York service territory. Under a rate plan authorized by the New York Public Service Commission, if the Merger is consummated, Niagara Mohawk's electric delivery rates would be reduced by \$152 million a year through December 31, 2011. Niagara Mohawk's gas customers would benefit from an extension of an existing rate freeze. A "service quality assurance program" included in the rate plan assures that satisfactory levels of service and reliability will be maintained. In addition, NiMo's shareholders will benefit from the purchase of their shares at a premium to the market price and from the opportunity to receive equity in a vibrant, profitable global company like National Grid. National Grid's shareholders will benefit from National Grid's significantly expanded platform for growth in a rapidly deregulating U.S. market.

The National Grid System received comprehensive financing and affiliate transactions authorization in connection with the Commission's order approving the acquisition of NEES.⁵ This Application also seeks to amend the authorization granted in

5 The National Grid Group plc, Holding Co. Act Release No. 27154 (Mar. 15, 2000) ("NEES Acquisition Order").

8

the NEES Acquisition Order to accommodate the integration of the NiMo system into the National Grid System.

B. General Request

National Grid requests authorization under Sections 9(a)(2) and 10 of the Act, to effect the Restructuring. To implement the Restructuring, National Grid will acquire all the issued and outstanding common stock of NGG, a registered electric public-utility holding company, and indirectly acquire the intermediate registered holding companies and public utility companies that are currently NGG subsidiaries. National Grid also requests authorization to effect the Merger and, indirectly, to acquire NiMo's utility and nonutility subsidiaries. In addition, the following authorizations relative to the operations of the post-Merger system are requested:

- o National Grid proposes to succeed to the authorizations granted to NGG in the NEES Acquisition Order, to extend that authorization through

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September 30, 2004 (the "Authorization Period" as defined herein), and to modify it in certain respects as set forth in this Application. National Grid also proposes to succeed to the authorizations granted to NGG in any other current financing orders from the Commission./6

- o National Grid intends to acquire NiMo in the Merger with a combination of its stock and cash. Accordingly, National Grid requests authorization to issue its common stock pursuant to the Merger and to issue and sell debt securities to finance, and as necessary refinance, the cash portion of the Merger consideration.
- o National Grid also proposes to issue equity and debt securities for general corporate financing purposes related to the business of the National Grid System post-Merger in an amount outstanding at any one time not to exceed \$6 billion.
- o In addition, NiMo and its subsidiaries propose to issue and sell securities to finance their businesses as set forth in more detail below.
- o NiMo and its subsidiaries propose to enter into various affiliate transactions with National Grid System companies after the Merger. In particular the NiMo companies will (1) enter into service contracts with National Grid USA Service Company and (2) enter into a consolidated tax allocation agreement with other

6 These orders are: National Grid Group plc, Holding Co. Act Release No. 27455 (Oct. 22, 2001) ("October 2001 Order"); and the NEES Acquisition Order. Applicants are not proposing to amend the authority granted in the October 2001 Order.

9

National Grid System companies.

- o NiMo and its subsidiaries propose to pay dividends out of capital and unearned surplus.
- o Applicants seek authority to retain Niagara Mohawk's gas operations.
- o To efficiently integrate the NiMo subsidiaries into the National Grid System, Applicants request the flexibility to reorganize the Nonutility Subsidiaries without the need to seek further Commission authorization.
- o Applicants request a continued exemption for NiMo under Section 3(a)(1) of the Act.

C. The Companies

1. The Current NGG System

NGG was incorporated in England and Wales on April 1, 1989, and is a registered holding company under the 1935 Act. NGG's ordinary shares are listed on the London Stock Exchange and its American Depositary Receipts ("ADRs") are listed on the New York Stock Exchange./7 As of September 30, 2001, there were

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1,486,690,953 ordinary shares and one special share outstanding./8 NGG employs, in conjunction with its subsidiaries, approximately 7,400 full-time employees.

Through its wholly owned indirect subsidiary, The National Grid Company ("NGC"), NGG's principal business in the UK is the transmission of electricity in England and Wales. NGG derives the majority of its profit from charges for services provided by the transmission business. NGC owns and operates a transmission system consisting of approximately 4,400 route miles of overhead lines and approximately 600 route miles of underground cable together with substations at some 220 sites. NGC and the other non-US operations of NGG are held by National Grid Holdings Limited ("National Grid Holdings"), a foreign utility company under Section 33 of the Act.

7 NGG has a small number of American Depositary Shares ("ADSs") in the U.S. which trade as ADRs and are principally held by U.S. institutions. ADSs, in the aggregate, account for less than 1% of NGG's publicly issued shares.

8 The special share is a non-voting share owned by the U.K. government. The special share, also referred to as the golden share, is a means for the government to assure the continued independence of NGG as a provider of transmission services.

10

National Grid was incorporated in England and Wales on July 11, 2000 and it does not currently conduct any business activities./9 Following the approval and implementation of the Restructuring and the Commission's authorization of this Application, National Grid will be the holding company for the National Grid System. Like NGG, National Grid's ordinary shares will be listed on the London Stock Exchange and its ADSs will be listed on the New York Stock Exchange. Upon completion of the Restructuring, National Grid will register as a holding company under the 1935 Act.

National Grid USA is an indirect wholly-owned subsidiary of NGG. Through its subsidiaries, National Grid USA is engaged in electric distribution to residential, commercial, and industrial customers in New England. The National Grid USA group operates and maintains distribution power lines and substations; provides metering, billing, and customer services; designs and builds distribution-related facilities; and provides related products and services including energy efficiency programs for customers. The company also holds certain interests in generating units, which it is actively seeking to divest. National Grid USA's nonutility subsidiaries are engaged in the construction and leasing of fiber optic telecommunications systems and the provision of consulting services to nonaffiliated utilities in the area of electric utility restructuring and customer choice.

National Grid USA owns companies which deliver electricity to approximately 1.7 million customers in Massachusetts, Rhode Island and New Hampshire. These electric public utility companies own and operate approximately 34,000 miles of transmission and distribution lines in New England.

The National Grid USA family of companies includes four wholly-owned electricity distribution companies: Massachusetts Electric Company ("Mass. Electric"), The Narragansett Electric Company ("Narragansett"), Granite State Electric Company ("Granite State"), and Nantucket Electric Company ("Nantucket") and three other utility

9 An executive director of NGG holds 10 ordinary shares (10 pence par value) of National Grid and NG Nominees Limited owns 499,990 ordinary shares. This level of issued share capital is required for the company to re-register as a plc in connection with the Restructuring - to qualify as a public limited company, National Grid must have at least two shareholders and at least (pound) 50,000 of authorized and issued share capital which must be paid up as to one-quarter. NG Nominees Limited will not hold an interest in National Grid after the Restructuring; its shares and those held by the director will be cancelled, and the public shareholders formerly holding share of NGG will hold shares of National Grid.

11

companies/10: New England Electric Transmission Corporation ("NEET"), New England Hydro-Transmission Corporation ("N.H. Hydro") and New England Hydro-Transmission Electric Company, Inc. ("Mass. Hydro"). The distribution companies focus on delivering electricity to residential, commercial, and industrial customers. The distribution companies operate and maintain distribution power lines and substations; provide metering, billing, and customer services; design and build distribution-related facilities; and provide related products and services including energy efficiency programs for customers. Their cost per delivered kilowatt-hour of electricity is among the lowest of major electricity suppliers in the states that they serve.

Mass. Electric, a wholly-owned subsidiary of National Grid USA, is a public utility company engaged in the delivery of electric energy to approximately 1.2 million customers in 170 cities and towns in Massachusetts. The cities and towns served by the company include the highly diversified commercial and industrial cities of Worcester, Lowell, and Quincy, the Interstate 495 high technology belt, suburban communities, and many rural towns. Mass. Electric owns approximately 16,021 pole miles of electric transmission and distribution lines. As of and for the 12 months ended September 30, 2001, Mass. Electric had total assets of \$3,008 million, operating revenues of \$2,119 million and net income of \$59 million. Mass. Electric is subject to rate regulation by the Federal Energy Regulatory Commission ("FERC") and the Massachusetts Department of Telecommunications and Energy ("MDTE"). The MDTE also has jurisdiction over Mass. Electric's financings and transactions with affiliates.

Narragansett is a public utility company engaged in the delivery of electric energy to approximately 460,000 customers in 38 cities and towns in Rhode Island. Narragansett's service area, which includes urban, suburban, and rural areas, covers approximately 99% of Rhode Island, and includes the cities of Providence, East Providence, Cranston, and Warwick. Narragansett owns approximately 4,737 pole miles of electric transmission and distribution lines. As of and for the 12 months ended September 30, 2001, Narragansett had total assets of \$1,483 million, operating revenues of \$800 million and net income of \$30 million. Narragansett is subject to rate regulation

10 National Grid Transmission Services Corp. is not a utility company. This company provides non-affiliate companies services such as metering and generator interconnection studies.

by the FERC and the Rhode Island Public Utilities Commission ("RIPUC"). and the Rhode Island Division of Public Utilities and Carriers ("RIDIV") has jurisdiction over Narragansett's financings and transactions with affiliates.

Granite State, a wholly-owned subsidiary of National Grid USA, provides retail electric service to approximately 36,000 customers in 21 communities in New Hampshire. Granite State's service area includes the Salem area of southern New Hampshire, as well as several communities located along the Connecticut River, primarily in the Lebanon and Walpole areas. Granite State owns approximately 1,049 pole miles of electric transmission and distribution lines. As of and for the 12 months ended September 30, 2001, Granite State had total assets of \$94 million, operating revenues of \$82 million and net income of \$3 million. Granite State is subject to rate regulation by the FERC and the New Hampshire Public Utilities Commission ("NHPUC"). The NHPUC also has jurisdiction over Granite State's financings and transactions with affiliates.

