Narragansett Electric
A National Grid Company

Laura S. Olton
General Counsel

August 9, 2005

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 3689 – The Narragansett Electric Company's July 2005 Standard Offer Rate Filing
Responses to Commission's First Set of Data Requests

Dear Ms. Massaro:

Enclosed please find ten copies of The Narragansett Electric Company's responses to the Commission's Data Requests 1-2 through 1-6 of the first set of data requests in the above-captioned proceeding. Data Request 1-3 contains confidential information and has been redacted where necessary. In accordance with Rule 1.2(g) of the Commission's Rules of Practice and Procedure, a complete unredacted copy of Data Request 1-3 will be provided under separate cover in a sealed envelope marked "Contains Privileged and Confidential Materials – Do Not Release."

Thank you for your attention to this transmittal. Should you have any questions regarding this filing, please do not hesitate to contact me at (401) 784-7667.

Very truly yours,

Laura S. Olton

Laura S. Olton

Enclosures

cc: Docket 3689 Service List

280 Melrose Street
Providence, RI 02907
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Commission Data Request 1-2

Request:

What is the percentage effect on a typical residential bill of the expiration of the customer credit? Please clarify the effective date of expiration of the customer credit.

Response:

The Commission approved the Customer Credit in Docket No. 3617 as the means to refund approximately $22.8 million of customers' share of earnings accrued pursuant to the Third Amended Stipulation and Settlement in Docket No. 2930 over a twelve-month period beginning November 2004. The implementation of the Customer Credit was for usage on and after November 1, 2004. Similar to its implementation, the Customer Credit will terminate for usage on and after November 1, 2005 and therefore will remain in effect through the November 2005 billing month as a portion of October 2005 usage is billed in November 2005.

The Customer Credit applicable to the residential Rate A-16 class is 0.329¢ per kWh. The expiration of the Customer Credit will result in a monthly bill increase of $1.71 per month or approximately 2.7% for a customer using 500 kWh per month.

Prepared by or under the supervision of: Jeanne A. Lloyd

Commission Data Request 1-3

Request:

Please explain in non-legal terms, how the USGen bankruptcy affected responsibility for congestion payments under that contract. Is this amount still under dispute?

Response:

The USGen bankruptcy did not affect the rights and obligations of either party under the Company's wholesale standard offer service agreement with USGen, including those related to congestion costs responsibility.

As will be explained in detail below, the issue relating to the amounts in dispute with USGen through December 31, 2004 was resolved and is no longer in dispute. However, issues relating to congestion costs for the period beginning January 1, 2005, as will be described below, are under review and discussion with the new supplier who assumed the USGen contract, Dominion Energy Marketing, Inc. ("Dominion"), beginning January 1, 2005.

Pre-Bankruptcy History

Prior to USGen's bankruptcy, a dispute arose between the Company (along with its affiliates in Massachusetts) and USGen as to the responsibility for congestion costs upon the implementation of Standard Market Design in March 2003. The Company (and its affiliates in Massachusetts) entered into a confidential temporary implementation agreement with USGen entitled "First Amended and Restated Agreement for Temporary Implementation and Administration of Wholesale Standard Offer Service Agreements" ("USGen TIA"), effective March 1, 2003. Under the USGen TIA, the Company (and its affiliates) agreed with USGen to arbitrate the question of congestion cost responsibility under their wholesale standard offer service agreements, including the agreement between Narragansett and USGen.

[REDACTED}

When USGen made its bankruptcy filing, however, the bankruptcy proceeding "automatic stay" rules prevented the arbitration from occurring.

The total amount of congestion costs billed to Narragansett by USGen and paid by Narragansett through December 31, 2004 was approximately $834,000. This was comprised of $144,824 for the period March 2003 through July 2003 (pre-petition amount), and $689,183.25 for the period from August 2003 through December 2004 (post-petition amount).

The Bankruptcy Settlement

Several National Grid companies became parties to the bankruptcy proceeding and ultimately entered into a settlement with USGen, which was approved by the Bankruptcy Court.

Commission Data Request 1-3 (continued)

As a part of the settlement, USGen made a payment of $10 million to National Grid in relation to the wholesale standard offer service agreements (including the congestion cost obligations) for the period through the January 1, 2005 assignment of the agreement to Dominion. In accordance with the settlement agreement, Narragansett did not pay USGen the $144,824, but did pay the amount of $689,183. Thus, under the settlement agreement, USGen paid National Grid $10 million and Narragansett was responsible for the pre-petition amount of $689,183.

Pending Proposal for Allocation of $10 Million

The $10 million administrative claim referenced above is discussed in the Company's "CTC Mitigation Plan" submitted to the Commission, the Massachusetts Department of Telecommunications and Energy, and the New Hampshire Public Utilities Commission on June 21, 2005, and provided as Attachment 1 to this response. The plan proposes to allocate the $10 million payment to Narragansett. If this proposal is accepted, costs (if any) incurred under the USGen (now Dominion) wholesale standard offer service agreement beyond the fixed per kWh price plus any applicable fuel index payments for the power (i.e., the basic pricing provisions) would be netted against the $10 million payment. As such, the $689,183 that is reflected in the reconciliation account included in the instant filing (*see* the Testimony of Jeanne A. Lloyd, p. 66) would be netted against the $10 million and the reconciliation account, in turn, would be credited by $689,183. The balance of the $10 million would then be held by Narragansett to cover any future costs under wholesale standard offer service agreements (other than costs under the basic pricing provisions for the power).

Current Status of Congestion Cost Responsibility Issue with Dominion

As a part of USGen's sale of its assets in bankruptcy and various related arrangements, Dominion assumed the wholesale standard offer service agreement that had been in effect between Narragansett and USGen. At that time, in furtherance of the bankruptcy settlement agreement with USGen, the Company executed another confidential temporary implementation agreement entitled "Second Amended and Restated Agreement for Implementation and Administration of Wholesale Standard Offer Service Agreement" with Dominion ("Dominion TIA"), a copy of which is provided as Confidential Attachment 2 to this response, that went into effect on January 1, 2005. The Dominion TIA established, among other things,

[REDACTED]

Prepared by or under the supervision of: Michael J. Hager and Ronald T. Gerwatowski

ATTACHMENT 1

Narragansett Electric
A National Grid Company

Laura S. Olton
General Counsel

June 21, 2005

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Proposed CTC Mitigation Plan –
USGen New England, Inc. Bankruptcy Settlement

Dear Ms. Massaro:

Pursuant to Section 3.5 of the Stipulation and Agreement entered into by and among the Rhode Island Public Utilities Commission, Division of Public Utilities and Carriers, The Narragansett Electric Company ("Narragansett Electric") and New England Power Company ("NEP") regarding the conditions for termination of the wholesale electric requirements contract between NEP and Narragansett Electric in FERC Docket ER97-680-000, enclosed please find (10) ten copies of NEP's proposed Contract Termination Charge ("CTC") Mitigation Plan ("Plan") following the bankruptcy of USGen New England, Inc. ("USGenNE"). Also enclosed, in cd-rom format, is an electronic version of this informational filing. The confidential exhibits to the Plan are being provided under separate cover pursuant to the Nondisclosure Agreement among NEP, Narragansett Electric, the Division and Commission dated February 13, 2003.

As the Commission is aware, USGenNE filed in 2003 a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. NEP and NEP's New England distribution company affiliates, including Massachusetts Electric Company, Narragansett Electric, and Granite State Electric Company (collectively, the "National Grid Companies") intervened in the USGenNE bankruptcy proceeding. As part of its bankruptcy proceeding, sale of its generation stations and liquidation, USGenNE rejected certain contractual commitments with NEP and certain other commitments were extinguished. On December 22, 2004, the Bankruptcy Court approved a Settlement Agreement and Release between USGenNE and the National Grid Companies (the "USGenNE Settlement Agreement") resolving all the issues between and among the companies.

The Plan provides a summary of the USGenNE Settlement Agreement, describes the process the National Grid Companies will undertake to administer and manage the contracts and risks returning to the National Grid Companies as a result of the USGenNE bankruptcy proceeding and liquidation, and an allocation of the proceeds received from the USGenNE,

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within the context of the various CTC arrangements between NEP and its distribution company affiliates. It is NEP's intent that this Plan will allocate both the proceeds received from USGenNE and risks returning to the National Grid Companies in accordance with NEP's CTC obligations and in a manner which maximizes benefits to all customers of NEP's New England distribution company affiliates. To this end, we intend to schedule a series of technical sessions with all interested parties during the next month regarding the review and implementation of this Plan.

