

Exhibit 2

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: PETITION OF THE NARRAGANSETT)
ELECTRIC COMPANY AND SOUTHERN)
UNION COMPANY)

DOCKET NO. _____)

TESTIMONY

OF

RONALD T. GERWATOWSKI

1 **I. Qualifications**

2 Q. Please state your name and business address.

3 A. Ronald T. Gerwatowski, and my business address is 55 Bearfoot Road, Northborough,
4 Massachusetts.

5

6 Q. Please state your position.

7 A. I am Vice President of Distribution Regulatory Services for The Narragansett Electric
8 Company, d/b/a National Grid. In my capacity as Vice President, I am responsible for the
9 Company's distribution rates and regulatory support group, which we refer to as the
10 Distribution Regulatory Services Department. This Department, for which I have
11 supervisory responsibility, provides rate-related support not only to Rhode Island, but also
12 to the other National Grid retail distribution companies in Massachusetts and New
13 Hampshire.

14

15 Q. Please describe your educational background.

16 A. I graduated from Westfield State College in 1978. I also attended the University of
17 Puerto Rico for one year in 1976-77. I received a Masters of Education degree from
18 Fitchburg State College in 1982. I then went to law school and received a Juris Doctor,
19 magna cum laude, from Boston College Law School in 1985, where I served on the Law
20 Review.

21

22

1 Q. Please describe your professional experience.

2 A. Before going to law school, I was a public school teacher in the Springfield,
3 Massachusetts school system. After graduating from law school, I was an associate at the
4 Boston law firm of Testa, Hurwitz & Thibealt in 1985 and 1986. I left the firm and
5 joined the legal department of New England Electric System (“NEES”) in 1987, the
6 predecessor to National Grid USA. In 1990, I was regulatory counsel for The
7 Narragansett Electric Company, where I practiced before the Rhode Island Public
8 Utilities Commission (“Commission”) until mid-1994. At that time, I returned to the
9 corporate headquarters for NEES and worked in the legal department on fuel-related
10 regulatory matters pertaining to the generation plants that were owned by NEES at the
11 time. In 1998, after industry restructuring in Rhode Island, I returned to The Narragansett
12 Electric Company as General Counsel and continued in that position until the spring of
13 2002. I then became General Counsel of Niagara Mohawk Power Corporation in
14 Syracuse, New York, after National Grid USA acquired Niagara Mohawk. I served in that
15 capacity until May 1, 2005, when I took my current position as Vice President of
16 Distribution Regulatory Services in New England. With many years of experience as a
17 regulatory lawyer, I have developed substantial knowledge and expertise on ratemaking
18 and utility regulatory matters.

19

20 Q. Have you previously testified before any regulatory commission?

21 A. Yes. I have testified before the Commission.

22

1 **II. Purpose of Filing**

2 Q. What is the purpose of this filing?

3 A. On February 15, 2006, National Grid USA and Southern Union Company (“Southern
4 Union”) entered into a Purchase and Sale Agreement (“Agreement”), under which
5 Southern Union agreed to sell all of the assets associated with its Rhode Island gas
6 distribution business, together with four Rhode Island unregulated subsidiaries to
7 National Grid USA for \$575 million (Agreement, § 3.1). National Grid USA is the
8 parent company of The Narragansett Electric Company. Under Section 8.1 of the
9 Agreement, National Grid USA has “the right to designate any of its Subsidiaries to
10 execute any documents or perform any actions on its behalf.” National Grid USA has
11 designated The Narragansett Electric Company as the appropriate subsidiary to purchase
12 the assets associated with that portion of the “Business” that is defined under subsection
13 (a) of the definition of “Business” in Section 1.1.of the Agreement as follows:

14 “*Business*”—means the business and operations conducted in Rhode Island by
15 Seller and Subsidiaries, including:

16
17 (a) the regulated and unregulated gas distribution business conducted in
18 Rhode Island by Seller through New England Gas Company and the provision of
19 related services and products and the engagement on related activities, including
20 agreements as to appliances and other equipment installed or serviced in Rhode
21 Island by Seller through New England Gas Company.
22