Nantucket, a wholly-owned subsidiary of National Grid USA, provides retail electric service to approximately 10,000 customers on Nantucket Island, Massachusetts. Nantucket's service area covers the entire island. Nantucket owns approximately 110 pole miles of electric transmission and distribution lines. As of and for the 12 months ended September 30, 2001, Nantucket had total assets of \$58 million, operating revenues of \$19 million and net income of \$0.3 million. Nantucket is subject to rate regulation by the FERC and the MDTE. The MDTE also has jurisdiction over Nantucket's financings and transactions with affiliates.

National Grid USA's wholly-owned subsidiary, New England Power Company ("NEPCO"), is the operator of electricity transmission facilities in the states of Massachusetts, Rhode Island, New Hampshire, and Vermont. NEPCO also holds National Grid USA's remaining interests in generating units, which the company is actively seeking to divest./11 As of September 30, 2001, NEPCO had total assets of

11 NEPCO is also a holding company because it owns approximately 20% of the outstanding voting securities of Vermont Yankee Nuclear Power Corporation, the licensed operator of the Vermont Yankee nuclear facility which has a gross maximum dependable capacity of approximately 535 MW. NEPCO receives a portion of the plant's output. As of and for the year ended March 31, 2001 Vermont Yankee Nuclear Power Corporation had \$178,565,569 in total operating revenues, \$6,388,956 in total net income, and total assets of \$710,851,866. As of and for the nine months ended September 30, 2001 (unaudited), Vermont Yankee Nuclear Power Corporation had \$135,862,772 in total operating revenues, \$4,764,761 in total net income, and total assets of \$720,803,246. NEPCO also has minority interests in Yankee Atomic Electric Company (30%), Maine Yankee Atomic Power Company (20%) and Connecticut Yankee Atomic Power Company (15%), all of which have permanently ceased operations. NEPCO is an exempt holding company under the Act. Yankee Atomic Electric Company, Holding Co. Act Release No. 13048 (Nov. 25, 1955); Connecticut Yankee Atomic Power Company, Holding Co. Act Release No. 14768 (Nov. 15, 1963).

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\$2,866 million, operating revenues of \$617 million and net income of \$71 million for the 12 months to date. NEPCO is subject to rate regulation by the FERC. The RIDIV, the MDTE, the NHPUC, and the Vermont Public Service Board have jurisdiction over NEPCO's financings and transactions with affiliates. Although the Maine Public Utilities Commission has jurisdiction over NEPCO's financings, it defers to the financing authorization from the MDTE. The Nuclear Regulatory Commission ("NRC") has jurisdiction over NEPCO's ownership of nuclear facilities.

National Grid USA's public utility subsidiary companies are members of the New England Power Pool ("NEPOOL") and they have transferred control over their pool transmission facilities to the Independent System Operator New England ("ISO-NE").¹² NEPCO operates the transmission assets owned by its associate public utility companies in concert with ISO-NE. ISO-NE directs and controls the operation of certain facilities, in particular pool transmission facilities ("PTF") that are owned by ISO-NE participants and rated 69 kV or above which are required to allow energy from significant power sources to move freely on the New England transmission network. ISO-NE also directs and controls the operation of certain generating facilities that are subject to central dispatch. ISO-NE is the central dispatching agency and has responsibility for the NEPOOL control area and the administration of the NEPOOL Open Access Transmission Tariff.

NEPCO operates the non-pool transmission facilities, i.e., transmission facilities rated below 69 kV. NEPCO also operates the PTF facilities owned by the National Grid USA utility companies in accordance with the rules and directions of ISO-NE. Although ISO-NE directs the central dispatch of the transmission facilities, NEPCO retains the responsibility to determine whether or not, and to what extent, safety requires

12 As noted by FERC in its Regional Transmission Organization Notice of Proposed Rulemaking, ISO-NE was established on the platform of an existing tight power pool following the Federal Energy Regulatory Commission's ("FERC's") encouragement in Order No. 888. ISO-NE was formed based upon NEPOOL. See UNITIL Corp., Holding Co. Act Release No. 25524 (Apr. 24, 1992) ("Unitil"). NEPOOL, formed in 1971, is a voluntary association of electric utilities in New England that established a single regional network to direct the operations of the major generating and transmission facilities in the region. NEPOOL built a control center to centrally dispatch the bulk power system using the most economic generating and transmission equipment available at any given time to match the electric load of region. Central dispatch provided savings in supply costs and increased the reliability of the bulk power system. NEPOOL continues to exist as the entity representing not only traditional electric utilities but also merchant generating companies that provide wholesale electricity supply. ISO New England has a services contract with NEPOOL to operate the bulk power system and to administer the wholesale marketplace.

facilities to be operated at less than their rated capability.

NEET, a wholly owned subsidiary of National Grid USA, owns and operates a direct current/alternating current converter terminal facility for the first phase of the Hydro-Quebec and New England interconnection (the "Interconnection") and six miles of high voltage direct current transmission line in New Hampshire. As of September 30, 2001, NEET had total assets of \$22 million, operating revenues of \$8 million, and net income of \$0.6 million for

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the 12 months to date. NEET is subject to rate regulation by FERC. The NHPUC has jurisdiction over its financings and transactions with affiliates.

N.H. Hydro, in which National Grid USA holds 53.97% of the common stock, operates 121 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Interconnection, extending to the Massachusetts border. As of September 30, 2001, N.H. Hydro had total assets of \$110 million, operating revenues of \$27 million, and net income of \$4 million for the 12 months to date. NH Hydro is subject to rate regulation by FERC. The NHPUC has jurisdiction over NH Hydro's financings and transactions with affiliates.

Mass. Hydro, 53.97% of the voting stock of which is held by National Grid USA, operates a direct current/alternating current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. As of September 30, 2001, Mass. Hydro had total assets of \$132 million, operating revenues of \$33 million, and net income of \$6 million for the 12 months to date. New England Hydro Finance Company, Inc. ("NE Hydro Finance") is owned in equal shares by Mass. Hydro and N.H. Hydro and provides the debt financing required by the owners to fund the capital costs of their participation in the Interconnection. Mass Hydro is subject to rate regulation by FERC. The MDTE has jurisdiction over Mass Hydro's financings and transactions with affiliates.

National Grid USA's existing public utility subsidiaries and nonutility companies are described in further detail in Exhibit L-1 to this Application.

2. The NiMo System

NiMo is a New York corporation and a public utility holding company

15

exempt under Section 3(a)(1) of the Act by Commission order./13 NiMo's common stock is listed on the New York Stock Exchange and as of September 30, 2001, there were 160,239,818 outstanding shares. NiMo employs, in conjunction with its subsidiaries, approximately 7,546 full-time employees.

NiMo has two direct subsidiaries: (1) Niagara Mohawk, a combination electric and gas public utility company, and (2) Opinac North America, Inc. ("Opinac"), a company engaged, through its subsidiaries, which is engaged in unregulated activities in the energy industry and is a holding company over a Canadian utility that will certify as a FUCO under Section 33 of the Act before the consummation of the Merger./14 Niagara Mohawk comprises 98% of NiMo's total assets and generates 87% of NiMo's total revenues.

For the twelve months ended April 30, 2001, Niagara Mohawk provided electric service and sold, distributed and transported natural gas to (on average) 1,535,135 electric and 546,835 gas customers in eastern, central, northern and western New York State. Niagara Mohawk provides electric service to the cities of Buffalo, Syracuse, Albany, Utica, Schenectady, Niagara Falls and Troy. As of March 31, 2001, Niagara Mohawk had approximately 50,412 miles of electric transmission and distribution lines. On November 7, 2001, Niagara Mohawk sold its Nine Mile Point Unit 1 ("Unit 1") and 41% share of its Nine Mile Point Unit 2 ("Unit 2") nuclear plants pursuant to an agreement dated December 2000 to Nine Mile Point Station LLC, a wholly-owned subsidiary of Constellation Energy Group, Inc. ("Constellation Energy")./15

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13 Niagara Mohawk Holdings, Inc., Holding Co. Act Release No. 26986 (March 4, 1999).

14 The Canadian utility is Canadian Niagara Power Company Limited ("CNP Limited"), discussed infra. FUCO status for CNP Limited would also run to its subsidiaries because they reside under the "FUCO Umbrella." See e.g., the NEES Acquisition order at 27 (finding that National Grid Holdings Ltd., a subholding company for National Grid's foreign utility holdings, would certify as a FUCO, exempting all of its direct and indirect subsidiaries). Because CNP Limited will qualify as a FUCO, Opinac would be a nonutility holding company.

Currently, Opinac is an exempt holding company under Rule 10(a)(2) because its subsidiary Opinac Energy Corp. is exempt by order under Section 3(a)(5). See note 21. See also, note 22, explaining the status of Opinac's indirect subsidiaries CNP Limited and Canadian Niagara Power Inc. ("CNP Inc").

15 Niagara Mohawk is obligated to use 85% of the net proceeds of the sales of the generation assets to reduce its senior debt outstanding within 180 days after the receipt of such proceeds pursuant to the covenants of the Senior Notes issued in 1998. Such Senior Notes were issued to fund the Master Restructuring Agreement. Along with the asset purchase agreements, Niagara Mohawk also signed power purchase agreements ("PPAs") with Constellation Energy to purchase energy at negotiated competitive prices for approximately ten years.

16

Niagara Mohawk wholly owns hydro generation assets in Mechanicville, New York, which while inoperable since 1997, have a nominal capacity of 4.5 MW of power./16 In addition to the Mechanicville facilities, Niagara Mohawk also has an interest in an additional 58.5 MW of hydroelectric generation facilities that it has leased to third parties./17

Niagara Mohawk has transferred control of its transmission system to the New York Independent System Operator ("NYISO"). The NYISO is an independent operator of the electric transmission systems of all of the public utility systems in New York State.