Thank you very much for your attention to this submittal. As with the annual CTC Reconciliation Reports, this Plan does not require Commission approval, but rather seeks agreement among the CTC parties of the Plan for ultimate filing with the Federal Energy Regulatory Commission.

Please contact me if you have any questions concerning this Plan at 784-7667.

Very truly yours,

Laura S. Olton

Laura S. Olton

Enclosures

cc: Dave Effron, Division
Tom Massaro, Commission
Steve Scialabba, Division
Paul Roberti, Esq.
Alexandra E. Singleton, National Grid
Thomas G. Robinson, National Grid

CTC MITIGATION PLAN

USGenNE BANKRUPTCY

Introduction

This proposed contract termination charge ("CTC") mitigation plan ("Plan") sets forth a proposal to address CTC issues presented as a result of the bankruptcy of USGen New England, Inc. ("USGenNE"). As part of the bankruptcy, USGenNE rejected certain contractual commitments with New England Power Company ("NEP")[1] and National Grid USA's New England distribution companies, Massachusetts Electric Company and Nantucket Electric Company (together "Mass. Electric"), The Narragansett Electric Company ("Narragansett"), and Granite State Electric Company ("Granite State"). USGenNE made these commitments at the time that NEP sold its fossil and hydro generating units and transferred economic responsibility for power contracts and the Hydro Quebec intertie to USGenNE. As part of a settlement between USGenNE and the National Grid Companies, as defined herein, USGenNE agreed to an allowable claim associated with those rejections and an additional payment, both of which USGenNE has paid. This Plan sets forth proposals for the treatment of the payments received from USGenNE and for mitigating the costs of certain obligations that returned to NEP as a result of that bankruptcy proceeding.

[1] NEP's costs under the CTC also include the costs of Narragansett's generating entitlements in Rhode Island that NEP assumed under the Integrated Facilities Agreement, prior to industry restructuring. The CTC for the Massachusetts and Rhode Island distribution companies also includes charges from Montaup Electric Company ("Montaup"). However, Montaup's CTC was not affected by the USGenNE bankruptcy and settlement. As a result, the percentage allocations among distribution companies associated with the NEP Allowed Claim (described herein) apply the percentages set forth in the NEP restructuring settlements in all three states. The Administrative Claim (described herein) is generally associated with the Wholesale Standard Offer Service Agreement (WSOS Agreement) claims and thus the allocations associated with the Administrative Claim correlate to the distribution companies' costs under the respective WSOS Agreements.

Background

On July 8, 2003, USGenNE filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Maryland, Greenbelt Division (the "Bankruptcy Court"). On December 22, 2004, the Bankruptcy Court approved a Settlement Agreement and Release (the "USGenNE Settlement") entered into as of December 9, 2004 by and among USGenNE and NEP, Narragansett, Mass. Electric, Granite State, National Grid USA Service Company, Inc., National Grid USA, and affiliated companies (collectively, "National Grid" or the "National Grid Companies"). (See Exhibit 1.) The USGenNE Settlement resolved all issues between National Grid and USGenNE associated with the USGenNE bankruptcy. The USGenNE Settlement thus facilitated USGenNE's sale to third parties[2] of generating facilities which USGenNE had purchased from NEP and Narragansett. USGenNE's resale of these facilities has produced the proceeds that USGenNE used to pay the claims of NEP and its affiliates, together with those of other creditors.[3] Under the Plan of Liquidation, USGenNE is dissolving the company and going out of business at the termination of the bankruptcy proceedings. As part of this process, USGenNE rejected, breached, or terminated several agreements with one or more of the National Grid Companies, including:

(1) the Asset Purchase Agreement dated as of August 5, 1997 by and among NEP, Narragansett and USGenNE (as amended, the "APA"), for the sale by NEP and Narragansett to USGenNE of substantially all of NEP's non-nuclear generating

[2] The purchasers of the plants are: Dominion Energy Brayton Point, LLC (Brayton Point Station), Dominion Energy Manchester Street, Inc. (Manchester Street Station), Dominion Energy Salem Harbor, LLC (Salem Harbor Station), TransCanada Hydro Northeast Inc. (the hydro facilities except Bear Swamp and Fife Brook which the owner-creditors of those facilities are transferred to Bear Swamp Power Company, a joint venture of Brascan Power Inc. and Emera Inc.). TransCanada Hydro Northeast Inc. has a contractual obligation with USGenNE to sell the Bellows Falls plant to the Town of Rockingham (or its assignee, the Vermont Hydro-electric Power Authority, collectively "Rockingham") upon the satisfaction by Rockingham of certain conditions. If transferred, Bellows Falls would be operated by Brascan Power and Emera Inc.

[3] See Exhibit 39 for a summary of the Modified Second Amended Plan of Liquidation for USGenNE which became effective on June 1, 2005 (the "Plan of Liquidation").

assets (fossil and hydroelectric generating stations) with certain related liabilities and obligations (See Exhibit 2);

(2) the Amended and Restated Power Purchase Agreement Transfer Agreement dated October 29, 1997 by and between NEP and USGenNE ("PPATA"), as amended, relating to a portfolio of power contracts with independent power producers (See Exhibit 3);

(3) the Hydro Quebec Interconnection Transfer Agreement dated September 1, 1998 by and between NEP and USGenNE ("HQITA") relating to support for and use of the high-voltage direct current interconnection facilities from Canada (See Exhibit 4); and

(4) the Amended and Restated Continuing Site/Interconnection Agreement dated September 1, 1998 by and between NEP and USGenNE ("CSA") relating to the joint use of and allocation of responsibilities for common or shared properties situated on site of the generation properties transferred from NEP to USGenNE (See Exhibit 5).

In addition, the USGenNE Settlement resolves any disputes between the National Grid Companies and USGenNE associated with the Mass. Electric Wholesale Standard Offer Service Agreement ("Mass. Electric WSOSA")[4] and the Narragansett Wholesale Standard Offer Service Agreement ("Narragansett WSOSA").[5] The Mass. Electric WSOSA expired by its terms at midnight, December 31, 2004. The Narragansett WSOSA was assigned to Dominion Energy Marketing, Inc. ("Dominion") effective on January 1, 2005 – concurrent with the Dominion

[4] Second Amended and Restated Wholesale Standard Offer Service Agreement, dated September 1, 1998 between Mass. Electric and USGenNE (See Exhibit 6).
[5] Second Amended and Restated Wholesale Standard Offer Service Agreement, dated September 1, 1998 between Narragansett and USGenNE (See Exhibit 7).

companies' acquisition of the fossil generating stations – and its term extends through December 31, 2009.

This Plan provides a summary of the USGenNE Settlement[6] and includes a proposal for how Granite State, Mass. Electric, Narragansett, and NEP will implement the provisions of the USGenNE Settlement within the various CTC arrangements between NEP and Granite State, Mass. Electric, and Narragansett. The Plan is designed to allocate proceeds from the USGenNE Settlement in accordance with the distribution companies' respective CTC obligations, and apply the proceeds in a way that will optimize the benefit to customers of Granite State, Mass. Electric, and Narragansett. As shown below and in the exhibits to this Plan, as contemplated by the Plan of Liquidation, the Plan will enable NEP to reduce CTC costs in the near-term by an amount expected to produce an overall net present value benefit for customers, while also achieving improved rate stability.

In addition to the proposed application of the USGenNE Settlement proceeds, this Plan sets forth a proposal for addressing and further mitigating future CTC costs associated with the returning obligations under the seven purchase power contracts that were under the PPATA, which was rejected by USGenNE, the payment obligations under the Hydro Quebec support agreements, and the rejected indemnification obligations under the APA.

Summary of Resolved Claims and USGenNE Settlement Proceeds

(1) NEP Allowed Claim[7]

As part of the bankruptcy proceeding, USGenNE ceased performance under the following agreements:

[6] The summary contained herein is intended to familiarize the parties with the USGenNE Settlement and is not intended to be an interpretation of the actual terms of the USGenNE Settlement.
[7] The NEP Allowed Claim is defined as the National Grid Allowed Claim in the USGenNE Settlement.

(a) PPATA (date of breach: 4/1/05);

(b) HQITA (date of breach: 4/2/04);

(c) APA (date of breach: 7/8/03); and

(d) CSA (the CSA includes site work orders, requests for work and equipment orders (collectively the "CSA Work Orders")). (The CSA terminated as to each of the generation stations thereunder upon the transfer of ownership or, in the case of Bear Swamp and Fife Brook, upon the transfer of ownership or control.)

