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April 21, 2006

VIA FACSIMILE AND U.S. MAIL

Luly Massaro, Commission Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket No. D-06-13 Joint Petition of Southern Union Company and The
Narragansett Electric Company

Dear Ms. Massaro:

Attached are the responses of Southern Union Company to the First and Second Set of Discovery issued by the Rhode Island Division of Public Utilities and Carriers in the above-referenced docket.

Thank you for your attention to this matter.

Sincerely,



Cheryl M. Kimball
R.I. Bar # 6458

Cc: Service List

The Narragansett Electric Company d/b/a National Grid
Docket D-06-13
Responses to Division Data Requests – Set 1
Issued on March 31, 2006

Division Data Request 1-1

Request:

Referring to Marshall testimony, page 7, why is Southern Union “required” to close the transaction by August 25, 2006?

Response:

The “Upset Date” of August 25, 2006 is a negotiated term that was agreed to by the transacting parties for the purpose of allowing adequate time to satisfy applicable closing conditions under the Purchase and Sale Agreement. Although extension of the Upset Date is possible under the Purchase and Sale Agreement, both parties have initiated business plans and integration activities aimed at completing the transaction by the closing date. As a result, a delay has the potential to cause substantial disruption on a number of fronts, including work that is underway to ensure the smooth transition of employees of the respective parties.

Prepared by or under the supervision of: Richard N. Marshall

The Narragansett Electric Company d/b/a National Grid
Docket D-06-13
Responses to Division Data Requests – Set 1
Issued on March 31, 2006

Division Data Request 1-2

Request:

Please describe the significance of the August 25, 2006 date to the closing of the transaction.

Response:

Please refer to the response to Division Data Request 1.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 1-3

Request:

If Southern Union is “required” to close the transaction by August 25, 2006, why does Section 9.1(e) of the Purchase and Sale Agreement appear to provide for possible extension of the Upset Date?

Response:

The inclusion in the Purchase and Sale Agreement of a mechanism for the possible extension of the Upset Date acknowledges that unforeseen events or events beyond the control of either party could result in a failure to satisfy applicable closing conditions by August 25, 2006. To the extent that the conditions precedent for sale remain reasonably capable of being satisfied, a party may preserve the substance of the transaction through an extension (up to an aggregate of 120 days). However, an extension requires affirmative action by a party.

Prepared by or under the supervision of: Richard N. Marshall

The Narragansett Electric Company d/b/a National Grid
Docket D-06-13
Responses to Division Data Requests – Set 1
Issued on March 31, 2006

Division Data Request 1-4

Request:

What are the expected consequences of a failure to close the transaction by August 25, 2006?

Response:

Unless extended by either party pursuant to Section 9.1(e) of the Purchase and Sale Agreement, if the transaction fails to close by August 25, 2006, either party has the right to terminate the Purchase and Sale Agreement and thereby abandon the transaction.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 1-5

Request:

Referring to Marshall testimony, page 8, why is Southern Union seeking to obtain the Division's approval by June 30, 2006, given that Section 8.1 of the Purchase and Sale Agreement defines the "Closing Date" as the fifth business day after conditions specified in Sections 7.1 and 7.2 (including governmental approvals) have been satisfied?

Response:

Under the Purchase and Sale Agreement, it is a condition to closing that each party obtain all Consents of Governmental Bodies by Final Order (Purchase and Sale Agreement, §§7.1(d) and 7.2(d)). The agreement defines the term "Final Order" such that the closing condition relating to Consents of Governmental Bodies is not satisfied unless and until any order by a governmental body with jurisdiction over the transaction is unable to be stayed, reheard, reconsidered or appealed (Purchase and Sale Agreement, §1.1). Accordingly, the Joint Petitioners are requesting that the Division approve this transaction by June 30, 2006 in order to allow sufficient time to pass after the approval date for any proceedings relating to the order to be exhausted prior to the Upset Date of August 25, 2006.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 1-6

Request:

Referring to Section 11.2 of the Purchase and Sale Agreement, please explain the benefits to the Seller of qualifying the transaction as part of a like-kind exchange of property covered by Section 1031 of the IRC. The response should quantify the dollar benefits and should provide all supporting calculations, documentation, and assumptions.

