

PRE-FILED DIRECT TESTIMONY

OF

ALAN V. FEIBELMAN

AND

RICHARD J. LEVIN

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. MR. FEIBELMAN, PLEASE STATE YOUR FULL NAME AND BUSINESS**
3 **ADDRESS FOR THE RECORD.**

4 A. My name is Alan V. Feibelman. My business address is 200 Clarendon Street,
5 Boston, MA 02116. I am a Director of Oliver Wyman, the successor company to
6 Mercer Management Consulting (“Mercer”).

7 **Q. MR. LEVIN, PLEASE STATE YOUR FULL NAME AND BUSINESS**
8 **ADDRESS FOR THE RECORD.**

9 A. My name is Richard J. Levin. My business address is 200 Clarendon Street,
10 Boston, MA 02116. I am a management consultant with Oliver Wyman.

11 **Q. MR. FEIBELMAN, PLEASE DESCRIBE YOUR EDUCATIONAL**
12 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

13 A. I received a B.S. degree (magna cum laude) in mechanical engineering in 1979
14 from Brown University and a MBA degree (with distinction) in 1983 from the
15 Harvard Graduate School of Business Administration.

16 My professional experience includes over 20 years as a consultant to electric and
17 gas utilities. I joined Mercer in 1983. During my consulting career, I have led a
18 broad range of assignments encompassing:

- 19 • Post-merger integration planning;
- 20 • Organizational and performance improvement; and

- 1 • Strategic and business planning.

2 Since the late 1990s, I have been actively involved in the merger and acquisitions
3 (M&A) area and have assisted utilities in post-merger integration planning. I led
4 Mercer’s support of National Grid, plc (“National Grid”) (and its predecessor) in
5 the integration planning for the KeySpan, Niagara Mohawk Power (NiMo) and
6 Eastern Utilities Associates (EUA) mergers. I have also been involved in
7 organizational and/or performance improvement work at more than 30 utilities.

8 **Q. MR. LEVIN, PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND**
9 **AND PROFESSIONAL EXPERIENCE.**

10 A. I received a B.A. in economics from Washington University in 1972 and a M.A. in
11 economics from The Ohio State University in 1974. In 1977, I received a J.D.
12 degree from Ohio State and was admitted to the Ohio Bar. My professional
13 experience includes over 20 years as a management consultant specializing in the
14 management and regulation of utilities. I joined Mercer in May 1983 and, prior to
15 that, worked as an independent consultant and for Booz, Allen & Hamilton, Inc.
16 During my consulting career, I have served as a project manager or lead consultant
17 on a broad range of assignments for utilities and regulatory commissions,
18 encompassing:

- 19 • Merger and acquisition analysis;
20 • Organizational and performance improvement;
21 • Strategic and business planning;

- 1 • Management audits;
- 2 • Rate of return and cost of capital studies;
- 3 • Financial forecasting and planning; and
- 4 • Economic and financial feasibility evaluations.

5 Prior to my consulting career, I was a lecturer at Ohio State in economic theory and
6 corporate finance.

7 **Q. MR. FEIBELMAN, HAVE YOU TESTIFIED BEFORE THIS OR ANY**
8 **OTHER REGULATORY COMMISSION IN THE PAST?**

9 A. Yes. I have submitted testimonies to the New York Public Service Commission
10 (NYPSC), the New Hampshire Public Utilities Commission (NHPUC) and the
11 Massachusetts Department of Public Utilities (MDPU) regarding the National Grid-
12 KeySpan integration planning effort and estimated savings and costs to achieve.

13 **Q. MR. LEVIN, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR**
14 **ANY OTHER REGULATORY COMMISSION IN THE PAST?**

15 A. Yes. I co-sponsored (along with Mr. Feibelman) the testimonies submitted to the
16 NYPSC, the NHPUC and the MDPU regarding the National Grid-KeySpan merger.
17 I have also submitted testimonies on merger savings and costs to the Rhode Island
18 Public Utilities Commission and the Massachusetts Department of
19 Telecommunications and Energy (now the DPU) regarding the EUA merger and to
20 the NYPSC regarding the NiMo merger.

1 In addition, I have testified before the state utility commissions in Ohio,
2 Pennsylvania, New Mexico, Massachusetts, Connecticut, Maine, Louisiana and
3 Iowa on a range of ratemaking and regulatory issues.

4 **II. PURPOSE OF TESTIMONY**

5 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

6 A. National Grid's rate filing for Rhode Island gas operations incorporates estimates of
7 annual synergy savings (\$200 million) and costs to achieve (\$400 million) related
8 to the National Grid-KeySpan merger. The purpose of this testimony is 1) to
9 describe the work done by National Grid and KeySpan during integration planning
10 to develop these estimates and 2) to discuss why, in our opinion, the estimates are
11 reasonable.

12 **Q. MR. FEIBELMAN, WHAT ROLE DID YOU PLAY IN THE NATIONAL**
13 **GRID-KEYSPAN INTEGRATION PLANNING INITIATIVE?**

14 A. I led Mercer's support of the companies on the integration planning initiative. I
15 assisted the National Grid and KeySpan team leaders in managing the day-to-day
16 work of the functional teams and communicating progress to executive leadership.
17 My role was similar to the role that I played in the Niagara Mohawk and EUA
18 mergers.