Under the USGenNE Settlement, National Grid recovered $195,805,290 on June 8, 2005. $195 million was for its unsecured claim from USGenNE ("NEP Allowed Claim") for the breach, rejection or termination of these agreements, including any claims that NEP and its affiliates asserted or may have asserted for damages arising from the agreements. As provided for in the USGenNE Settlement, NEP received interest on $17 million of the NEP Allowed Claim amount accruing from the period beginning April 1, 2004 and ending on the date that the claim was paid, June 8, 2005, which equated to $805,290.[8]

(2) Administrative Claim[9]

As part of the global settlement of all known and unknown claims between NEP and USGenNE, the USGenNE Settlement included a provision for USGenNE to pay NEP $10 million cash upon the Bankruptcy Court's approval of the USGenNE Settlement. (The "Administrative Claim"). NEP received this $10 million payment on January 3, 2005. The USGenNE Settlement indicates that the payment is to address the resolution of claims asserted or that may be asserted by National Grid against USGenNE under the Narragansett WSOSA, as

[8] The aggregate amount of the claim and interest is referred to herein as $195 million. National Grid proposes to allocate the $,805,290 in interest in the same proportional manner as the proceeds associated with the NEP Allowed Claim.

[9] The Administrative Claim is defined as the National Grid Administrative Claim in the USGenNE Settlement.

well as under the Mass. Electric WSOSA (which by its terms expired December 31, 2004) and the First Amended and Restated Agreement for Temporary Implementation and Administration of Wholesale Standard Offer Service Agreements between USGenNE, Mass. Electric and Narragansett ("TIA"),[10] effective March 1, 2003 through the date of the closing on the sale of USGenNE's fossil assets.[11]

(3) Preserved Claims

Under the USGenNE Settlement, NEP, Narragansett, Mass. Electric, and their affiliates preserved their claims for reconciliation or true-up of amounts (including billed and unbilled amounts) payable in the ordinary course of business under the following agreements (collectively the "Ongoing Contracts") – relating to performance in the period between (a) January 1, 2004 and (b) the date each of the respective Ongoing Contracts is (i) terminated, (ii) rejected, or (iii) assigned to any of the buyers of USGenNE's fossil or hydroelectric generating assets (the "Buyers"), as applicable (the "True Up Period"):

> (1) PPATA,
> (2) The CSA,
> (3) The CSA Work Orders,
> (4) The retail accounts identified on the Schedule of Retail Accounts (the "Retail Accounts", attached as Schedule IV to Exhibit 1[12], the USGenNE Settlement),
> (5) The Mass. Electric WSOSA,
> (6) The Narragansett WSOSA,
> (7) The TIA,
> (8) The Performance Support Agreement dated August 5, 1997 between NEP and USGenNE (the "PSA"[13]) (the PSA together with the Narragansett WSOSA and the TIA, the "Proposed Assigned Fossil Agreements"),
> (9) The Lamson & Goodenow agreement,[14] the Mayhew Steel Products, Inc. agreement[15] and the Amended and Restated Lease Indenture, dated June 1, 1998, among Island Corporation, USGenNE and NEP[16] (collectively, the "Proposed

[10] See Confidential Exhibit 40.
[11] The fossil sale was effective January 1, 2005.
[12] See Exhibit 8.
[13] See Exhibit 9.
[14] See Confidential Exhibit 10.
[15] See Confidential Exhibit 11.
[16] See Exhibit 12.

Assigned Hydro Agreements" and together with the Proposed Assigned Fossil Agreements the "Proposed Assigned Agreements"), and
(10) The Tariff 9 Open Access Transmission Tariff ("Tariff 9 OATT").

Additionally, National Grid preserved claims, if any, for breach or failure to perform under the PPATA, the CSA, the CSA Work Orders, the Proposed Assigned Agreements, the Mass. Electric WSOSA, the Retail Accounts and the Tariff 9 OATT from the date of the USGenNE Settlement for certain specified periods of time. All such amounts have been paid by USGenNE.

NEP Allowed Claim -- Effect of Bankruptcy Rejection on the CTC

As mentioned above, the NEP Allowed Claim relates to USGenNE's rejection or termination in bankruptcy of any performance obligations under the PPATA, the HQITA, the APA, and the CSA after the specified date.

(1) PPATA and HQITA

Recovery of costs incurred under the PPATA and HQITA is authorized in Appendix 1 of the Mass. Electric and Narragansett post-divestiture CTC settlements and in Appendix 2 (Post-Divestiture) of Granite State's post-divestiture CTC settlement. (See Exhibits 13-15.) The variable cost section of Mass. Electric's and Narragansett's Appendix 1 and Granite State's Appendix 2 (Post-Divestiture) provide that "the difference between [the respective distribution company's allocable] share of the actual variable costs incurred by NEP and the estimated variable costs in this section shall be included in the Reconciliation Account." (See Section 1.2.2 of the Narragansett Settlement; Section 1.2.3 of the Mass. Electric Settlement; Section 1.2.2 of the Granite State Settlement.) Each wholesale stipulation and settlement ("Restructuring Settlement") further states that costs included in the variable component include power contract payments, which are defined as: "(i) all payments by NEP for Long-Term Power Supply

Contracts less the payments received from [USGenNE] or from resale of electricity purchased under the contracts into the wholesale market . . . plus (ii) Economic Buyout Payments associated with those contracts, less (iii) Credit for Unit Sales Contracts . . . ." (See Section 1.2.2(b) of the Narragansett Settlement; Section 1.2.3(b) of the Mass. Electric Settlement; 1.2.2(b) of the Granite State Settlement.)

The contractual obligations that returned to NEP as a result of the rejection of the PPATA[17] and those that returned as a result of the rejection of the HQITA are included on the list of "Long-Term Power Supply Contracts" covered by Section 1.2.2(b) of the Narragansett Settlement, Section 1.2.3(b) of the Mass. Electric Settlement, and Section 1.2.2(b) of the Granite State Settlement. Consequently, effective April 1, 2005, the above-market costs of the seven Returning PPAs, offset by any revenue received from the resale of electricity purchased under the contracts, will be included in the variable component of the CTC via the reconciliation account. In addition, the costs that NEP has incurred since April 2, 2004 and will incur under the agreements that comprised the obligations under the HQITA, less revenues NEP has received or will receive from the reselling of capacity over the interconnection facilities, have been included in the variable component of NEP's CTC since April 2, 2004 and will continue to be so included.

As shown on Exhibit 23, the estimated above-market cost of the Returning PPAs over their respective remaining lives, on a net present value ("NPV") basis at April 1, 2005, assuming a discount rate equal to the weighted average jurisdictional CTC return rate of 10.72 percent, is $304 million. The April 1, 2005 NPV of the remaining monthly payment obligations which are avoided due to USGenNE rejecting these contracts is approximately $223 million, producing an estimated net present value loss of $81 million. The April 1, 2005 NPV of the estimated above-

[17] As a result of its rejection of the PPATA, seven contracts with remaining terms came back to NEP: (i) Milford Power; (ii) Wheelabrator Millbury; (iii) Wheelabrator Saugus; (iv) Lawrence Hydro; (v) Johnston Landfill (Ridgewood); (vi) Four Hills Landfill; and (vii) MWRA Cosgrove (the "Returning PPAs"). (See Exhibits 16-22.)

market support payments under the HQITA, in excess of the projected proceeds from the use or rental of the facilities, over the remaining life of the contracts thereunder is approximately $72 million.

(2) APA

USGenNE also rejected the APA, which eliminated USGenNE's obligation to defend and indemnify NEP and Narragansett for any environmental costs that would arise under federal and state superfund laws from hazardous waste located on, or migrating from, the generating plant sites at the time USGenNE purchased the plants from NEP.[18] USGenNE's rejection of the APA also eliminated USGenNE's obligation to defend and indemnify NEP for certain claims associated with NEP's operation of the units, including personal injury claims such as asbestos claims.