Response:

By structuring the transaction in a manner intended to qualify as part of a like-kind exchange of property pursuant to Section 1031 of the Internal Revenue Code of 1986, Southern Union would be allowed to defer a significant portion of federal income tax liability that would otherwise be payable in 2006 as a result of the sale of the LDC assets. At this time, it is not possible to estimate the amount of tax that may be deferred because significant analysis still needs to be performed including valuations of both the relinquished and replacement assets. Once the valuations are complete, the assets must be grouped by like-kind to determine eligibility for like-kind treatment under the IRS rules.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 1-7

Request:

Referring to Section 11.2 of the Purchase and Sale Agreement, please describe the relevant criteria to qualify the transaction as part of a like-kind exchange of property covered by Section 1031 of the IRC.

Response:

In order to qualify as a like-kind exchange, there must be a “simultaneous” exchange of the relinquished and replacement property. In this instance, Southern Union is executing a “reverse” like-kind exchange, which means that Southern Union has acquired the replacement property (through its acquisition of the Sid Richardson Energy Services business on March 1, 2006) before the sale of the relinquished property (the LDC assets). In order to qualify for like-kind exchange treatment, an unrelated exchange accommodation titleholder has taken title to the replacement property and will retain such title until the sale of the LDC assets is complete. In order to fall within the IRS safe harbor provisions applicable to like-kind exchanges, the sale of the relinquished property must be completed within 180 days of the closing of the acquisition of the replacement property (i.e., August 28, 2006).

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 1-8

Request:

Please quantify the effect of failure to qualify the transaction as part of a like-kind exchange of property covered by Section 1031 of the IRC. The response should explain the effect on the proposed transaction and should quantify the relevant income tax effect with supporting calculations, documentation, and assumptions.

Response:

If this transaction does not qualify as a like-kind exchange, then Southern Union will not be allowed to defer a significant portion of the federal income tax liability that would otherwise be payable in 2006 as a result of the sale of the LDC assets. However, the increased tax payment due in 2006 would be offset to a degree by Southern Union's ability to realize higher tax depreciation over a period of approximately seven years following the sale, as compared to the amount available with the like-kind exchange.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 2-19

Request:

Re: page 6, lines 13-19, of the Direct Testimony of Mr. Marshall's, please:

- a. Provide the information and assessment criteria upon which the witness relies to characterize National Grid's local delivery focus as "strong."
- b. Provide examples of the referenced "new technologies and innovations."

Response:

National Grid's core business is the delivery of electricity and natural gas. National Grid's energy-delivery business consists of five local distribution companies that serve approximately 3.2 million customers across 29,400 square miles in four states. Therefore, the Company's comments are based on National Grid's reputation within the industry.

Prepared by or under the supervision of: Richard N. Marshall

Division Data Request 2-20

Request:

Re: page 7, lines 8-15, of the Direct Testimony of Mr. Marshall's, please:

- a. Provide the information upon which the witness relies to assess National Grid's "commitment to the provision of least-cost, safe and reliable service to customers."
- b. Explain how the witness differentiates National Grid's commitment to the provision of least-cost, safe and reliable service to customers from the commitment of other gas or electric distribution system operators.
- c. Indicate whether it is the witness's position that National Grid's commitment to the provision of least-cost, safe and reliable service to customers will exceed that demonstrated by Southern Union in Rhode Island?

Response:

- (a) and (b) Southern Union Company sought to sell its Rhode Island utility assets to a buyer, that, among other attributes, would ensure that the Company's customers would continue to receive least-cost, safe and reliable service as they have historically from Southern Union Company. Because of its reputation in Rhode Island and other states, National Grid falls into this category.
- (c) The Company has no basis for making presumptions about specific service levels following the closing of the transaction.

Prepared by or under the supervision of: Richard N. Marshall