23 This filing requests the Division of Public Utilities and Carriers (“Division”) to approve
24 the acquisition of these assets and this business, which I will call the “New England Gas
25 Assets”, by Narragansett.
26

1 Q. Are any other properties being purchased in the transaction and included in the purchase
2 price?

3 A. Yes. The definition of “Business” in the Agreement also includes “all activities
4 conducted by any of the Subsidiaries, including the appliance and equipment servicing
5 business.” The “Subsidiaries” also defined in Section 1.1 of the Agreement as Newport
6 America Corporation, Patience Realty Corp., Prudence Corporation, and Valley
7 Appliance and Merchandising Company. Because each of these subsidiaries is a separate
8 corporation that does not operate as a “public utility” defined under the Rhode Island
9 statutes, National Grid USA is purchasing the corporations directly or through another
10 subsidiary, but not through Narragansett. The Division’s approval is not being requested
11 for this portion of the transaction.

12

13 Q. Please describe the entities involved in the transaction.

14 A. National Grid USA is a holding company incorporated in Delaware, which is indirectly
15 owned by National Grid plc, incorporated in the United Kingdom. National Grid USA
16 owns the common equity of several electric utility companies, including The Narragansett
17 Electric Company, Massachusetts Electric Company, Nantucket Electric Company, New
18 England Power Company, and Granite State Electric Company in New England and
19 Niagara Mohawk Power Corporation (through Niagara Mohawk Holdings) in New York.
20 Each of the electric utility subsidiaries mentioned above are doing business as “National
21 Grid” in each of the respective states. Because there are a number of different National
22 Grid entities that may need to be referenced in this case, I will use the old name of

1 “Narragansett Electric” or “Narragansett” in my testimony to avoid confusion, when
2 referring exclusively to the Rhode Island legal entity. When I use the term “National
3 Grid”, I will be referring to the combination of companies generally.

4
5 Narragansett Electric provides electric delivery services to all of Rhode Island with the
6 exception of Block Island and the Pascoag Fire District. Although we have not operated
7 gas facilities in Rhode Island for a long time, National Grid is the leading gas distribution
8 operator in the United Kingdom, serving over 10 million customers. In addition, National
9 Grid serves 565,000 gas customers in New York. The New York customers are served by
10 Niagara Mohawk Power Corporation, which operates as a combined electric and gas
11 delivery company in New York. Thus, the New England Gas Company acquisition will
12 add 245,000 customers to these totals. Finally, National Grid also recently announced an
13 agreement to merge with Keyspan Corporation, which operates gas and electric facilities
14 on Long Island and gas distribution systems in New York City, Massachusetts and New
15 Hampshire.

16
17 Southern Union is a Delaware corporation with its headquarters in Houston, Texas.

18 Southern Union acquired Providence Gas Company, Valley Gas Company, and Bristol
19 and Warren Gas Company in a series of transactions that were approved by the Division
20 in Docket Nos. D-00-02 and D-00-03. As part of those transactions, the Providence Gas
21 Company, Valley Gas Company, and Bristol and Warren Gas Company were merged into
22 Southern Union and became a part of an operating division called New England Gas

1 Company. New England Gas Company distributes natural gas to 245,000 customers in
2 Rhode Island through over 3,000 miles of gas mains. It is the assets of the New England
3 Gas Company that are located in Rhode Island, which Narragansett is now purchasing
4 from Southern Union. Richard N. Marshall, Vice President and Treasurer of Southern
5 Union, discusses the operations of Southern Union in more detail.

6
7 Q. What issues will your testimony address?

8 A. I will briefly describe the acquisition of the New England Gas Assets by Narragansett,
9 including the steps that we are taking to implement the acquisition smoothly. I will also
10 describe Narragansett's plans for filing a new rate plan for the gas delivery business.
11 Finally, I will identify the benefits of the acquisition to support the Companies' Petition
12 for approval of the acquisition of the New England Gas Assets by Narragansett.