Environmental costs associated with the sites now owned by Dominion and TransCanada that may be presented to NEP as a claim, if at all, are recoverable under the CTC formula as "Damages Costs, or Net Recoveries from claims by or against third parties." (See Section 1.2.2(g) of the Narragansett Settlement, Section 1.2.3(g) of the Mass. Electric Settlement, Section 1.2.2(g) of the Granite State Settlement.) Under those sections, NEP is allowed to recover these items, which are defined to include "all damages, costs, or recoveries associated with NEP's generating business which accrued prior to the date of divestiture and which were not: (i) included in the reserves for generation related uninsured claims other than claims associated with Environmental Response Costs as of January 1, 1995 . . . (ii) *assigned to NEP's successor in interest*; (iii) recovered from NEP's insurance carriers; (iv) the result of gross negligence." Id. (emphasis added). Because USGenNE assumed responsibility for the environmental costs related to the sites of the generating facilities which it purchased, with the

[18] Article 10 of Exhibit 2 sets forth the indemnification obligation, which is described generally herein.

exception of costs associated with off-site hazardous wastes, the definition of "Environmental Response Costs" in the CTC formula excludes these costs from recovery through the Environmental Response Cost section of the formula. As a result, the costs are now recoverable through the claims section.

The different treatment of off-site and other environmental costs reflects the circumstances presented at the time of divestiture. Prior to the sale of the generating stations, USGenNE and the other bidders for NEP's assets had the opportunity to review the environmental condition of the plant sites and understand the scope of liability they would assume in the APA for any on-site deposits or wastes at the generating facilities, or any off-site migration of such materials from the facilities. In contrast, USGenNE and the other bidders had no way to determine the environmental costs of hazardous waste from the generating plants that was deposited off-site. Therefore, the APA did not require the buyer to defend and indemnify NEP in relation to such off-site costs. Those off-site response costs are recoverable under the Restructuring Settlements. (See Appendix 1, Section 1.2.2(i) of the Narragansett Settlement; Appendix 1, Section 1.2.3(i) of the Mass. Electric Settlement, Appendix 2 (Post-Divestiture), Section 1.2.2(i) of the Granite State Settlement.) Specifically, the variable component of the CTC formula provides for the recovery of "[r]easonable and prudently incurred costs associated with the investigation, testing, remediation, liabilities, damages, claims, settlements or judgments . . . relating to deposits or wastes from divested generating facilities *off* the site of properties sold . . . ." Id. (emphasis added). Because USGenNE had agreed to defend and indemnify NEP for the environmental costs with the exception of hazardous waste from the generation stations that was deposited off-site, it was not necessary to recover the costs from customers and these costs were not specifically addressed in the Restructuring Settlements.

However, as a result of the APA rejection in bankruptcy, USGenNE will no longer indemnify NEP against the costs of on-site contamination and off-site migration of hazardous waste. The NEP Allowed Claim includes resolution of contingent claims for potential damages associated with the USGenNE's rejection of its defense and indemnification obligations under the APA. Currently, NEP is aware of no environmental claims asserted against it that would be covered by the APA's now rejected indemnity obligations. However, should any claim be made by a third party, it would not be included as an Environmental Response Cost, but rather as any other claim under the Damages, Costs, or Net Recoveries section of the CTC formula.

With regard to other claims, USGenNE's rejection of the APA also breached its defense and indemnification obligations for other claims that would otherwise be required under the APA, including any claims against NEP and Narragansett for personal injury related to asbestos exposure. The mere filing of a claim against NEP and/or Narragansett would give rise to litigation defense costs, whatever the merits of the suit. Prior to the USGenNE Settlement, USGenNE, acting under its defense and indemnification obligation, successfully obtained the dismissal of ten asbestos claims filed against NEP by contractor employees since 1998. Currently, NEP has eight asbestos claims filed against it that would have been covered by the APA prior to the USGenNE Settlement. (Historically, one or two claims have been filed every year.) It is impossible to predict how many, if any, asbestos claims will be filed, and if so, how they will be resolved. The costs of these claims are also recoverable under the Damages, Costs, Net Recoveries section of the CTC formula in the Restructuring Settlements. (See Appendix 1, Section 1.2.2(g) of the Narragansett Settlement, Appendix 1, Section 1.2.3(g) of the Mass. Electric Settlement, Appendix 2 (Post-Divestiture), Section 1.2.2(g) of the Granite State Settlement.)

Thus, because USGenNE rejected the APA, both the environmental claims which USGenNE had assumed and the other third-party claims are no longer assigned to USGenNE. Consequently, the damages and costs related to those claims are recoverable under the Damages, Costs, or Net Recoveries section of the CTC formula in the Restructuring Settlements. Accordingly, customers are entitled to the full amount of the NEP Allowed Claim. If it were concluded that the obligation for costs or damages related to environmental or other third-party claims which had been assigned to the buyer were not recoverable under the Restructuring Settlements, NEP would be required either to withhold a portion of the NEP Allowed Claim to cover these liabilities, or amend the CTC formula to allow for their recovery. Because the inclusion of these liabilities in the formula as Damages, Costs, or Net Recoveries is consistent with both the language and the intent of the Restructuring Agreements, a formal amendment is not required. Accordingly, NEP is willing to flow through the entire proceeds from the NEP Allowed Claim on the understanding that all parties are in agreement with this construction of the CTC formula. NEP believes that this approach is consistent with the overall objective of the CTC formula, under which NEP recovers its reasonable costs associated with the divested generating plants, including reasonable and prudently incurred costs related to addressing environmental liabilities and other claims "associated with NEP's generation business which accrued prior to the date of divestiture."

(3) CSA

The USGenNE Settlement provides that USGenNE will honor its obligations under the CSA until the dates of the asset sales, which they did. Following the asset sales, the new owners are expected similarly to perform the obligations under new interconnection agreements. NEP

does not anticipate any revenue loss or incremental costs as a result of USGenNE ceasing to perform under the CSA.

(4) Allocation of Proceeds of the NEP Allowed Claim

As mentioned above, the NEP Allowed Claim relates to claims, or potential claims, arising from USGenNE's rejection/breach of the PPATA, HQITA and APA, the termination of the CSA, and pre-petition amounts. However, the $195 million unsecured amount is undifferentiated; no specific amount or proportion of the proceeds relates to any particular claim or agreement. Rather than allocate the $195 million proceeds among the various agreements covered by the NEP Allowed Claim, National Grid proposes to credit 100 percent of the net proceeds from the NEP Allowed Claim to the CTC on the understanding that the parties agree that the associated obligations are also recoverable through the CTC formula as set forth above.

Under this approach, the liabilities related to the rejection of the PPATA, HQITA, and APA indemnification obligation would be allocated to Mass. Electric, Narragansett and Granite State based upon their fixed responsibility shares of NEP's CTC: 72.6%, 22.4% and 3.0%, respectively; and the net proceeds from the NEP Allowed Claim would be credited to these companies on the same basis. This treatment is consistent with the central objective of the Restructuring Settlements and the CTC formula: NEP was to recover all costs associated with exiting the generation business. This methodology also assures that the full amount of the NEP Allowed Claim proceeds is used immediately to reduce CTC costs.

(5) Proposal for Use of NEP Allowed Claim Proceeds

National Grid proposes to apply the NEP Allowed Claim proceeds, plus interest, aggregating $195,805,290 (the "NEP Allowed Claim Proceeds") as described below:

Under the current CTC formula, applying the entire amount of the NEP Allowed Claim Proceeds to the CTC variable component reconciliation account would result in an extremely large one-year decrease to the CTC, which would be followed by a sharp increase in the rate in the following year. In order to avoid such drastic changes in the retail stranded cost recovery rates, National Grid proposes to apply to each distribution company an allocable share of the proceeds in the following manner. Because each distribution company faces slightly different circumstances, associated primarily with the merger of the distribution companies in Massachusetts and Rhode Island with the former Eastern Utilities Associates ("EUA") companies, National Grid has designed a separate proposal for each distribution company. These individual state proposals can be modified by the parties in each affected state and individual state plans would not require consent or participation by all three states together.

(A) Massachusetts

Under the Plan, Mass. Electric would be allocated 72.6% of the $195.805 million NEP Allowed Claim Proceeds received, or $142.2 million. National Grid believes the optimum application of Mass. Electric's share of the NEP Allowed Claim Proceeds would be to first pay down any unrecovered fixed assets contained in the CTC and then to apply any remaining amount to pay down unrecovered purchased power trigger payments. In this way, the cash received would be credited against obligations on which customers are paying a return in the CTC formula.

As a result of the May 2000 merger of the former New England Electric System ("NEES") and EUA, the former EUA wholesale company, Montaup, was merged into NEP and EUA's former Massachusetts distribution subsidiary, Eastern Edison Company ("Eastern Edison"), was merged into Mass. Electric. Consequently, since May 2000, NEP's CTC to Mass.