Niagara Mohawk also purchases, transports and distributes natural gas in eastern, central and northern New York State in an area that generally extends from Syracuse to Albany. Gas utility service is provided largely in areas where Niagara Mohawk also provides electrical service. The majority of Niagara Mohawk's gas sales are for residential and commercial space and water heating. Consequently, the demand for natural gas by Niagara Mohawk's customers is seasonal and influenced by weather factors. Niagara Mohawk purchases its natural gas for sale to its customers under firm and spot contracts, and transports the gas under both firm and interruptible transportation

16 The site's six .750 MW units have not been operated since approximately October 27, 1997. While the FERC issued a new license for the facility on June 9, 1993 authorizing site redevelopment and installation of 1.7 MW of new generation capacity, redevelopment has not begun. Initially, the units were not operated due to low water levels. In a later assessment, Niagara Mohawk evaluated the units and determined that they should not be operated for several reasons: (a) deterioration of the sub-structure; (b) the high cost of repairs compared to alternative power; (c) a subsequent NYPSC decision and directive

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that Niagara Mohawk sell its generation; and (d) a civil dispute over the license and generating rights at the site between FERC project co-licensees that led to a regulatory impasse at FERC as to the "going forward" plan for the facility.

17 The 1.2 MW Diamond Island facility land and facility are leased to Consolidated Hydro Incorporated; land rights in the 36 MW Hudson Falls facility are leased to Northern Electric Power Co. Limited partnership, and Niagara Mohawk is co-licensee; land rights in the 3.1 MW Middle Falls facility are leased to Adirondack Hydro Development Corporation; land rights in the 14 MW South Glens Falls are leased to South Glen Falls Limited Partnership; the 1.6 Theresa facility and land are leased to Consolidated Hydro Incorporated; and land rights in the 2.6 MW Union Falls project are leased to Union Falls Hydro Limited Partnership. None of the leasees for the facilities is an affiliate of NiMo. Niagara Mohawk purchases from these third parties the power from these units pursuant to power purchase agreements.

17

contracts./18

Niagara Mohawk's wholly-owned nonutility subsidiaries are NM Uranium, Inc., NM Properties, Inc., NM Receivables LLC and NM Receivables Corp. II. NM Uranium, Inc. has a 50% interest/19 in certain closed uranium mines in the State of Texas. NM Properties, Inc. manages real property formerly owned by Niagara Mohawk. NM Receivables, LLC, a single-purpose, financing subsidiary, purchases and resells Niagara Mohawk's customer receivables, including accrued unbilled revenues. NM Receivables, LLC is over 99.99% owned by Niagara Mohawk and is also owned by NM Receivables Corp. II, which is a wholly owned subsidiary of Niagara Mohawk that manages NM Receivables, LLC.

NM Properties, Inc. wholly owns the following subsidiary real estate development companies: Hudson Pointe, Inc., Land Management & Development, Inc., Landwest, Inc., Moreau Park, Inc., Riverview, Inc., Salmon Shores, Inc., Upper Hudson Development, Inc., Arbuckle Acres, Inc., and OproprCo., Inc.

Opinac's wholly-owned, direct subsidiaries are Opinac Energy Corporation ("Opinac Energy") and Niagara Mohawk Energy, Inc. ("NM Energy"). Opinac Energy is a Canadian corporation that owns a portfolio of cash equivalent securities and owns a 50% interest in Canadian Niagara Power Company, Limited ("CNP Limited")./20 CNP Limited is a Canadian public utility company based in Ontario,

18 Effective April 1, 2000 through October 31, 2000, Niagara Mohawk entered into an Agreement for Portfolio Management and Gas Supply with an unaffiliated company. The portfolio manager optimizes Niagara Mohawk's portfolio of contractual entitlements to pipeline and storage capacity to satisfy Niagara Mohawk's firm requirements and to create value. In accordance with the provisions of the Agreement for Portfolio Management and Gas Supply, the portfolio manager dispatched gas supplies Niagara Mohawk had under contract with others and supplied the balance on a firm basis. Thus Niagara Mohawk purchased no gas under spot supply contracts since April 1, 2000. Niagara Mohawk entered into a second agreement upon the expiration of the Agreement for Portfolio Management and Gas Supply. For the first twelve months ending March 31, 2001, Niagara Mohawk purchased approximately 57% of its gas supplies from third parties under existing firm contracts and 43% from its portfolio manager.

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19 The remaining 50% interest is owned by USX Corp., an unaffiliated company.

20 The remaining 50% of CNP Limited is owned by Fortis Inc. ("Fortis"), an unaffiliated holding company. Fortis is a Newfoundland organized company with diversified investments in seven companies. Besides CNP Limited, these companies include the following: (1) Newfoundland Power supplies electricity to approximately 216,000 customers on the island portion of the Canadian Province of Newfoundland and Labrador. Newfoundland Power also owns and operates 23 small hydroelectric generating plants, five diesel plants and three combustion turbines with a total installed capacity of 148.4 MW, that provide 10% of the energy Newfoundland power sells. Newfoundland Power is wholly owned by Fortis; (2) Maritime Electric supplies electricity to approximately 63,000 customers throughout the Canadian Province of Prince Edward Island. It owns 2 combustion turbines and six steam turbines with a combined capacity of 103.5 MW. Maritime Electric is wholly owned by Fortis. (3) FortisUS Energy Corporation, ("FortisUS") is a New York company and a wholly owned subsidiary of Maritime Electric. FortisUS owns and operates four hydroelectric generating stations, with a total capacity of 22.9 MW, located in upper New York State. The four generating stations are qualifying facilities ("QFs") under the Public Utilities Regulatory Policies Act of 1978 ("PURPA"); (4) Fortis owns 20% of the outstanding Class A Ordinary Shares of Caribbean Utilities Company, Ltd., a publicly traded electric utility known as CUC. CUC, one of the most reliable and efficient power companies in the Caribbean, is the sole provider of electricity to the Island of Grand Cayman, Cayman Islands serving over 18,000 customers; (5) Fortis owns 67% of the Common Shares of Belize Electricity Limited ("BEL"), the primary producer, transmitter and distributor of electricity in Belize. BEL serves over 51,000 customers; (6) Fortis owns 95% of Belize Electric Company Limited ("BECOL"). BECOL owns and operates a 25-MW hydroelectric generating facility in Belize; and (7) Fortis Properties owns and manages commercial, retail and hotel properties in Newfoundland and Nova Scotia. With the exception of FortisUS, neither Fortis nor its subsidiaries are organized under the laws of any of the United States. FortisUS does not own utility assets located within the U.S. Consequently, Fortis is an exempt foreign holding company under Rule 5. Fortis would not acquire, directly or indirectly, any security of any public utility company as a consequence of National Grid's acquisition of NiMo. Fortis, therefore, is not subject to Section 9(a)(2) of the Act in connection with the proposed transaction.

18

Canada that generates electricity and supplies and markets energy and energy services in Ontario. CNP Limited also sells electricity that is surplus to its Ontario needs into the New York market, principally into the market run by the NYISO. CNP Limited owns and operates the William B. Rankine Generating Station, a 74.6 MW hydroelectric plant located on the Canadian side of the Niagara River at Niagara Falls. Opinac Energy was granted an exemption by Commission order under Section 3(a)(5) of the Act, with respect to its interest in CNP Limited./21

On March 31, 1999, the transmission and distribution assets of CNP Limited were transferred to a 100% owned subsidiary, Canadian Niagara Power Inc. ("CNP Inc."). The transfer was made to comply with the Electricity Act 1998 and with regulations of the Ontario Energy Board./22 CNP Inc. distributes electricity to residential,

21 Opinac Energy Corporation, Holding Co. Act Release No. 25632 (September 16,

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1992). The order states that "[a]lthough Opinac was not incorporated until 1982, the affiliation between CNP and Niagara Mohawk predates the passage of the Act. The Commission considered, but did not expressly pass upon, retention of the foreign utility in the section 11 reorganization proceedings involving Niagara Mohawk's predecessors in interest. See, e.g., Niagara Hudson Power Corp., 16 S.E.C. 139, 170 n. 46 (1944) (citing the domestic company's "substantial dependence upon the receipt of electric energy from Canadian sources"); The United Corp., 32 S.E.C. 378, 396 (1951) (foreign operations "related" to Niagara Mohawk's domestic utility business)." See also, In the Matter of Niagara Mohawk Power Corp., The Niagara Falls Power Co., Holding Co. Act Release No. 10130 (October 4, 1950) (noting in its order approving the merger of Niagara Mohawk with The Niagara Falls Power Co. that CNP would be directly transferred to Niagar a Mohawk).

22 The formation of CNP Inc. was exempt from Section 9(a)(2) under Rule 11. The indirect acquisition of the securities of CNP Inc. by NiMo was exempt under Rule 11(a) which provides: "Any holding company which is exempt from Sections 4 and 5(a) of the Act and which is not a subsidiary of any registered holding company, shall be exempt from Section 9(a)(2) of the Act with respect to the acquisition of any securities issued by any subsidiary of such exempt holding company." The direct acquisition of the securities of CNP Inc. by CNP Limited was exempt under Rule 11(b)(2) which provides: "Any holding company specified in paragraph (a) and any person which is not a holding company or a subsidiary of any registered holding company, shall be exempt from Section 9(a)(2) of the Act with respect to the acquisition of any of the following securities: . . . (2) Securities of Foreign Companies. Securities issued by any company which does not own or operate, or have a subsidiary which owns or operates, any utility assets located in the United States; provided, that the acquiring company is not an affiliate under Section 2(a)(11)(A) of the Act of any company which owns or operates, and has no subsidiary which owns or operates, any utility assets located in the United States." CNP Limited is not an affiliate under Section 2(a)(11)(A) of the Act of Niagara Mohawk and does not otherwise have any affiliate or subsidiary that owns or operates utility assets in the U.S.

commercial and industrial customers in Fort Erie, Ontario. CNP Inc. has an international electric interconnection with Niagara Mohawk that provides back-up power in the event of an outage at Niagara Falls. CNP Inc. also has a 25 hertz transmission line that interconnects the 25 hertz grid in Niagara Falls, Ontario with the Niagara Mohawk system in Buffalo, N.Y. CNP Inc. serves approximately 14,600 customers with 44 employees, 32 km of transmission lines and 900 km of distribution lines. For the twelve months ended March 31, 2001, CNP Limited sold 293,807 MWh to CNP Inc. for \$7.4 million and sold 355,886 MWh to various parties in the northeastern U.S. CNP Limited engaged solely in wholesale energy transactions during this period./23 CNP Limited is licensed by the Ontario Energy Board ("OEB") and its operations are subject to compliance with the terms of its licenses. CNP Inc. is regulated by the OEB.