1 **Q. MR. LEVIN, WHAT ROLE DID YOU PLAY IN THE INTEGRATION**
2 **PLANNING INITIATIVE?**

3 A. I worked with the integration team on a day-to-day basis to identify and quantify
4 savings opportunities and costs to achieve. I was also responsible (along with Mr.
5 Feibelman) to prepare testimonies and exhibits that summarized the Integration
6 Team's extensive and detailed work.

7 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

8 A. The remainder is organized into two sections that discuss:
9 • The integration planning process; and
10 • Estimated merger savings and costs to achieve.

11 **III. THE INTEGRATION PLANNING PROCESS**

12 **Q. PLEASE PROVIDE AN OVERALL DESCRIPTION OF THE**
13 **INTEGRATION PLANNING PROCESS.**

14 A. In early 2006, National Grid and KeySpan began an integration planning initiative
15 to establish how the combined company will operate in the future and to develop
16 more detailed estimates of merger savings and cost to achieve. The initiative was
17 described in testimony of Mr. Larry Reilly of National Grid and Mr. Steven
18 Zerkowitz of KeySpan (submitted to the NYPSC in October 2006) as follows:

1 The integration team is led by senior executives of both
2 companies and has reviewed all aspects of the current
3 operations of the operating companies of National Grid and
4 KeySpan to identify areas in which greater efficiencies can
5 be realized or where greater value can be provided to
6 customers.

7
8 The objectives of the integration team are to make
9 preliminary recommendations to the company leadership so
10 that they can make decisions regarding how to achieve
11 synergy savings, develop service improvements for the
12 combined company, and assure a seamless transition on the
13 closing date of the Transaction. With regard to the synergy
14 savings, the integration team is currently completing the
15 analysis from which it intends to formulate preliminary
16 recommendations for company leadership to decide how
17 best to target specific synergy savings in each function of the
18 business. (Reilly and Zelkowitz testimony at pp. 28 and 29
19 of 31).

20 **Q. HOW WAS THE INTEGRATION TEAM MANAGED AND**
21 **STRUCTURED?**

22 A. The team was led on a day-to-day basis by Mr. Kwong Nuey of National Grid and
23 Mr. John Caroselli of KeySpan. Nine functional teams, reporting to Mr. Nuey and
24 Mr. Caroselli, were established to design recommended approaches and processes
25 for the future and to develop detailed estimates of potential merger savings and
26 costs for their respective areas. The nine teams were organized around the
27 following functional areas:

- 28 • Corporate Services;
- 29 • Finance and Accounting;
- 30 • Human Resources;

- 1 • Information Technology;
- 2 • Customer Service and Marketing;
- 3 • Gas Operations;
- 4 • Electric Transmission and Distribution;
- 5 • Shared Services; and
- 6 • Generation and Energy Supply.

7 Each of these functional teams was led jointly by two senior managers: one from
8 KeySpan and one from National Grid. More than 200 National Grid and KeySpan
9 employees were involved in the work to ensure that the planning initiative benefited
10 from the company-specific knowledge and expertise of both organizations.

11 **Q. WAS THE METHODOLOGY USED BY THE TEAM SIMILAR TO THE**
12 **METHODOLOGIES USED IN PREVIOUS MERGERS?**

13 A. Yes. The methodology was similar to the methodologies used in other mergers,
14 including the Niagara Mohawk and EUA mergers. In each merger, a large team of
15 individuals from both companies 1) assessed each company's operations, 2)
16 identified best practices, policies, processes and systems to adopt as a combined
17 company, 3) designed organization structures with post-merger staffing levels, and
18 4) estimated savings and costs to achieve.

19 The team's work product is the most comprehensive and detailed integration
20 planning effort that we have seen in our merger experience.

1 **Q. WHAT WERE THE SOURCES OF SAVINGS IDENTIFIED BY THE**
2 **TEAM?**

3 A. The sources of savings fell into the following broad categories:

- 4 • Consolidation of pre-merger National Grid and KeySpan organizations into a
5 single post-merger organization (e.g., moving from two information technology
6 organizations to one consolidated organization) and the elimination of
7 redundant positions;
- 8 • Standardization and improvement of business processes and practices and
9 adoption of best practices leading to greater efficiencies and enhanced service;
- 10 • Consolidation of information technology operations, architecture and business
11 applications;
- 12 • Standardization and joint purchase of materials and services to enhance
13 purchasing power and reduce costs;
- 14 • Optimization of office and operating facilities, transportation fleets, and
15 material and supply inventory; and
- 16 • Elimination of overlapping or duplicative costs, such as outside counsel, other
17 professional services and membership dues and fees.