Electric has included Montaup charges related to the former Eastern Edison. The CTC bills which Mass. Electric receives are calculated pursuant to Restructuring Settlements for both NEP and Montaup. In calculating the transition charge to its customers, Mass. Electric aggregates the estimated CTC costs from NEP and Montaup and calculates a weighted average CTC. That weighted average CTC forms the basis of the transition charge that Mass. Electric reflects in its rates to retail customers.

Montaup's CTC continues to include recovery of its net fixed investments in generating plants that earn a return through 2009. The pre-tax return being billed on Montaup's remaining fixed asset balance is 10.65% in Massachusetts. Because of the return component, Montaup's fixed assets constitute the most expensive component of the CTC. Although any bankruptcy settlement proceeds relate to commitments of NEP and not Montaup, because CTC costs billed to Mass. Electric are aggregated in arriving at a retail rate for stranded cost recovery, increases or decreases in charges from NEP or Montaup have the same effect on the retail rate to Mass. Electric's customers.

Based on the current CTC rate projection, as provided in the November 24, 2004 CTC Reconciliation Reports, the unrecovered fixed assets of Montaup, net of the remaining Residual Value Credit related to the net proceeds from Montaup's sale of generating assets, billable to Mass. Electric will be approximately $100.7 million at December 31, 2005. Montaup's CTC also includes recovery of power contract buyout payments, with a return at the same 10.65%. The unrecovered Montaup contract buyout payments at December 31, 2005 billable to Mass. Electric will be approximately $13.6 million. Using a portion of Mass. Electric's 72.6% share of the NEP Allowed Claim Proceeds to pay down Montaup's unrecovered fixed asset investments and unrecovered contract buyout payments would significantly reduce the scheduled 2006 CTC,

while also providing increased CTC stability and avoiding the payment of a return on those CTC assets by Mass. Electric's customers.

In addition to the Montaup fixed assets and contract buyout payments, NEP continues to recover through the CTC trigger payments it made to terminate certain power purchase contracts that were initially included in the PPATA, along with an associated return on those trigger payments. Under this Plan, Mass. Electric's remaining share of the NEP Allowed Claim Proceeds, $27.9 million, would be used to pay down a portion of NEP's unrecovered trigger payments.

(B) Rhode Island

Narragansett's 22.4% share of the NEP Allowed Claim Proceeds is $43.9 million. Similar to what occurred in Massachusetts, the May 2000 merger of NEES and EUA resulted in the merger of the former Blackstone Valley Electric Company ("BVE") and Newport Electric Corporation ("Newport") into Narragansett. As a result, since May 2000, NEP's CTC to Narragansett reflects Montaup CTCs associated with BVE and Newport, calculated pursuant to Restructuring Settlements for both NEP and Montaup.

The pre-tax return being billed on fixed assets by Montaup in the CTC is 12.16% in Rhode Island. Based on the current CTC rate projection, as provided with the November 24, 2004 CTC Reconciliation Reports, the unrecovered fixed assets of Montaup, net of the remaining Residual Value Credit related to the net proceeds from Montaup's sale of generating assets, billable to Narragansett will be approximately $69.0 million at December 31, 2005. Under the Plan, Narragansett's 22.4% allocable share of the NEP Allowed Claim Proceeds, or $43.9 million, would be used to pay down some of Montaup's unrecovered fixed asset investments. As in Massachusetts, this approach would significantly reduce Narragansett's scheduled 2006 CTC,

provide increased CTC stability, and avoid the payment of a return by Narragansett's customers on the portion of the Montaup fixed assets that are paid down.

(C) New Hampshire

Under the Plan, Granite State would be allocated 3.0% of the NEP Allowed Claim Proceeds, or approximately $5.9 million. Because EUA had no operations in New Hampshire, Granite State was not affected by the NEES/EUA merger, is not responsible for Montaup's unrecovered fixed asset investments, and therefore does not receive a CTC bill related to Montaup. However, as mentioned above, NEP continues to recover from Granite State trigger payments NEP made to extinguish certain power purchase contracts that were initially included in the PPATA. The return that NEP earns on the unamortized portion of those trigger payments is 8.68% in New Hampshire. Under this Plan, the unrecovered amount of these trigger payments billable to Granite State will be approximately $2.5 million at December 31, 2005. National Grid proposes that Granite State's allocable share of the NEP Allowed Claim Proceeds be first applied to pay down those unrecovered trigger payments. The remaining amount, approximately $3.4 million, would be credited to Granite State's CTC via a residual value credit, along with a return at a rate of 8.68%, over the four-year period ending 2009, coincident with the end of the CTC fixed component recovery period, in order to achieve a stable CTC path.

(6) Effect of Proposal on CTC Paths

Exhibits 24-26 to this Plan summarize the current CTC paths for Mass. Electric, Narragansett and Granite State, respectively, as contained in the 2004 CTC Reconciliation Reports dated November 24, 2004. As indicated in those reconciliation reports, revised decommissioning estimates for Maine Yankee, Connecticut Yankee and Yankee Atomic, in the aggregate, are considerably higher than the originally estimated amounts reflected in the current

CTC paths. Pursuant to the CTC formula, actual decommissioning amounts will be included as incurred in the reconciliation account. Consequently, the CTC paths included in the 2004 CTC Reconciliation Reports for years after 2005 do not include these revised decommissioning estimates.

Exhibits 27-29 summarize the CTC paths for Mass. Electric, Narragansett and Granite State, respectively, incorporating the updated decommissioning estimates in the reconciliation account through 2010 ("Revised Decommissioning CTC"). As shown in these exhibits, excluding any reconciliations for the current CTC period of October 2004 through September 2005 and including the higher decommissioning estimates, the 2006 CTC is expected to increase from the current 2005 charge by approximately $27.2 million for Mass. Electric, $11.0 million for Narragansett, and $542,000 for Granite State.

Under the proposed Plan, the anticipated CTC paths would be as reflected in Exhibits 30-32 ("Proposed CTC"). These exhibits also compare the Proposed CTC rate paths set forth in this Plan to the Revised Decommissioning CTC paths which were in place before the bankruptcy, as adjusted for the recent increase in nuclear decommissioning costs at the Yankee Units. The Proposed CTC is based on the application of the proportionate share of the NEP Allowed Claim Proceeds in the manner set forth above along with revised decommissioning estimates included in Schedule 1 of the CTC calculations. As shown on Exhibits 30-32 in the column titled "Year-on-Year Change," under the Plan, the Proposed CTC for 2006 would decrease from the current 2005 CTC by approximately $34.0 million, $7.3 million and $3.1 million for Mass. Electric, Narragansett and Granite State, respectively, and continue to provide year-on-year decreases to the CTCs.

Exhibits 33-35 present the anticipated CTC paths (the"Base Case CTC") that would occur if the CTC formula were applied as designed and assumes the NEP Allowed Claim Proceeds are credited to the reconciliation account when received, or June 8, 2005. As shown on Exhibits 33-35 in the column titled "Year-on-Year Change," the Base Case CTC for 2006, using the current CTC formula which does not reflect the Plan's proposed pay-down of obligations earning a return in the CTC, would decrease from the current 2005 CTC by approximately $129.8 million, $39.2 million and $5.9 million for Mass. Electric, Narragansett and Granite State, respectively. However, the CTC would increase in 2007 by $144.6 million, $46.7 million and $6.0 million for Mass. Electric, Narragansett and Granite State, respectively as the NEP Allowed Claim Proceeds are passed back to customers all in one year. For years 2008 through 2010, the CTC would again experience sharp downward and upward spikes.

Exhibits 36-38 compare the Revised Decommissioning CTC, Proposed CTC and Base Case CTC paths for Mass. Electric, Narragansett and Granite State, respectively.

Administrative Claim

As described above, as part of the global settlement, NEP received a payment of $10 million for the Administrative Claim. The USGenNE Settlement indicates it relates to any actual or potential claims that Mass. Electric and Narragansett may have against USGenNE under the Mass. Electric WSOSA, the Narragansett WSOSA, and the TIA through December 31, 2004. For the reasons described below, National Grid proposes to allocate all proceeds from the Administrative Claim to Narragansett to pay for the costs incurred by Narragansett for standard offer service from USGenNE prior to the assignment of the Narragansett WSOSA to Dominion and any prospective costs of this kind associated with the transfer of wholesale standard offer

obligations formerly held by USGenNE to Dominion and Dominion's discharge of those obligations under the Narragansett WSOSA and the Second TIA that is defined below.

(1) New Hampshire

No action or mitigation measures are required in New Hampshire because Granite State is not a party to a wholesale standard offer service agreement with USGenNE, and thus did not have any disputes or claims related to the three agreements listed above.