On July 19, 2001, CNP Limited, CNP Inc., the City of Port Colborne, Ontario and Port Colborne Hydro, Inc. ("Port Colborne Hydro"), a distribution utility, signed an agreement for CNP Inc. to lease the electric distribution business of Port Colborne Hydro. The agreement is subject to OEB approval before closing. Under the terms of the 10-year deal, CNP Inc. will receive all revenues from Port Colborne Hydro in exchange for assuming responsibility for the operations of the business. The City of Port Colborne will receive lease payments from CNP Inc. CNP Inc. will finance and own all capital additions and will hold an option

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to purchase the business for a predetermined fair market value at the end of the 10-year term. Port Colborne is located on the north shore of Lake Erie at the entrance to the Welland Canal. The utility serves approximately

23 These sales included 17,200 MWh to NM Energy and 338,686 MWh to the NYISO.

20

9,000 customers within the City of Port Colborne. Port Colborne has 270 kilometers of distribution lines and no generation or transmission facilities.

CNP Limited has also recently acquired a 10% interest in two newly-formed companies in Ontario, Westario Power Holdings Inc. ("Westario Power") and Rideau St. Lawrence Holdings Inc. ("Rideau St. Lawrence").²⁴ Westario Power is a nonutility holding company with two wholly-owned subsidiaries. Westario Power Inc., the first subsidiary, is an electric distribution utility that serves 20,000 customers in the counties of Bruce, Grey and Huron, Ontario. It owns 370 kilometers of distribution lines and no generation or transmission facilities. Westario Power Services Inc., the second subsidiary, markets and sells associated products and services.

Rideau St. Lawrence is a nonutility holding company with three wholly-owned subsidiaries. The first subsidiary, Rideau St. Lawrence Distribution Inc., is an electric distribution utility that serves 6,000 customers in the counties of Leeds-Grenville and Stormont-Dundas, Ontario. It owns 84 kilometers of distribution lines and no generation and transmission facilities. The second subsidiary, Rideau St. Lawrence Utilities Inc., provides human resources and asset services to the other two subsidiaries. The final subsidiary, Rideau St. Lawrence Services Inc., provides operational services to Rideau St. Lawrence Distribution Inc.

CNP Limited's other wholly-owned subsidiaries are 1161557 Ontario Inc, and Ziegler Energy Demands Inc., which are both inactive. Ziegler Energy Demands Inc. recently transferred its demand-side energy services business to CNP Limited and is in the process of winding up its operations.

CNP Limited will certify as a FUCO under Section 33 of the Act before the consummation of the Merger.

24 The Ontario Energy Board recently approved the completion of the transactions with Rideau St. Lawrence, and approval for Westario Power remains outstanding.

21

Financial Information
For the Twelve Months Ended March 31, 2001 (in US\$ millions)

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	Operating Revenues	Net Income
Niagara Mohawk	4,003.6	(39.2)
CNP Limited (Consolidated)*	13.0	4.
CNP Inc*	6.8	(0.0)

*The amounts provided represent NiMo's 50% ownership interest.

Financial Information
For the Twelve Months Ended September 30, 2001 (in US\$ millions)

	Operating Revenues	Net Income
Niagara Mohawk	4,143	(16)
CNP Limited (Consolidated)*	13.3	4.
CNP Inc*	7.0	0.

*The amounts provided represent NiMo's 50% ownership interest.

Opinac is also a holding company over partially-owned subsidiaries engaged in energy-related businesses, including: (a) Telergy, Inc., a development-stage company that was engaged in the construction, ownership and operation of a fiber optic telecommunications network, but is now in liquidation, and; (b) eVionyx, Inc. (formerly EVonyx, Inc.), a research and development company that has developed and intends to commercialize new fuel cell and battery technology. Telergy, Inc. is an exempt telecommunications company ("ETC") under Section 34 of the 1935 Act./25

NM Energy was, until recently, engaged indirectly in energy marketing and energy services through its wholly-owned direct subsidiary Niagara Mohawk Energy Marketing, Inc. As of December 1, 2001, Niagara Mohawk Energy Marketing Inc. was sold to Select Energy Inc., a non-affiliate.

NM Energy is a holding company over two partially-owned subsidiaries engaged in energy-related businesses: (a) Telergy Central LLC, a company that was engaged in the construction, ownership and operation of a fiber optic telecommunications

25 Telergy, Inc. and certain affiliated companies filed for ETC status with the Federal Communications Commission on March 7, 2001, in FCC File No. ETC-01-06.

network, but is now in liquidation, and/26 (b) Direct Global Power, a company doing business in photovoltaics. All of NiMo's direct and indirect nonutility subsidiaries are further described in Exhibit L-2./27

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3. Niagara Mohawk's Regulatory Environment

The New York State Public Service Commission ("NYPSC") regulates Niagara Mohawk's overall operations. It regulates financings by Niagara Mohawk with a term of one year or more, capital structure, dividend payments, asset sales, affiliate transactions, terms of service and service quality. On March 20, 1998, the NYPSC approved Niagara Mohawk's Power Choice agreement ("Power Choice"), including its Master Restructuring Agreement ("MRA") (discussed below). Power Choice is a five-year electric rate plan that provides for a restructuring of Niagara Mohawk's regulated electric utility business and reduces average residential and commercial rates by an aggregate of 3.2% over the first three years through September 1, 2001./28 Under the MRA, Niagara Mohawk bought out a majority of its above-market government-mandated power purchase agreements, which helped stabilize its financial condition./29

Under Power Choice, as of August 1, 1999, all of Niagara Mohawk's

26 Telergy Central LLC is an ETC under Section 34 of the 1935 Act. It filed for ETC status with Telergy, Inc. in FCC File No. ETC-01-06 on March 7, 2001.

27 In the event National Grid seeks to reactivate the business activities of any inactive subsidiary acquired from NiMo and such business is not authorized by an applicable exemption or Commission rule or order under the 1935 Act, National Grid will file a post-effective amendment seeking authorization to engage in the proposed activities.

28 Niagara Mohawk retains the flexibility to address specific competitive challenges for energy intensive customers through individual rate negotiations.

29 As a result of various federal and state requirements, Niagara Mohawk was required to enter into contracts to purchase electricity from Independent Power Producers ("IPPs") in quantities in excess of its own demand and at prices in excess of those available to it. In mid-1996, Niagara Mohawk began comprehensive negotiations to terminate, amend or restate a substantial portion of above-market Power Purchase Agreements ("PPAs") in an effort to mitigate the escalating cost of these PPAs as well as to prepare Niagara Mohawk for a more competitive environment. These negotiations led to the MRA and Power Choice. The MRA was consummated on June 30, 1998 with 14 IPPs (the "IPP Parties"). The MRA allowed Niagara Mohawk to terminate, restate or amend 27 PPAs which represented approximately three-quarters of its above-market purchased power obligations. Niagara Mohawk terminated 18 PPAs for 1,092 MW of electric generating capacity, restated eight PPAs representing 535 MW of capacity and amended one PPA representing 42 MW of capacity. Niagara Mohawk paid the IPP Parties an aggregate of \$3.934 billion in cash and issued 20.5 million shares of common stock to the IPP Parties.

customers may now choose their electricity supplier./30 Niagara Mohawk continues to distribute electricity through its transmission and distribution systems for all customers, regardless of supplier, and it provides electricity to those customers who do not choose a new electricity supplier. Power Choice provides that if a customer chooses an alternative supplier, Niagara Mohawk may continue to charge the customer for delivery of the energy and for a non-bypassable Competitive Transition Charge ("CTC"). Niagara Mohawk will also give a customer service back out credit to customers choosing an alternative supplier.

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In furtherance of the restructuring, Niagara Mohawk has completed the sale of its coal-fired generation plants and its oil and gas-fired generation plants at Oswego and Albany. On January 31, 2001, Niagara Mohawk completed the sale of its 25% interest in the Roseton Steam Station to Dynegy Inc. This sale completes the divestiture of Niagara Mohawk's fossil-fueled generating assets. On November 7, 2001, Niagara Mohawk sold its interests in Nine Mile Point Unit 1 and Unit 2 to a wholly-owned subsidiary of Constellation Energy.³¹ As described in the previous section, Niagara Mohawk retains an interest in 58.5 MW of hydroelectric facilities that it has leased to third parties.

The NYPSC has allowed Niagara Mohawk to record a regulatory asset for the costs of the MRA and has designed the utility's rates to permit recovery of the MRA regulatory asset.³² The regulatory asset is being amortized over a period generally not to exceed ten years and, although the amortization has the effect of depressing Niagara

30 As of January 30, 2001, 22% of Niagara Mohawk's commercial and industrial customers or approximately 27% of eligible load, and 3% of residential customers and their eligible load, have chosen an electricity supplier other than Niagara Mohawk.

31 The Merger was contingent on, among other things, the completion of the sale of the nuclear assets or the entry into another arrangement covering the nuclear assets agreed to by the parties to the Merger and approved by all appropriate regulatory agencies. By order dated June 22, 2001, the Nuclear Regulatory Commission approved the sale of the nuclear assets. The NYPSC also approved the asset transfer in an order issued October 26, 2001. Case 01-E-0011, Niagara Mohawk Power Corp., et. al. - Nine Mile Point Transfer, Order Authorizing Asset Transfers (issued October 26, 2001).

32 In approving Power Choice, the NYPSC limited the estimated value of the MRA regulatory asset that could be recovered, which resulted in a charge to the second quarter of 1998 earnings of \$263.2 million upon the closing of the MRA.

Mohawk's earnings, the rate plan has resulted in a substantial improvement to operating cash flow.