13
14 **III. Description of the Transaction**

15 Q. Mr. Gerwatowski, would you please describe the steps that are necessary to complete
16 Narragansett's acquisition of the New England Gas Assets?

17 A. Following the approval of the Division and the completion of the Hart Scott Rodino
18 Antitrust review by the Department of Justice or the Federal Trade Commission, together
19 with several smaller and more ministerial permits listed in Schedules 4.3 and 5.3 to the
20 Agreement, National Grid USA and Narragansett will move forward with the closing. As
21 I have indicated, National Grid USA, directly or through a subsidiary, will purchase the
22 non-utility subsidiaries, and Narragansett will purchase the New England Gas Assets.

1 Following the transaction, the New England Gas Assets will be operated as a division of
2 Narragansett, within a single corporation, doing business as “National Grid” in Rhode
3 Island. For a transition period, it may still be necessary to operate the gas business in
4 Rhode Island using the New England Gas name. But this will eventually transition over
5 to one corporate identity.

6
7 Q. What is the purchase price that National Grid USA will pay Southern Union?

8 A. Under Section 3.1 of the Agreement, National Grid USA is paying \$575 million for the
9 New England Gas Assets and the other Rhode Island subsidiaries. The payment includes
10 \$498 million of cash and the assumption of approximately \$77 million of existing debt.

11
12 **IV. Implementing the Transaction**

13 Q. What steps are the Companies undertaking to facilitate the transition?

14 A. Narragansett and New England Gas Company have established an integration team. The
15 integration team, of which I am a member, is just beginning its work. Because this
16 transaction needs to close on a relatively rapid schedule, the main objective of the
17 integration team prior to the closing is to achieve a seamless transition for customers,
18 ensure the continued safety of the system, and facilitate consolidation of operations. In
19 addition, as a secondary objective prior to the closing, the integration team will begin the
20 review process to identify areas of synergies and savings and to identify ways to improve
21 service to customers. After the closing, the integration team will focus on the synergies
22 and savings and customer service review.

1 Q. What are the typical functions that will be included in the integration review for potential
2 savings?

3 A. Savings from combinations accrue from several sources—administrative and general
4 costs, lower operating expenses, improved procurement, and more effective use of
5 combined facilities and offices. First, the increase in the size and scale of the business
6 allows us to reduce administrative and general expenses (by eliminating duplicative
7 functions) and allocate them over a broader base. Both effects lower the unit overhead
8 costs of service. Because New England Gas Company was already part of a larger
9 corporation, the corporate costs associated with activities such as corporate governance
10 and securities reporting have already been reduced for the Company. Nevertheless, the
11 integration team will be reviewing the current arrangements for additional savings
12 possibilities, and in any event, the administrative and general costs will be shared over a
13 larger base of gas and electric customers in Rhode Island.

14
15 In addition, by consolidating operations, we can reduce costs and produce synergies
16 savings and efficiency gains in operating expenses. These savings will occur in metering,
17 billing, and customer service. For example, both Narragansett and New England Gas
18 have automated meter reading. After any necessary modifications are made to the
19 metering technologies, we will be able to read both gas and electric meters with a single
20 pass to read both meters rather than have two independent meter reading groups. This
21 opportunity and others will be thoroughly reviewed by the integration team. We may also
22 be able to reduce operating costs by consolidating facilities and buildings, improving

1 procurements with more purchasing power, and lowering financing costs through access
2 to broader capital markets.

3
4 Q. Has the Company made any commitments to the employees of New England Gas?

5 A. Yes. At the time of the announcement, National Grid USA agreed to honor the labor
6 agreements currently in effect with New England Gas unions and to offer employment
7 with National Grid to all active employees upon completion of the sale.

8
9 Q. How will Narragansett reflect the synergy savings in rates to customers?