(2) Massachusetts

Mass. Electric entered into the TIA, which established how the Mass. Electric WSOSA would be implemented upon the commencement of Standard Market Design in New England on March 1, 2003. Mass. Electric disputed the congestion cost responsibility that it assumed under the TIA. The TIA anticipated a formal dispute resolution process would take place and determine ultimate responsibility for the disputed costs. However, because of the USGenNE bankruptcy filing on July 8, 2003, a formal dispute resolution proceeding was not initiated.

Mass. Electric has incurred the following congestion-related expenses (net of any Auction Revenue Right credits) under the TIA:

- A charge of $1,555,360.81 for the period March 2003 through July 2003. This amount was billed to Mass. Electric but, at the request of USGenNE, was not paid. In accordance with the USGenNE Settlement, Mass. Electric will not be responsible for these costs and thus these costs will not be passed on to Mass. Electric's customers.
- A credit of $1,045,080.71 for the period August 2003 through December 2004. This amount is a net credit that was paid to Mass. Electric. Mass. Electric has credited $810,877.98 of this amount to the benefit of customers in the Standard Offer Service reconciliation filed in Mass. Electric's 2005 Annual Retail Rate Filing in Docket No.

DTE 05-2 pursuant to the terms of Mass. Electric's Retail Rate Settlement filed in Docket Nos. DTE 02-79, DTE 03-124, and DTE 03-126, and approved by the Department of Telecommunications and Energy on December 29, 2004 ("Retail Rate Settlement"). The remaining $234,202.73 will be credited for the benefit of customers in the Standard Offer Service reconciliation, and the status of that reconciliation will be included in the next annual retail rate filing.

- No additional costs and/or credits will be incurred beyond December 31, 2004 as the Mass. Electric WSOSA expired on that date pursuant to its terms.

National Grid proposes that none of the funds received for the Administrative Claim be applied to Mass. Electric since Mass. Electric's customers have not been harmed by the terms of the TIA and the related congestion cost dispute. Indeed, Mass. Electric's customers have benefited from the TIA in the amount of $1,045,080.71 and have benefited from the release of any payment liability (or dispute as to the liability) regarding the $1,555,360.81 invoiced amount. Accordingly, National Grid proposes that Mass. Electric customers retain the $2,600,441.52 in benefits from the TIA that arise from the provisions of the USGenNE Settlement.

(3) Rhode Island

Narragansett also entered into the TIA which established how the Narragansett WSOSA would be implemented upon the commencement of Standard Market Design on March 1, 2003. Like Mass. Electric, Narragansett disputed the congestion cost responsibility that it assumed under the TIA.

Narragansett has incurred the following congestion-related expenses (net of any Auction Revenue Right credits) under the TIA:

- $144,824.59 for the period March 2003 through July 2003. This amount was billed to Narragansett but, at the request of USGenNE, was not paid. In accordance with the USGenNE Settlement, Narragansett will not be responsible for these costs and thus there has not been and will not be any costs charged to customers.
- $689,183.25 for the period August 2003 through December 2004. This amount is a net charge that was billed to and paid by Narragansett. To date, Narragansett has not included recovery of any of this amount in rates paid by customers.

The Narragansett WSOSA will continue in effect through December 31, 2009. Effective January 1, 2005, USGenNE's obligations under the Narragansett WSOSA were assigned to Dominion. Narragansett and Dominion entered into a Second Amended and Restated Agreement for Implementation and Administration of Wholesale Standard Offer Service Agreement ("Second TIA") under which Narragansett and Dominion are implementing the Narragansett WSOSA. The Second TIA is confidential and attached separately in Confidential Exhibit 41.

Based on the foregoing, National Grid proposes to have Narragansett retain all of the Administrative Claim for the benefit of its customers. Under this proposal, Narragansett would retain these proceeds as reimbursement for congestion and other costs above the amounts set forth in basic pricing provisions of the WSOSA. Such costs would include those specified under the Second TIA that Narragansett may incur under the Narragansett WSOSA and the Second TIA over the remainder of their terms. In other words, Narragansett will apply the $10 million

payment from the Administrative Claim to these costs, in place of charging the costs through to customers in retail Standard Offer rates. Specifically, under the Plan, Narragansett will place the proceeds of the Administrative Claim in a separate account to be maintained on its general ledger ("Administrative Claim Account"). Narragansett will be reimbursed for the net costs incurred by reducing the balance of the Administrative Claim Account by the amount it has incurred and may incur under the Narragansett WSOSA and the Second TIA. Under this proposal, Narragansett would not reflect the recovery of net costs in its retail rates to customers until such time as the Administrative Claim Account is exhausted. The treatment of the remaining balance or deficiency remaining in the Administrative Claim Account will depend on discussions with the Rhode Island parties and may need to be submitted to the Rhode Island Commission for approval.

Other CTC Mitigation Actions

In addition to the allocation of proceeds, NEP will also be undertaking the following series of activities to mitigate the obligations that will be returning to NEP as the USGenNE contract rejections become effective.

(1) PPATA-Initial Actions

Effective April 1, 2005, NEP began reselling the power it receives from each Returning PPAs into the NEPOOL spot markets and crediting any revenues received toward expenses incurred under the Returning PPAs. To the extent possible, NEP will sell any capacity associated with the Returning PPAs in the bilateral market on a monthly basis. Any capacity not sold in the bilateral market will be made available in the ISO-New England administered

Capacity Supply Auction and Capacity Deficiency Auction. All capacity revenues received will be credited toward expenses incurred under the Returning PPAs.

Although NEP could sell the unit output bilaterally, the market discounts this form of sale because it does not guarantee a specific level of power in any month, given that the level of the sale is contingent on unit operation. Unlike a firm sale of energy, under a unit power purchase, purchasers must bear the risks that the unit will not produce when expected, or that the unit will produce more than expected. In both circumstances, the differences from the purchaser's expectations will be settled at spot market prices, producing risks to the purchaser. NEP could address the risks associated with uncertain quantities by making firm system sales supported by the Returning PPAs. However, this approach would simply transfer the risk from the purchasers to NEP and its customers, because NEP would be required to use the spot market to sell any positive, or purchase any negative, difference between the quantity provided under the Returning PPAs and the agreed-to quantity under a firm bilateral sale. NEP does not believe that this risk allocation is appropriate.

Although the sale of power into the ISO markets as proposed will provide market revenue to NEP that will be available to the distribution companies and their customers, the level of revenue is not guaranteed and will vary over time as market prices fluctuate. The sale in the spot market is an interim solution which maintains maximum flexibility until National Grid has worked through the contracts and the ISO's proposed changes to market rules. These spot market sales would be a transition to the more permanent steps discussed below.

(2) PPATA-Further Actions

To mitigate the risk and uncertainty to the distribution companies and their customers associated with varying market prices over the remaining terms of each Returning PPAs, NEP

proposes to continue to seek ways to restructure, terminate, assign, or transfer to one or more third parties the Returning PPAs, in a manner that mitigates risk or provides a fixed/known cost for each Returning PPA.

(3) PPATA Provisions

The PPATA provided that NEP and USGenNE would work cooperatively and use all reasonable efforts to amend each PPA and assign each such amended PPA to USGenNE so that NEP would be released from all further liabilities and obligations under the PPA and USGenNE would be directly under contract with the power seller. (See Section 7 of the PPATA.) The PPATA also anticipated that a PPA may be terminated, thus eliminating NEP's remaining obligations under the PPA. Upon successful termination or assignment of a PPA, the PPATA provided that NEP would make a payment to the power producer, USGenNE or another entity, equal to the net present value of the remaining monthly payment obligations associated with the PPA. (See Section 8(d) of the PPATA.)

As discussed in the next section, NEP will continue to seek ways to terminate and assign each Returning PPA.

(4) Market Based Provisions

NEP will conduct a competitive auction seeking ways to restructure, terminate, assign or transfer the Returning PPAs to one or more third parties in a manner which mitigates risks or provides a fixed and/or known cost for each Returning PPA. NEP will issue auction documents to the marketplace and evaluate all bids received against the forecast developed in Confidential Exhibit 42. The evaluation will compare the expected above-market costs of each Returning PPA to the expected costs proposed by each bidder. The above-market costs would be the difference between the expected costs under the terms of each Returning PPA and the expected

market revenues based upon the then-current forecast of market prices. (See Confidential Exhibit 42 for the basis under which NEP will conduct the analysis.)