On December 3, 2001, the NYPSC issued its order authorizing the Merger and adopting a new rate plan for Niagara Mohawk.³³ The rate plan, which is contingent on the consummation of the Merger, covers a period of approximately ten years from the day after the Merger closes ("Plan Effective Date") through December 31, 2011. Under the plan, Niagara Mohawk's electric delivery rates would be reduced by \$152 million a year, equivalent to a reduction of 8.0% in delivery rates and a reduction of 4.6% overall (considering delivery plus commodity rates). The plan provides for recovery of Niagara Mohawk's transmission and distribution costs, reflecting a 10.6% return on equity, and a CTC that recovers fixed and forecast variable stranded costs. The recoverable fixed stranded costs under the rate plan are reduced by an approximately \$850 million write-off of stranded costs associated with the Nine Mile Point nuclear facility, in addition to the \$123 million in fixed costs written off in connection with the NYPSC's October 26, 2001 order authorizing the transfer of the Nine Mile Point assets. The unamortized balance of fixed costs is allowed a return.

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The rate reductions also reflect the assignment to ratepayers of 50% of the electric portion of the forecast efficiency gains and synergy savings (net of costs to achieve) agreed to by the parties to the Merger proceeding. Synergy savings over the term of the plan are set at about \$130 million per year, allocated 62% to New York, and efficiency gains are set at \$60 million per year, allocated 100% to New York. The imputed levels of savings flow to ratepayers regardless of whether they are achieved in fact.

The rate plan also includes an incentive mechanism. Niagara Mohawk is permitted to retain any earnings over the allowed 10.6% return on equity up to 11.75%, which may be increased to 12% provided that Niagara Mohawk achieves certain goals related to competition and low income programs. Earnings above 11.75% (or the higher number possible in subsequent years) would be shared between Niagara Mohawk and its

 33 Case 01-M-0075, Niagara Mohawk Holdings, Inc. et. al., Opinion and Order Authorizing Merger and Adopting Rate Plan, (issued December 3, 2001).

25

ratepayers.

The rate plan also provides for penalties of approximately 24 million under the "service quality assurance program" if satisfactory levels of service and reliability are not delivered. The customer service provisions adopt standards related to call center operations, billing and collections, field services, and the low-income customer assistance program. The electric reliability standards relate to service reliability (i.e., frequency and duration of interruptions) and power quality (i.e., momentary interruptions).

The rate plan extends through December 31, 2004 an existing freeze on Niagara Mohawk's rates for gas delivery service, which would otherwise expire on August 31, 2003. In the event Niagara Mohawk receives a gas delivery service rate increase to take effect at any time, all synergy and efficiency savings from the current Merger or any follow-on merger or acquisition associated with the gas business would be allocated wholly to customers. In the absence of gas delivery service rate increases, Niagara Mohawk may retain 50% of follow-on merger savings allocable to gas service.

4. Holding Company Financial Information

For the twelve months ended March 31, 2001, NGG and NiMo had the following financial results individually, and on a pro forma combined basis (US GAAP):

	NGG	NiMo	Pro Forma Combined
	(\$ millions)		
Total assets	14,756	12,381	27,1
Net utility plant assets	7,917	5,717	13,6

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Total operating revenues	5,371	4,712	10,0
Operating income*	1,119	397	1,5
Net income	1,151	(20)	1,1

*Operating income is income before goodwill amortization and income taxes.

26

The table below provides that information for the twelve months ended September 30, 2001.

	NGG	NiMo	Pro Forma Combined
	(\$ millions)		
Total assets	14,802	12,297	27,0
Net utility plant assets	8,229	4,587	12,8
Total operating revenues	5,757	4,791	10,5
Operating income*	1,123	281	1,4
Net income	507	(79)	4

*Operating income is income before goodwill amortization and income taxes.

The table below shows the capitalization of NGG, NiMo, and the National Grid combined system on a pro forma basis as of March 31, 2001, according to U.S. GAAP.

	NGG (\$ mm)	NGG (%)	NiMo (\$ mm)	NiMo (%)	Acqui- sition Cost	Consolidating Adjustments	Pro Forma Combined (\$ mm)
Short-term debt*	1,379	14	651	8			2
Long-term debt	4,517	45	4,674	54	1,582		10
Preferred stock	28	0	494	6			
Minority interest	31	0	0	0			

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Common stock equity	4,146	41	2,715	32	1,522	(2,715)	5
Total	10,101	100%	8,534	100%	3,105	(2,715)	19

* Includes current maturities of long-term debt, plus for NiMo only, sinking fund payments on preferred stock.

27

The table below shows the capitalization of NGG, NiMo, and the National Grid combined system on a pro forma basis as of September 30, 2001, according to U.S. GAAP.

	NGG (\$ mm)	NGG (%)	NiMo (\$ mm)	NiMo (%)	Acquisition Cost	Consolidating Adjustments	Pro Forma Combined (\$ mm)
Short-term debt*	108	1%	591	7%			69
Long-term debt	5,776	58%	4,815	56%	1,604		12,19
Preferred stock	24	0%	494	6%			51
Minority interest	28	0%	-	0%			2
Common stock equity	4,106	41%	2,616	31%	1,522	(2,616)	5,62
Total	10,042	100%	8,516	100%	3,127	(2,616)	19,06

* Includes current maturities of long-term debt, plus for NiMo only, sinking fund payments on preferred stock.

D. Description of the Merger and the Restructuring

1. The Merger

The Agreement and Plan of Merger and Scheme of Arrangement by and among NGG, NiMo, National Grid, and Grid Delaware, dated as of September 4, 2000 and amended December 1, 2000 ("Merger Agreement"), contemplates a scheme of arrangement (previously defined as the "Restructuring") and a merger which taken together will result in the creation of National Grid, a new holding company for the National Grid System, and the acquisition by National Grid of NiMo.

The Restructuring involves canceling and exchanging NGG's existing shares for shares of National Grid, with NGG becoming a wholly owned subsidiary of

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National Grid. The Merger Agreement contemplates that Grid Delaware, a wholly owned subsidiary of National Grid, will merge into NiMo with NiMo surviving. Upon the closing of the Merger, NiMo will be a subsidiary of National Grid and will subsequently be transferred to become a wholly-owned subsidiary of National Grid USA.

28

It is intended that the Restructuring and Merger taken together will qualify as a tax-free transaction within the meaning of Section 351 of the Internal Revenue Code of 1986, as amended. The Restructuring will be implemented immediately prior to the Merger.

The introduction of a new holding company, National Grid, is intended to give NGG the flexibility to increase the cash portion of the Merger consideration mix without jeopardizing the tax free nature of the transaction for NiMo shareholders who elect to exchange their shares in NiMo for shares in National Grid, should the shareholders in aggregate elect to receive more than one-fifth of the consideration for their NiMo shares in cash. NGG can not be eliminated in the restructuring without jeopardizing the tax-free nature of the transaction.

Transaction Steps

The Merger and Restructuring would be effected through a series of transactions involving special purpose acquisition corporations, intercompany loans, the acquisition of securities, share repurchases or redemptions and other transactions. The specific transactions are summarized below and described in more detail in Exhibit M-1. After the Merger, however, all of the NiMo stock will be owned by National Grid USA and NiMo's current subsidiaries will remain its subsidiaries. The corporate structure of the National Grid System post-Merger, illustrated by the organization chart included in Exhibit N-3, will be fully consistent with the Act.

The initial steps in the transaction involve transferring the National Grid USA chain of companies and NGG Finance plc to the direct ownership of National Grid to replicate the current corporate structure after the Restructuring. In particular, the Restructuring leaves National Grid as the immediate parent of NGG. NGG has, among its subsidiaries, NGG Finance plc, a special purpose financing entity and National Grid (US) Holdings Ltd., a registered holding company that indirectly holds NGG's interest in National Grid USA. After the restructuring, NGG transfers NGG Finance plc and National Grid (US) Holdings Ltd. to National Grid. As a result, NGG no longer holds direct or indirect voting securities in National Grid USA. NGG remains, however, the parent of National Grid Holdings Ltd., a FUCO.³⁴ The existing loan from NGG Finance

34 NGG expects that some time after the Merger it will file an application with the Commission seeking deregistration and file Form U-57 certifying itself as a FUCO.

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plc to NGG is novated such that National Grid becomes the borrower. National Grid also acquires an equivalent amount of the loan between NGG and National Grid (US) Holdings Ltd. used to acquire National Grid USA.

The subsequent steps in the transaction involve the financing of the cash component of the Merger consideration. Assuming that the approximately \$3 billion consideration to be paid for NiMo shares is split evenly between cash and National Grid shares, NGG Finance plc would borrow \$1.5 billion from banks under a credit facility dated November 22, 2001 between National Grid, NGG, NGG Finance plc and a syndicate of banks (the "Credit Facility"). NGG Finance plc would loan the proceeds to a second special purpose subsidiary of National Grid, NG10, which, in turn would loan the funds to National Grid for deposit with the paying agent under the Merger Agreement./35

35 The loan from NG10 to National Grid is an upstream loan. Because NGG Finance plc and NG10 are special purpose entities used to facilitate the financing of the Merger and the funds at issue here ultimately come from banks under the Credit Facility, the loan does not give rise to the abuses that the Act was intended to prevent in Section 12(a) by prohibiting registered holding companies from borrowing from subsidiaries. The Credit Facility is not secured by any public utility subsidiary company of National Grid. The loan is merely incidental to National Grid's financing of the Merger and is consistent with the public interest and the interests of investors and consumers. The Commission found in several instances that upstream loans from financing subsidiaries do not violate Section 12(a). See, e.g., The Southern Company, Holding Co. Act Release No. 27134 (Feb. 9, 2000); Exelon Corp., Holding Co. Act Release No. 27266 (November 2, 2000); PowerGen plc, Holding Co. Act Release No. 27291 (December 6, 2000), and; Scottish Power plc, Holding Co. Act Release No. 27290 (December 6, 2000) (authorizing registered holding companies to establish financing subsidiaries and to borrow the proceeds of the financing from the special purpose subsidiaries).