10 A. Narragansett proposes to file a new gas rate plan with the Commission within six months
11 after the closing. This approach will allow us to complete the closing on a timely basis,
12 finish our integration analysis, and develop the new rate plan that allocates the benefits of
13 the merger between customers and Narragansett in a manner that is consistent with
14 Narragansett's electric rate plan that has been approved by the Commission. In addition,
15 we will develop and include in the filing appropriate cost allocation metrics between the
16 gas and electric operations of Narragansett following the closing. We have these
17 allocations in place for our combined operations in New York, and our New York
18 experience will provide a good starting point for the development of an accounting and
19 ratemaking methodology here in Rhode Island to separately determine the cost of service
20 for gas and electric operations separately. We expect that these accounting and rate
21 making allocations will be used for earnings reporting purposes for both the gas and
22 electric rate plans.

1 Q. What rates will be in effect after the closing, prior to the approval of a new gas rate plan
2 by the Commission?

3 A. New England Gas Company's rates that will be in effect immediately prior to the closing
4 will continue in effect after the closing. Attached as Exhibit 4 to the Petition filed in this
5 docket, is a set of the gas tariffs and rate schedules. The only change to these tariffs and
6 rate schedules is to change the utility's name. In addition, Narragansett will be assuming
7 the obligations under the pre-existing gas rate plan of New England Gas Company, dated
8 June 14, 2002. While the "Rate Freeze Period" under the existing gas rate plan expired
9 on July 1, 2005, the plan otherwise remains in effect until superseded by further
10 Commission action. As indicated earlier in my testimony, the Company commits to file a
11 new gas rate plan proposal with the Commission within six months of the closing of
12 acquisition.

13
14 V. **Benefits Created by the Merger**

15 Q. Would you summarize the benefits created through the acquisition of New England Gas
16 Company by Narragansett?

17 A. Yes. As indicated above, the transaction will produce savings in administrative and
18 general costs and operating expenses for gas and electric delivery customers. The electric
19 savings will be reflected automatically through the earnings sharing mechanism in
20 Narragansett's electric rate plan, which is in the second year of a five-year distribution
21 rate freeze, and we are proposing to develop and file a new rate plan for gas delivery
22 customers within six months after the closing. We expect that the customers' share of the

1 savings from the acquisition will be reflected in both gas delivery rates and in improved
2 infrastructure and service to customers. Moreover, these savings will be realized while
3 protecting New England Gas Company employees. Existing labor contracts will be
4 honored, and all New England Gas active employees will be offered a position with
5 National Grid.

6
7 The merger will also lower the administrative costs of the Division and Commission. We
8 will be able to implement state energy policies efficiently and effectively through a single
9 company that provides electric and gas delivery services to nearly all customers and
10 communities in Rhode Island.

11
12 We also expect the combination will improve service after the closing. We will have
13 more personnel and equipment available to respond to storms and other emergencies.

14 The access to a broader natural gas delivery operation in our service territory should
15 facilitate better service to all our natural gas customers in New England and New York.

16 We will be able to attract and retain the best possible talent for both gas and electric
17 operations.

18
19 Q. Please summarize why you believe the acquisition of the New England Gas Assets by
20 Narragansett is in the public interest.

21 A. The acquisition will bring cost savings to customers in Rhode Island, reduce the
22 administrative costs for regulatory agencies in Rhode Island, facilitate implementation of

1 regulatory policy on a statewide basis, and improve the ability of Narragansett to provide
2 reliable service to both electric and gas delivery customers. For all of these reasons, the
3 acquisition meets the statutory requirements for approval by the Division. Specifically,
4 the acquisition (1) is consistent with the public interest and (2) will not diminish the
5 facilities of the Companies used for furnishing service to the public. In fact, the
6 acquisition will improve Narragansett's ability to provide service to both gas and electric
7 customers.

8

9 Q. Does this complete your testimony?

10 A. Yes.

**Petition of The Narragansett Electric Company
and the Southern Company**
Rhode Island Division of
Public Utilities and Carriers
Testimony of Ronald T. Gerwatowski

VERIFICATION OF TESTIMONY:

I, Ronald T. Gerwatowski, verify that the Testimony provided above is sworn testimony under oath.



Subscribed and sworn to before me in Westborough, Massachusetts, on this 15th day of March, 2006.



Notary Public