NEP will evaluate the bids to determine which individual bids or bid related to multiple PPAs provides the greatest value to customers through the reduction in above-market costs for each Returning PPA or that provides certainty of expected costs versus the variability and uncertainty of market prices over time. For any bid that reduces or eliminates the expected above market costs, NEP will enter into a binding agreement and file such agreement with the state regulatory commissions in Massachusetts, Rhode Island and New Hampshire (the "Commissions"). To the extent the agreement satisfies the criteria set forth in Exhibit 42, the filing will be for informational purposes only.

Any bid which does not meet the criteria set forth above but which NEP nevertheless believes is in the best interest of the distribution companies and their customers, will be accepted with an agreement that the transaction is subject to receipt of regulatory approval from the Commissions. In such case, NEP will file the conditional agreement with the Commissions and seek expedited review and approval.

The costs incurred under such new agreements (to restructure or terminate the Returning PPAs) will be recovered over the remaining term of the initial contract with a return on any cash payments at the same rate as the forecast of over-market payments under the initial contract. Recovery will cease when the buy-out or buy-down payment is fully amortized. The recovery of buy-out or buy-down payments shall not exceed the forecast of above-market payments under the initial contract.

(5) HQITA

Since USGenNE's rejection of the HQITA in April 2004, NEP has posted, and will continue to post, the availability of the transmission capacity related to the facilities associated with the HQITA on the OASIS. Such postings have been made for the 4% entitlement formerly held by Montaup, and since April 2, 2004, for the 18% entitlement covered by the HQITA which was rejected by USGenNE. For the period April 2004 through December 2004, the revenues received from the OASIS postings for the combined 22% entitlement were approximately 18% of the support payments made during such period.

Consideration of the possible inclusion of the cost of some or all of the Hydro Quebec facilities in regional transmission rates was initiated in the context of the New England Regional Transmission Organization ("RTO-NE") formation. To the extent the costs of the Hydro Quebec facilities are rolled-in to a regional transmission rate, some or all of the monthly costs may be paid by regional transmission customers and these costs will be eliminated from the CTC. In connection with the formation of RTO-NE, NEP had been working with other Interconnection Right Holders ("IRH") and H.Q. Energy Services, Inc. ("HQUS") to address policies and issues related to the costs of Phase I and Phase II Hydro Quebec facilities and the options for rate treatment as part of RTO-NE's tariff. Changes to the manner in which these costs are included in RTO-NE's tariff are subject to NEPOOL, RTO-NE and FERC approval.

Procedure for Plan Implementation

The implementation of the Plan discussed above will require an agreement to apply the NEP Allowed Claim Proceeds to NEP's CTC in the fashion described above and agreement on the approach and methodology for mitigation. These implementation arrangements are best

developed and agreed to as soon as possible so that NEP will know how to apply the proceeds and reconcile accounts. Accordingly, National Grid will schedule meetings with the stakeholders to work through the issues and to provide the information necessary to arrive at an agreed upon Plan implementation on a reasonable time schedule. We will commence discussions with the Parties in the near future.

	LIST OF EXHIBITS
Exhibit Number	**Description**
1	Settlement Agreement and Release entered into as of December 9, 2004 by and among USGenNE and NEP, The Narragansett Electric Company ("Narragansett"), Massachusetts Electric Company and Nantucket Electric Company (together "Mass. Electric"), Granite State Electric Company ("Granite State"), National Grid USA Service Company, Inc. ("NGUSASC"), National Grid USA ("NGUSA") and affiliated companies (collectively, "National Grid" or the "National Grid Companies") (the "USGenNE Settlement")
2	Asset Purchase Agreement dated as of August 5, 1997 by and among NEP, Narragansett and USGenNE ("APA")
3	Amended and Restated Power Purchase Agreement Transfer Agreement dated October 29, 1997 by and between NEP and USGenNE ("PPATA")
4	Hydro Quebec Interconnection Transfer Agreement dated September 1, 1998 by and between NEP and USGenNE ("HQITA")
5	Amended and Restated Continuing Site/Interconnection Agreement dated September 1, 1998 by and between NEP and USGenNE ("CSA")
6	Second Amended and Restated Wholesale Standard Offer Service Agreement, dated September 1, 1998 between Mass. Electric and USGenNE ("Mass. Electric WSOSA")
7	Second Amended and Restated Wholesale Standard Offer Service Agreement, dated September 1, 1998 between Narragansett and USGenNE ("Narragansett WSOSA")
8	Schedule IV to Exhibit 1
9	Performance Support Agreement, dated August 5, 1997, between NEP and USGenNE regarding Massachusetts Government Land Bank (the "PSA")
10*	Lamson & Goodnow agreements
11*	Mayhew Steel Products, Inc. agreements
12	Amended and Restated Lease Indenture, dated June 1, 1998, among Island Corporation, USGenNE and NEP; Agreement between NEP and USGenNE regarding Island Corp Indenture.
13	Appendix 1 – New England Power Company Amendment to Service Agreement with Massachusetts Electric Company under FERC Electric Tariff, Original Volume No. 1 Formula for Calculating Contract Termination Charges
14	Appendix 1 – New England Power Company Amendment to Service Agreement with The Narragansett Electric Company under FERC Electric Tariff, Original Volume No. 1 Formula for Calculating Contract Termination Charges

15	Appendix 2 (Post-divestiture) – New England Power Company Amendment to Service Agreement with Granite State Electric Company under FERC Electric Tariff, Original Volume No. 1 Formula for Calculating Contract Termination Charges Following Divestiture
16	Amended and Restated Power Purchase Agreement dated as of April 24, 1996 by and between NEP and Milford Power Limited Partnership (the "Milford Power PPA")
17	Agreement dated as of December 17, 1985 by and between NEP and SES Millbury Company, L.P. (the "Wheelabrator Millbury PPA")
18	Amended and Restated Agreement dated as of January 1, 1986 by and between NEP and Refuse Energy Systems Company (the "Wheelabrator Saugus PPA")
19	Agreement dated as of January 1, 1985 by and between NEP and Lawrence Hydroelectric Associates (the "Lawrence Hydro PPA")
20	Agreement dated as of November 6, 1987 by and between NEP and Ridgewood Providence Power Partners, L.P. as successor to Northeast Landfill Power Co. (the "Ridgewood PPA")
21	Agreement dated as of September 7, 1994 by and between NEP and Suncook Energy Corporation (the "Four Hills Landfill PPA")
22	Agreement dated as of September 21, 1995 by and between NEP and the Massachusetts Water Resources Authority (the "MWRA Cosgrove PPA")
23	Calculation of Net Present Value of Estimated Costs and Benefits Related to CTC Issues Presented as a Result of the Bankruptcy of USGenNE
24	Current CTC path for Mass. Electric as contained in the 2004 CTC Reconciliation Reports dated November 24, 2004
25	Current CTC path for Narragansett as contained in the 2004 CTC Reconciliation Reports dated November 24, 2004
26	Current CTC path for Granite State as contained in the 2004 CTC Reconciliation Reports dated November 24, 2004
27	CTC path for Mass. Electric incorporating the updated decommissioning estimates in the reconciliation account through 2010
28	CTC path for Narragansett incorporating the updated decommissioning estimates in the reconciliation account through 2010
29	CTC path for Granite State incorporating the updated decommissioning estimates in the reconciliation account through 2010
30	Proposed CTC path for Mass. Electric
31	Proposed CTC path for Narragansett
32	Proposed CTC path for Granite State
33	Projected CTC path for Mass. Electric based on current CTC provisions (Base Case CTC)
34	Projected CTC path for Narragansett based on current CTC provisions (Base Case CTC)
35	Projected CTC path for Granite State based on current CTC provisions (Base Case CTC)
36	Comparison of the Revised Decommissioning CTC, Proposed CTC and Base Case CTC paths for Mass. Electric

37	Comparison of the Revised Decommissioning CTC, Proposed CTC and Base Case CTC paths for Narragansett
38	Comparison of the Revised Decommissioning CTC, Proposed CTC and Base Case CTC paths for Granite State
39	Summary of Modified Second Amended Plan of Liquidation for USGenNE
40*	First Amended and Restated Agreement for Temporary Implementation and Administration of Wholesale Standard Offer Service Agreements between USGenNE, Mass. Electric and Narragansett ("TIA").
41*	Second Amended and Restated Agreement for Implementation and Administration of Wholesale Standard Offer Service Agreement effective as of January 1, 2005 by and between Narragansett and Dominion ("Second TIA").
42*	Basis for NEP's analysis of above market costs for each Returning PPA

* Denotes Confidential Exhibits that are not included with the public filings of the Plan

ATTACHMENT 2

[REDACTED]

ATTACHMENT 3

[REDACTED]

Commission Data Request 1-4

Request:

Does Narragansett Electric agree that its approved rates did not include an amount for fuel adjustment payments to be paid under the EUA Zone wholesale standard offer service agreements beyond December 31, 2004?