The Senate Report that accompanied the adoption of the Act stressed the need to protect the credit of public utility subsidiaries: "Money raised on the credit of a public-utility company should be devoted solely to the regulated business of that company and not used to finance the speculative activities of those who control it." Sen. Rep. 621, 74th Cong., 1st Sess., p.34. Apparently, "subsidiaries" were included within the Section 12 prohibition of upstream loans to holding companies to capture both public utility operating companies and sub-holding companies that were their parents, and not nonutility company operations. Report of National Power Policy Committee on Public Utility Holding Companies, 74th Cong. 1st Sess. Cong. Record, June 27 1935, at 10323 ("Loans by operating companies are sometimes called upstream loans."); House Rep. No. 1318, 74th Cong. 1st Session, June 24, 1935 (characterizing the "flat prohibition" of Section 12(a) as applying to public utility company "upstream loans" and stating that "[r]egulation of intercompany transactions is provided to prevent the milking of operating companies for undue advantage to the controlling holding companies . . . Section 12 covers other intercompany transactions detrimental to operating companies."; 74th Cong. Com. Interstate Commerce, Hearings on S. 1725 (April 26-29, 1935), at 59 ("flat prohibition" of "upstream loans" applies to public utility companies"). These arguments were advanced persuasively by the Southern Company in an application for authorization to restructure some nonutility interests. The restructuring involved an indemnification of Southern by its nonutility subsidiary that the Commission found not to violate Section 12(a) based on the intent demonstrated in the legislative history to protect public utility subsidiaries. See The Southern Company, File No. 70-9727, and The Southern Company, Holding Co. Act Release No. 27303 (Dec. 15, 2000). The loan from NG10 to National Grid would be unsecured and would not obligate any public utility subsidiaries in the National Grid USA Group and accordingly is consistent with the policy underlying Section 12(a) and should be permitted. There are no other upstream loans in the transaction steps.

With the funds in place, the next steps involve the Merger itself. National Grid's wholly-owned subsidiary Grid Delaware merges into NiMo, with NiMo surviving. With the exception of shares held by NiMo, National Grid, NGG or their subsidiaries, the outstanding NiMo shares are converted into the right to receive National Grid shares, cash or a combination of both. After the Merger, National Grid will own 100% of NiMo.

The last group of steps involves the repositioning of NiMo as a wholly-owned subsidiary of National Grid USA. National Grid sells NiMo to NG10, in settlement of the previously outstanding loan from NG10 to National Grid, and additional NG10 shares. NG10 is then transferred down the chain of Intermediate Companies until it resides as a subsidiary of National Grid Holdings Inc. ("NGHI"), the immediate parent of National Grid USA. NGHI enters into a subscription agreement with its special purpose subsidiary National Grid 11 Limited ("NG11"). Under the agreement, NG11 issues shares to NGHI which agrees to pay for the shares by a series of calls through December, 2006. NGHI then sells its NG11 shares to National Grid (US) Investments 4 (an Intermediate Company subsidiary of National Grid (US) Holdings Ltd.) for the present value of the future calls (\$1.5 billion).³⁶ NGHI invests the funds received from National Grid (US) Investments 4 into NG10 which uses the proceeds to repay its debt to NGG Finance plc. In the final steps, NiMo merges with a direct subsidiary of NGHI and survives. NGHI then transfers NiMo to National Grid USA as a capital contribution.

The Merger and Restructuring transaction steps accomplish several objectives. They preserve the ability of NiMo's shareholders to receive National Grid shares tax free while maximizing the ability to pay other NiMo shareholders cash. The steps also allow National Grid to transfer its acquired NiMo shares to National Grid USA

³⁶ The acquisition by National Grid (US) Investments 4 of the NG11 shares subject to NGHI's obligation to pay up the calls in the future is the economic equivalent of a downstream loan from National Grid (US) Investments 4 to NGHI. Such loans are permitted under the Commission's order dated October 11, 2001; National Grid Group plc, Holding Co. Act Release No. 27455.

efficiently by avoiding a deemed distribution under U.S. tax law as a result of the assumption of the acquisition debt by NGHI. Lastly, the steps facilitate the servicing of the acquisition debt and the repatriation of dividends from National Grid USA across borders. See Powergen plc, Holding Co. Act Release No. 27291 (Dec. 6, 2000) (authorizing financial transactions among intermediate holding companies to facilitate dividend repatriation in a U.S./U.K. transaction).

Merger Consideration

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The time when the Merger is completed is referred to as the "Merger Effective Time," and the time when the Restructuring is completed is referred to as the "Restructuring Effective Time." At the Merger Effective Time, all of the shares of common stock of Grid Delaware issued and outstanding prior to the Merger will be converted into the right to receive common stock of NiMo. Each share of NiMo common stock will be converted into the right to receive the merger consideration in the form of cash, ADSs or a combination of cash and ADSs./37

The per share merger consideration will be \$19.00 if the Average Price (defined below) is between \$32.50 and \$51.00. In the event that the Average Price is greater than \$51.00, the per share consideration received by NiMo shareholders will increase by two-thirds of the percentage of the increase in value over \$51.00. In the event that the Average Price is less than \$32.50, the per share consideration received by NiMo shareholders will decrease by two-thirds of the percentage of the decrease in value below \$32.50. NiMo shareholders can elect to receive their consideration in cash, ADSs or as a combination of both, subject to the aggregate cash consideration paid being \$1.015 billion. NGG has announced that it will increase this amount to 50% of the purchase price if there are sufficient cash elections. If elections for one form of consideration exceed the amount of such form of consideration to be issued in the Merger, all shareholders electing the oversubscribed form of consideration will receive,

37 Trading in the common stock of NiMo on the New York Stock Exchange will cease immediately following the Merger Effective Time. At such time, the common stock will be delisted from the New York Stock Exchange. Registration of the common stock under the Securities Exchange Act of 1934, as amended, will also be terminated. Niagara Mohawk, however, will have publicly held preferred stock and debt outstanding after the Merger and will continue as a reporting entity under the Federal securities laws.

32

on a pro rata basis, some of the undersubscribed form of consideration.

"Average Price" means the average of the closing prices of NGG ordinary shares, as derived from the Daily Official List of the London Stock Exchange (converted to a US 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 mutually agreed upon procedures) in the period of 40 consecutive London Stock Exchange trading days ending on the close of business on the tenth London Stock Exchange trading day prior to the election deadline, multiplied by five.

The Merger Agreement provides that the closing of the Merger shall take place 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 certain conditions to the Merger is fulfilled or waived and which is also after, but no more than seven days after the Restructuring is sanctioned by the High Court in London, England, or as mutually agreed by the parties to the Merger Agreement. A form of election with respect to the form of consideration to be received has been mailed to NiMo shareholders. Elections must be received by the fifth business day immediately preceding the closing date.

The Merger will be accounted for under the purchase method of accounting,

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in accordance with generally accepted accounting principles. Under the purchase method of accounting, the purchase price of NiMo, including direct costs of the acquisition, will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values, with the excess, i.e., the difference between the purchase price, representing fair value, and the fair value of the identified assets acquired, recorded as goodwill.

2. The Restructuring

The board of directors of NGG has recommended to NGG shareholders a proposal to form a new holding company for the National Grid System. The holding company structure will be effected through a Restructuring which must be sanctioned by the High Court in London, England and approved by NGG's shareholders. Under the Restructuring, National Grid will issue one share in National Grid in exchange for each outstanding NGG share. As a result, National Grid will become the holding company for

33

NGG. NGG expects that the special share in NGG will be canceled and that National Grid will issue a special share to the holder of the NGG special share./38

The introduction of National Grid as the new holding company of NGG will be achieved through a "scheme of arrangement" under Section 425 of the Companies Act 1985 (U.K.). Appropriate clearances have been obtained from the U.K. Inland Revenue for the scheme, including under Section 138 of the Taxation of Chargeable Gains Act 1992 (U.K.) and section 707 of the Income and Corporation Taxes Act 1988 (U.K.), and the Inland Revenue is satisfied that the scheme of arrangement will be effected for bona fide commercial reasons and not for tax avoidance. Accordingly, U.K. resident National Grid shareholders should not be treated as making a disposal of their National Grid shares under the scheme.

The ordinary shares of National Grid will be listed for trading on the London Stock Exchange and National Grid ADSs will be listed for trading on the New York Stock Exchange. National Grid will be subject to the registration and disclosure requirements of the US securities laws.

The rights attaching to National Grid ordinary shares will be the same in all material respects as those currently attaching to NGG ordinary shares. Thus, after the Restructuring is implemented (but before completion of the Merger), holders of National Grid ordinary shares will have their interest in NGG replaced by an equivalent proportionate interest in National Grid and, subject to the effect of exercise of options to subscribe for NGG shares granted under NGG share plans, their proportionate interests in the profits, net assets and dividends of NGG will not be affected.

The scheme will require the approval of a simple majority in number of those NGG shareholders present and voting (either in person or by proxy) at a meeting of NGG shareholders called by order of the High Court representing not less than 75% of the number of the NGG shares held by such shareholders. In addition, to implement the scheme it will be necessary for a special resolution to be approved at a separate Extraordinary General Meeting of NGG shareholders. At a meeting of NGG

38 National Grid's authorized share capital will be 2,125,000,000 ordinary shares of 10p each and one special rights non-voting redeemable preference share

of pound1.

shareholders held on January 7, 2002, the shareholders approved the scheme and the special resolution necessary to implement the scheme. In addition, the scheme has been consented to by the U.K. Secretary of State for Trade and Industry, currently the special shareholder. The scheme is subject to the sanction of the High Court once the necessary approvals have been obtained from the NGG shareholders. The High Court uses an objective test to evaluate the proposed scheme. The High Court will not substitute its view for that of the shareholders - the question is not is the scheme reasonable but could a shareholder have reasonably approved it. Provided the scheme is fair and equitable, the High Court will sanction it and not judge its commercial merits. The effect of the High Court's sanction of the proposal is that, when the High Court order is delivered to the Registrar of Companies and registered by him, all National Grid shareholders are bound by the terms of the scheme.