1 **IV. ESTIMATED MERGER SAVINGS AND COSTS TO ACHIEVE**

2 **Q. WHAT WAS THE ESTIMATED ANNUAL SAVINGS IDENTIFIED BY THE**
3 **TEAM?**

4 A. The team identified estimated annual O&M savings in the range of \$160 million to
5 \$215 million on an expected value basis and \$247 million if 100% of potential
6 savings can be achieved. Schedule AVF/RJL-1 presents these totals with details by
7 functional area. The range of savings was developed to reflect the uncertainties of
8 and constraints on achieving 100% of potential savings (e.g., achieving successful
9 labor agreements and vendor negotiations).

10 Included in the totals are savings related to facilities and property consolidation
11 initiatives that were already underway at KeySpan in New York prior to the merger
12 and the further implementation of automated meter reading by KeySpan in New
13 York. If these savings are excluded from total savings, net savings are in the range
14 of \$153 million to \$199 million on an expected value basis and \$222 million if
15 100% of potential savings can be achieved.

16 Based on these figures and recognizing the potential uncertainties of and constraints
17 on achieving 100% of potential savings, we believe that annual savings of \$200
18 million is a reasonable estimate.

1 **Q. WHAT ARE THE TYPES OF COSTS THAT ARE INCURRED TO ACHIEVE**
2 **MERGER SAVINGS?**

3 A. Costs to achieve identified during the integration planning initiative fell into four
4 categories:

- 5 • **Personnel costs:** primarily the costs incurred to achieve reductions in
6 positions through early retirement, severance and other programs; payments to
7 retain critical employees; and retraining and relocation expenses;
- 8 • **Information Technology (“IT”) integration costs:** costs associated with
9 integrating IT infrastructures (data centers, networks and hardware) and
10 applications supporting customer, operations and corporate functions;
- 11 • **Other integration costs:** costs incurred to integrate the two companies, e.g.,
12 costs for achieving non-IT savings; support for the integration process; and
13 premiums for insurance run-offs, such as Directors and Officers liability
14 coverage
- 15 • **Transaction costs:** fees paid for professional services (such as banker, legal,
16 accounting) required to successfully complete the merger and obtain regulatory
17 approvals, as well as taxes incurred as a result of the merger.

18 **Q. WHAT WAS THE ESTIMATED COSTS TO ACHIEVE FOR THE**
19 **NATIONAL GRID-KEYSPAN MERGER?**

20 A. As shown on Schedule AVF/RJL-2, total costs were estimated at \$615 million which
21 included \$120 million of executive severance and options costs and \$80 million of IT

1 conversion costs which will be treated as normal capital investment. Net costs to
2 achieve (after the elimination of these two items) is \$415 million (\$615 million less
3 \$200 million).

4 Based on these figures, we believe that the \$400 million estimate of costs to achieve
5 included in this rate filing is reasonable.

6 **Q. WHAT WILL BE THE IMPACT OF THE ESTIMATED SAVINGS AND**
7 **COSTS TO ACHIEVE ON THE NATIONAL GRID AND KEYSpan**
8 **OPERATING COMPANIES (INCLUDING RHODE ISLAND GAS**
9 **OPERATIONS) AND THEIR CUSTOMERS?**

10 A. This topic is covered in the testimony of Mr. LaFlamme.

11 **V. CONCLUSION**

12 **Q. DOES THAT COMPLETE YOUR TESTIMONY?**

13 A. Yes, it does.

Attachments

Schedule AVF/RJL-1

Estimated Merger Savings

Schedule AVF/RJL-2

Estimated Costs to Achieve

**Estimated Merger Savings
\$ Millions**

Function	Low End	High End	Nominal
US Regulation & Legal	11	12	12
External Affairs	2	2	2
Finance	12	14	14
Human Resources	1	1	1
Information Services	32	41	44
Executive	9	9	9
Customers & Markets	18	30	41
Automated Meter Reading (NY)	4	12	20
Shared Services	41	52	56
Electric T&D	12	17	20
Gas Operations	17	24	28
Generation & Energy Supply	2	2	2
Total	160	215	247
Less: Facilities and consolidation initiatives underway pre-merger by KeySpan in NY	(3)	(5)	(5)
Less: AMR initiative by KeySpan in NY	(4)	(12)	(20)
Net Total	153	199	222

Estimated Costs to Achieve \$ Millions

Component

Personnel costs

(1) VERO programs (management)	103
(2) Voluntary severance (management)	15
(3) Retention agreements	12
(4) Relocations	5
(5) Executive severance and options	120
Sub-total	255

IT integration costs

(1) Applications consolidation	120
(2) Data center and network consolidation	41
Sub-total	161

Other integration costs

(1) Costs to achieve merger savings identified by Integration Team	57
(2) Integration process costs	15
(3) Insurance run-offs (KeySpan)	20
Sub-total	92

Transaction costs

(1) Bankers fees and expenses	22
(2) Legal fees and expenses	3
(3) Accounting and audit fees	4
(4) Other professional services	8
(5) Transfer tax	69
Sub-total	107

Total CTA **615**

Less: Executive severance and options costs included above (120)
Less: IT conversion capital costs included above (80)

Net Total CTA **415**

Notes

\$54 million of KeySpan costs excluded from above
(includes \$31 million bankers fees and expenses)