Response:

The current Standard Offer rate was based on estimated costs (in filings made in 2004) that did not include any fuel index payments to any supplier whose contract covered the EUA Zone. This was consistent with the Company's expectations at the time of the filings.

Although the Commission approves a variety of rates based on estimated costs (Transmission Service rates, the Nonbypassable Transition Charges, Standard Offer Service rates, and Last Resort Service rates), the amount of actual costs of providing these services will not only be different than the estimated costs used to establish the rates, but the components of these costs could be different than those reflected in the estimate. For example, a new type of transmission charge may appear on a transmission bill under an Open Access Transmission Tariff approved by the Federal Energy Regulatory Commission ("FERC"), such as Reliability Must Run charges, or an existing transmission charge may be eliminated, such as congestion costs prior to the commencement of Standard Market Design in March 2003. The mechanisms that capture the actual costs of the service provided are reconciliations that compare revenue billed against cost incurred. These reconciliation mechanisms operate pursuant to the Company's reconciliation and adjustment tariff provisions and are intended to identify whether costs have been over recovered or under recovered, and form the basis for adjusting future rates to pass back to customers any over recovery or collect from customers any under recovery.

Likewise, the Company has a reconciliation provision applicable to "power purchase costs incurred by the Company in arranging Standard Offer and Last Resort Service, which costs are not recovered from customers through the Standard Offer and Last Resort Service rates charged to Standard Offer and Last Resort Service customers." *See* the "Standard Offer Adjustment Provision" (a copy which is attached). The reconciliation allowed by this provision compares actual power cost incurred and revenue billed, without regard to the previous estimate noted above that formed the basis for the rate charged to customers. The Commission has typically reviewed the power costs incurred as part of a filing that includes the reconciliation of actual power cost and revenue to the extent that any balance contributes to a proposed Standard Offer Service rate. This filing is the first opportunity for the Commission to review actual Standard Offer Service power cost incurred beyond December 31, 2004, after which the Company began making protest payments associated with power supply agreements to one supplier for the EUA Zone.

Prepared by or under the supervision of: Ronald T. Gerwatowski

THE NARRAGANSETT ELECTRIC COMPANY
STANDARD OFFER ADJUSTMENT PROVISION

The prices contained in the applicable rates of the Company are subject to adjustment to reflect the power purchase costs incurred by the Company in arranging Standard Offer and Last Resort Service, which costs are not recovered from customers through the Standard Offer Service and Last Resort Service rates charged to Standard Offer and Last Resort Service customers.

On an annual basis, the Company shall reconcile its total cost of purchased power for Standard Offer and Last Resort Service supply against its total purchased power revenue (appropriately adjusted to reflect the Rhode Island Gross Receipts Tax), and the excess or deficiency ("Standard Offer/Last Resort Adjustment Balance") shall be refunded to, or collected from, customers through the rate recovery/refund methodology approved by the Commission at the time the Company files its annual reconciliation. Any positive or negative balance will accrue interest calculated at the rate in effect for customer deposits.

For purposes of the above reconciliation, total purchased power revenues shall mean all revenue collected from Standard Offer and Last Resort Service customers through the Standard Offer and Last Resort Service rates for the applicable 12 month reconciliation period. If there is a positive or negative balance in the then current Standard Offer/Last Resort Adjustment Balance outstanding from the prior period, the balance shall be credited against or added to the new reconciliation amount, as appropriate, in establishing the Standard Offer/Last Resort Adjustment Balance for the new reconciliation period.

By March 1 of each year, the Company shall determine the Standard Offer/Last Resort Adjustment Balance for the prior calendar year and make a filing with the Commission. The Company will propose at that time a rate recovery/refund methodology to recover or refund the balance, as appropriate, over the twelve month period commencing April 1. The Commission may order the Company to collect or refund the balance over any reasonable time period from (i) all customers, (ii) only Standard Offer and/or Last Resort Service customers, or (iii) through any other reasonable method.

Notwithstanding the foregoing, the Company may not recover, without full disclosure and the express approval of the Commission, any cost of Standard Offer Service in excess of the costs billable under the applicable Wholesale Settlement agreements from 1997 that established prices for wholesale standard offer supply.

This provision is applicable to all Retail Delivery Service rates of the Company.

Effective: May 1, 2000

Commission Data Request 1-5

Request:

Does Narragansett Electric agree that under traditional ratemaking principles, where the Commission specifically sets rates which exclude certain expenses, those expenses are not recoverable from ratepayers?

Response:

Generally, in the context of distribution rates, if the Commission sets rates that specifically exclude a given expense, and the exclusion of such expense meets applicable legal standards, the expense would not typically be recovered in distribution rates. However, in the context of the recovery of power purchase costs incurred to provide Standard Offer Service, any Commission action must be consistent with Section 39-1-27.3(b) of Rhode Island General Laws, which governs the recovery of Standard Offer-related costs. As such, if the Commission issues an order that expressly excludes any Standard Offer-related costs or expenses from Standard Offer rates, such costs likewise would not be recoverable, as long as the basis for the exclusion is consistent with the provisions of the statute and the Company's tariffs, and the decision meets any other applicable legal standards.

Prepared by or under the supervision of: Ronald T. Gerwatowski

Commission Data Request 1-6

Request:

Why is it reasonable to utilize the last resort service pricing as a proxy to market pricing where the load, risk, and customer characteristics differ? Is the Massachusetts Electric Default Service procurement a more reasonable proxy?

Response:

It is reasonable to utilize the Last Resort Service pricing as a proxy for the short-term market price of power because Last Resort Service is a load following service that is procured via competitive solicitations at market rates. Massachusetts Electric Company's ("Mass. Electric") Default Service rates also serve as a reasonable proxy. The apparent difference in pricing between the current Last Resort Service rates and the Mass. Electric Default Service rates is primarily a function of the timing of the solicitation for each of the services. As will be explained below, the current retail rates for Last Resort Service were based on a procurement conducted in July 2005 while the current rates for Mass. Electric's Default Service are based on procurements conducted in September 2004 and March 2005.

Massachusetts Default Service and Rhode Island Last Resort Service represent load following services that are procured via competitive solicitations at market rates. Factors which affect the rates include, but are not limited to, the zone that the load is located in, the quantity of load at the time of procurement, the expectation that load will increase over time (such as due to customer inflows), the expectation that load will decrease over time (such as due to customer outflows), market prices at the time of procurement and expected market price volatility over the procurement term.

In March 2005, Mass. Electric procured 50% of its residential Default Service requirements for the period May 2005 through October 2005 at an average cost of 7.498¢/kWh[1]. At that time, the average natural gas futures price for the period May 2005 through October 2005 was $6.577 per mmBtu and was $7.143 per mmBtu for the period September 2005 through February 2006. Assuming all other factors equal and a direct relation between the price of natural gas and electricity prices, this would imply an average Last Resort Service price for the period September 2005 through February 2006 of 8.413¢/kWh.

In July 2005, the Company procured its residential Last Resort Service requirements for the period September 2005 through February 2006. At the time of procurement, natural gas futures prices for the period averaged $8.076 per mmBtu. Again, assuming all other factors equal and a direct relation between the price of natural gas and electricity prices, the expected average Last Resort Service price for the period, based on the prior Mass. Electric purchase, would be 9.207¢/kWh. The actual cost to procure Last Resort Service was 9.163¢/kWh.

[1] The value of 7.213¢/kWh shown in the testimony of Michael J. Hager, page 6 of 8, line 6 represents an average rate based on procurements performed in March 2005 and September 2004 and includes an amount for the recovery of costs associated with Mass. Electric's compliance with the Massachusetts Renewable Portfolio Standards. The value of 7.498¢/kWh used in this response reflects the procurement cost of the March 2005 solicitation only.

Commission Data Request 1-6 (continued)

In June 2005, Mass. Electric's residential Default Service load peaked at 2,159 MW while the Company's residential Last Resort Service load peaked at 1.5 MW. Despite the significant difference between Mass. Electric's residential Default Service load and the Company's residential Last Resort Service load, both services appear to serve as a reasonable proxy for market prices of power.

Prepared by or under the supervision of: Michael J. Hager