3. Background of the Merger

Since entering into the MRA in 1998, the board of directors and management of NiMo have periodically reviewed NiMo's strategic alternatives, including internal growth, growth by acquisition, the sale of NiMo and a combination with another company in which NiMo shareholders would continue to participate. Consideration was given not only to electric and gas utilities, but also to the oil and gas and telecommunications industries. NiMo has engaged in preliminary discussions with a number of parties about potential transactions, but, except as set forth below, no specific proposals were made and these discussions did not evolve beyond a preliminary stage.

Since 1998, NGG has been pursuing a growth strategy in the electric transmission and distribution market in the United States, with a particular focus on the Northeast region where many states have been engaged in electric deregulation. Deregulation has resulted in, among other things, the separation of the ownership and operation of generation facilities from that of transmission and distribution facilities. Consistent with this strategy, in March 2000, NGG completed the acquisition of NEES (currently known as National Grid USA), whose subsidiaries operate electric transmission and distribution systems principally in Massachusetts, Rhode Island and New Hampshire, followed in April 2000 by National Grid USA's acquisition of EUA, whose subsidiaries operated transmission and distribution systems in Massachusetts and

Rhode Island./39 Both NEES and EUA had divested the vast majority of their generation assets prior to being acquired by NGG and are seeking to sell the remainder of their generation assets. Since the announcement of the NEES and EUA acquisitions, NGG has continued to investigate the possibility of further strategic transactions with US electric utility companies, such as Niagara Mohawk, that have or are in the process of divesting their generation assets in order to expand NGG's transmission and distribution operations in the US.

In November 1999, Richard P. Sergel, then President and Chief Executive

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Officer of NEES, David Jones, NGG's CEO and William E. Davis, Chairman of the Board and CEO of NiMo met to discuss the experience of the then-pending NEES/NGG merger and to explore whether NiMo might be interested in pursuing talks with NGG. NiMo and NGG entered into a Confidentiality Agreement on December 13, 1999 and a meeting between representatives of the parties was held on December 14, 1999, but immediately following that meeting it was decided to delay any further substantive discussions pending the completion of the NEES/NGG merger. In April, following completion of the NEES/NGG merger, the parties resumed discussions, with due diligence being performed on both sides for a period of months.

In late August, a presentation about NGG and the possible terms of a transaction was made to the NiMo board of directors at its regularly scheduled late August off-site meeting. Following that meeting, negotiations continued, including, without limitation, on the per share price, the mix of cash and securities, the conditions to the merger and other terms of the merger agreement. On August 30, 2000, a telephonic board meeting was held to update the NiMo board of directors on the status of the negotiations.

On August 31, 2000, the NGG board of directors met to consider the proposed transaction. At this meeting, the NGG board of directors discussed the structure of the proposed transaction and the terms of the merger, including financial terms. As part of this meeting, the NGG board of directors received advice from its

39 See NEES Acquisition Order, supra, note 5, and National Grid USA (formerly New England Electric System), Holding Co. Act Release No. 27166 (April 14, 2000).

36

financial advisors regarding the financial terms of the merger and other matters relevant to their consideration of the proposed transaction. Following these deliberations, the NGG board of directors unanimously approved the proposed transaction and terms of the merger agreement and established a committee, consisting of any two directors, one of whom had to be David Jones, Stephen Box, NGG's Group Finance Director, or Richard P. Sergel (the "National Grid Special Committee"), to finalize the outstanding terms of the merger agreement and to authorize the execution and delivery of the merger agreement.

By September 3, 2000, all remaining issues had been negotiated and on September 4, 2000, the NiMo board of directors and the National Grid Special Committee comprising David Jones and Stephen Box adopted and approved the merger agreement, which was then executed by the parties.

4. Financing the Merger

As described above, NiMo shareholders will receive both National Grid ordinary shares and cash as consideration in the transaction. National Grid will fund the cash portion of the Merger consideration with a combination of cash on hand and bank borrowings under the Credit Facility.⁴⁰ Borrowings under the Credit Facility would be made by NGG Finance plc, a special purpose financing subsidiary of National Grid formed in accordance with the NEES Acquisition Order for the purpose of facilitating financings through the issuance to third parties of securities authorized in the NEES Acquisition Order or issued under an applicable exemption. Applicants request authorization to use NGG Finance plc for the additional purpose of financing the Merger through borrowings under the

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Credit Facility. The amount that will be borrowed under Credit Facility to finance the Merger and the value of the ordinary shares issued in connection with the Merger will not exceed an aggregate of \$4 billion outstanding at any one time. Based on NCG's current share price, the value of the Merger consideration is approximately \$3.1 billion. Because the Merger consideration may increase if the Average Price of National Grid shares increases above \$51.00, the authorization requested for Merger financing requested here is larger than the currently estimated Merger consideration. The Merger-related financing limit is separate from the \$6 billion aggregate financing limit proposed in this Application concerning the financing of the National Grid System post-Merger. Any Credit Facility entered into to finance the Merger will comply with all the terms and conditions applicable to debt issued by National Grid and discussed further below in Item 1.E./41 The pro forma effect of the

40 See supra text accompanying footnote 35.

41 A Credit Facility may have multiple intended uses. National Grid may enter into one or more Credit Facilities to provide funding for the Merger, to refinance previously incurred merger-related debt and to finance authorized or permitted general corporate activities. To the extent funds from a Credit Facility are used to fund or refinance the Merger consideration, they would be counted against the \$4 billion limit. To the extent Credit Facility borrowings are used for other authorized or permitted corporate purposes, they would count against the \$6 billion limit.

37

Merger on the capital structure of National Grid is also described further below in Item 3.B.1.c.

5. Management and Operations of Niagara Mohawk Following the Merger

Upon completion of the transaction, National Grid USA will assume ownership of NiMo and its subsidiary companies, including Niagara Mohawk. Niagara Mohawk will retain a significant presence in New York; its operating headquarters will stay in Syracuse and local facilities for customer service, maintenance and field operations will be maintained as necessary. National Grid will honor or will cause the appropriate subsidiary to honor all collective bargaining agreements in effect at the Merger Effective Time until their expiration and assume all rights and obligations under those agreements. Niagara Mohawk will be re-branded "Niagara Mohawk, a National Grid Company."

For at least two years following the Merger, NiMo will have an advisory board comprised of up to 12 persons who were, immediately prior to the Merger, serving as non-executive members of NiMo's board of directors, who are not appointed to serve on the National Grid board of directors and who are willing to serve in such capacity on the advisory board. The function of the advisory board will be to advise NiMo'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 New York. The advisory board will meet at least three times a year.

For a period of two years following the Merger, William E. Davis will serve as Chairman of the board of directors of National Grid USA and two other current executive officers of NiMo as determined by NCG will serve on the board of directors of National Grid USA.

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National Grid also will take all actions necessary to appoint all members serving on the NGG board of directors immediately prior to the Merger, the current CEO

38

of NiMo and one additional outside director/42 of the board of directors of NiMo, as determined by NGG, to serve on the National Grid board of directors following the Merger Effective Time.

NGG is currently a public utility holding company registered under Section 5 of the 1935 Act. In connection with the Merger and Restructuring, NGG will cease to be an indirect holding company over National Grid USA and its intermediate holding company parents./43 NGG will, however, continue as the parent company of National Grid Holdings, a FUCO. Accordingly, NGG will submit an application to deregister as a holding company under the Act and submit a certification on Form U-57 to obtain FUCO status.

Upon completion of the Restructuring, National Grid will register as a public utility holding company under the Act and become subject to regulation thereunder as NGG is currently. NiMo and its subsidiaries will be subject to regulation under the Act as subsidiaries of a registered holding company.

Applicants request that the Commission affirm by order the continued exempt status of NiMo under Section 3(a)(1) of the Act. Applicants commit that as long as NiMo continues to exist as a holding company, unless otherwise authorized by the Commission, NiMo will not; (1) directly or indirectly borrow, or receive any extension of credit or indemnity, from any public utility company in the same holding company system or from any subsidiary company of such holding company as prohibited under Section 12(a) of the Act, (2) sell any security which it owns of any public utility company, or any utility assets, as restricted under Section 12(d) of the Act and the rules thereunder, or (3) enter into or take any step in the performance of any service, sales or construction contract to perform any services or construction work for, or sell goods to, any associate company which is a public utility or mutual service company as restricted under Section 13(a) of the Act and the rules thereunder.

42 Applicants anticipate that Dr. Bonnie Hill will serve as the outside director.

43 NGG may, however, continue to lend funds in certain circumstances to one or more Intermediate Companies. See Item 1.E.3.(c) infra.

39

6. Benefits of the Merger

The combination of NiMo and National Grid will create the ninth largest electric utility in the U.S. with an electric customer base of approximately 3.3 million. After the Merger, National Grid will own and operate an extensive transmission and distribution network in the New England/New York market.

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As discussed in Item 1.C.3 above, in particular in the text accompanying footnote 33, the NYPSC issued an order authorizing the Merger and approving Niagara Mohawk's rate plan for the period commencing on the Plan Effective Date through December 31, 2011. The rate plan is conditioned on the closing of the Merger. Under the rate plan electric delivery rates would be reduced by \$152 million a year, equivalent to a reduction of 8.0% in delivery rates and a reduction of 4.6% overall (considering delivery plus commodity rates). The rate reductions reflect the assignment to ratepayers of 50% of the electric portion of the forecast efficiency gains and synergy savings (net of costs to achieve) agreed to by the parties to the Merger proceeding. Synergy savings over the term of the plan are set at about \$130 million per year, allocated 62% to New York, and efficiency gains are set at \$60 million per year, allocated 100% to New York. The imputed levels of savings flow to ratepayers regardless of whether they are achieved in fact.

The rate plan also benefits Niagara Mohawk's gas customers. It extends through December 31, 2004 an existing freeze on Niagara Mohawk's rates for gas delivery service, which would otherwise expire on August 31, 2003. In the event Niagara Mohawk receives a gas delivery service rate increase to take effect at any time, all synergy and efficiency savings from the current Merger or any follow-on merger or acquisition associated with the gas business would be allocated wholly to customers. In the absence of gas delivery service rate increases, Niagara Mohawk may retain 50% of follow-on merger savings allocable to gas service.

National Grid has demonstrated the ability to achieve targeted merger savings and efficiencies in connection with the EUA merger.⁴⁴ The direct savings and

44 EUA was integrated into the National Grid USA business ahead of schedule. The transaction delivered integration savings of approximately 10% of the combined controllable cost base of NEES and EUA (over 50% more savings than originally estimated).

40

sharing of best practices attributable to the Merger should create an even more efficient company, leading to lower delivery costs and enhanced customer service, making upstate New York a more attractive region for economic growth.

National Grid will have - following the acquisition of NiMo - approximately 10,000 employees in its regulated electric and gas businesses in New York and New England. National Grid's goal is to achieve workforce reductions across the entire National Grid USA organization by 800 to 950 positions through natural attrition and voluntary programs. In addition, National Grid will seek to improve the efficiency and customer service of Niagara Mohawk's core transmission and distribution operations. A joint National Grid - Niagara Mohawk integration team will manage the efficient integration of the two companies.

The Merger allows National Grid to build on the platform it has created in New England and reinforce its position as a leading player in the Northeast - a region that is at the forefront of the electric industry's restructuring in the U.S. NiMo's strong management and experience in New York electric and gas operations will add to National Grid USA's top quality U.S. management team and National Grid's decade of experience operating a transmission system in a

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competitive environment. The combination will strengthen National Grid's ability to provide services that will benefit customers in today's rapidly changing U.S. energy markets. National Grid intends to bring its combined experience to bear in New York, and to continue to contribute to the current debate on the restructuring of the U.S. transmission sector. The rate plan approved by the NYPSC is an example of a long-term rate plan that benefits customers and shareholders and includes incentives for cost control and superior customer service. Post-closing National Grid intends to provide long-term rate stability that will support regional economic development in upstate New York.

41

E. Financing the National Grid System Following the Acquisition

1. Summary of Current NGG System Authorization

The NEES Acquisition Order authorized the financing of the National Grid System through May 31, 2003 through the issuance by NGG of equity and debt securities in an amount not to exceed \$4.0 billion, and guarantees in an amount not to exceed \$2.0 billion, both at any one time outstanding. NGG was also authorized to enter into currency and interest rate swaps transactions. Financing of NGG's U.S. Subsidiary Companies (i.e., National Grid USA, its subsidiaries and the Intermediate Companies) was also authorized. In particular, the existing financing of the National Grid USA Group, obtained when it was the NEES group of companies, was extended through May 31, 2003. In addition, the Commission authorized the continuation of the NEES system money pool ("Money Pool"), guarantees of the obligations of, and other forms of credit support for, the U.S. Subsidiary Companies, and the payment of dividends out of capital or unearned surplus.

The NEES Acquisition Order also authorized National Grid General Partnership ("NGGP") and National Grid USA and its subsidiaries to enter into an agreement for the allocation of consolidated tax that permitted NGGP to retain the tax-related benefits of the debt incurred to finance the NEES acquisition. In addition, the Commission authorized the U.S. Subsidiary Companies to issue additional shares or alter the terms of any then-existing authorized security and authorized NGG and the U.S. Subsidiary Companies to form financing entities for the purpose of indirectly issuing securities otherwise authorized by the NEES Acquisition Order. Lastly, the Commission authorized NGG to finance additional investments in exempt wholesale generators ("EWGs") and foreign utility companies ("FUCOs") in an amount up to 50% of NGG's consolidated retained earnings.

The financing authority was subject to various terms and conditions as summarized below:

1. Maintenance of NGG's long-term debt rating at the investment grade level and the maintenance of a ratio of Consolidated EBITDA to Net Interest Payable of not less than 3:1, and a ratio of Consolidated Total Net Debt to Consolidated EBITDA not to

42

exceed 4.75:1;/45

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2. Maintenance of common stock equity/46 of at least 35% of total capitalization/47 by National Grid USA on a consolidated basis and on an individual basis by each National Grid USA electric utility subsidiary;/48

3. Maintenance of NGG's common stock equity as a percentage of total capitalization, measured on a book value US GAAP basis at 28.5% or above at the time of closing and thereafter during the term of the financing authorization, and 30% or

45 The terms were defined in the Credit Agreement attached as Exhibit B-3 to National Grid's Application on Form U-1, SEC File No. 70-9473. Generally, Consolidated EBITDA means: in respect of any period, Consolidated Profits Before Interest and Tax for that period after adding back depreciation and amortization of goodwill and excludes the group's share of associate and joint venture operating results. An associate interest is an equity interest of greater than 20%, but less than 50%;

Consolidated Profits Before Interest and Tax means: in respect of any period, the consolidated net pre-taxation profits on operating activities (after adding back Net Interest Payable and excluding any Exceptional Items and after adding back restructuring costs incurred as a result of the Merger or other acquisitions) of the National Grid System;

Consolidated Total Net Debt means: the aggregate principal amount (or amounts equivalent to principal, howsoever described) comprised in the financial indebtedness of the National Grid System at the time calculated on a consolidated basis less cash and cash equivalents held by any member of the National Grid System as shown in the consolidated financial statements. Cash equivalents are readily marketable securities such as gilts (i.e. treasury bonds) and other near-cash items such as deposits and commercial paper;

Exceptional Items: has the meaning given to it in FRS3 issued by the UK Accounting Standards Board (i.e., material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view); and

Net Interest Payable means: in relation to any period, all interest, acceptance commission and all other continuing, regular or periodic costs, charges and expenses in the nature of interest (whether paid, payable or capitalized) incurred by the National Grid System in effecting, servicing or maintaining all financial indebtedness of the National Grid System less all interest and other similar income receivable by members of the National Grid System during that period (but only to the extent the same accrue and are receivable by the National Grid System in a freely convertible and transferrable currency) in each case as determined from the consolidated financial statements relating to that period and excludes the group's share of associate and joint venture net interest payable.

46 Common stock equity was defined to include common stock (i.e., amounts received equal to the par or stated value of the common stock), additional paid in capital and retained earnings.

47 The common stock equity to total capitalization ratio was calculated as follows: equity/(gross debt + equity). Total capitalization refers to the sum of common stock equity, preferred stock, long-term debt, short-term debt and current maturities.

48 New England Electric Transmission Corporation and Vermont Yankee Nuclear

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Power Corporation were excluded from the 35% common stock equity capitalization standard. In addition, the 35% standard was applied to the combined capitalization of Nantucket Electric Company and Massachusetts Electric Company.

43

above by March 31, 2002;

4. The cost of money on debt financings of NGG would not exceed 300 basis points over that for comparable term U.S. treasury securities or government benchmark for the currency concerned;

5. The cost of money on preferred securities or other fixed income oriented securities of NGG, when issued, would not exceed 500 basis points over that for comparable term U.S. treasury securities or government benchmark for the currency concerned;

6. The underwriting fees, commissions or other similar remuneration paid in connection with the non-competitive issue, sale or distribution of a security would not exceed 5% of the principal or total amount of the security being issued;

7. The aggregate amount of external debt and equity issued by NGG would not exceed \$4.0 billion, at any one time outstanding; and

8. Post-merger, NGG's additional "aggregate investment" in EWGs and FUCOs, as defined in Rule 53 under the Act, would not exceed 50 percent of the consolidated retained earnings of NGG.

In addition, the payment of dividends by NEES and the U.S. Utility Subsidiaries (as defined in the NEES Acquisition Order/49) was restricted. Dividends out of post-merger earnings would reflect a dividend payout ratio of between 60% and 100% of earnings before the amortization of goodwill ("Gross Earnings"), based on a rolling 5-year average. In addition, to assure that the U.S. Utility Subsidiaries would have sufficient cash to support their businesses, Applicants committed not to cause any of the U.S. Utility Subsidiaries to pay more than 80% of their post-merger Gross Earnings as dividends based on a rolling 5-year average.

2. Summary of Authorization Requested

Applicants now seek Commission authorization to finance the National Grid System for the period beginning with the effective date of an order issued pursuant

49 The NEES Acquisition Order defined the U.S. Utility Subsidiaries to mean: New England Power Company, Massachusetts Electric Company, The Narragansett Electric Company, Granite State Electric Company, Nantucket Electric Company, New England Electric Transmission Corporation, New England Hydro-Transmission Corporation, New England Hydro-Transmission Electric Company, Inc. and Vermont Yankee Nuclear Power Corporation.

44

to this filing and continuing through September 30, 2004 ("Authorization Period"). Applicants request authorization through the Authorization period for all financing and related transactions proposed in this Application and the extension through the Authorization Period of the Commission's financing and related orders granted to National Grid System companies and cited herein. The authorizations requested below amend and supplement the financing authorization granted by the Commission in the NEES Acquisition Order and are intended to provide for the financial integration of NiMo and its subsidiaries into the National Grid System. The NEES Acquisition Order and all of its terms and conditions would remain in effect and would be extended through the Authorization Period, except as amended by the Commission's authorization of the proposals in this Application.

3. Specifics of Proposed Financing Arrangements

(a) National Grid External Financing

National Grid proposes to issue equity and debt securities in an amount aggregating not more than \$6 billion at any one time outstanding ("Aggregate Limit").⁵⁰ Such securities could include, but would not necessarily be limited to, ordinary shares, preferred shares, options, warrants, long- and short-term debt (including commercial paper), convertible securities, subordinated debt, bank borrowings and securities with call or put options. National Grid may also enter into currency and interest rate derivatives as described below.

National Grid proposes that the various securities to be issued would be limited as follows, but would not in the aggregate exceed the Aggregate Limit:

50 The Aggregate Limit replaces the \$4 billion limit in the NEES Acquisition Order and does not include the Merger-related financing. Because the Aggregate Limit applies only to securities issued and outstanding during the Authorization Period, when a security is issued during the Authorization Period and later redeemed or retired during the Authorization Period, the aggregate amount issued and outstanding under the Aggregate Limit is reduced and additional financing capacity under the Aggregate Limit is made available.
