

National Grid - KeySpan Integration

US Leadership Team Integration Transition Workshop

March 21-22, 2007

ORIGINAL

U.P.U.C. Case No. DG 06-107

Exhibit No. 6

Witness Panel I

DO NOT REMOVE FROM FILE

Integration

National Grid • KeySpan

Contents

- I. Introduction
- II. Customers and Markets
- III. Electric Distribution, Electric Transmission
- IV. Generation and Energy Supply
- V. Legal and Regulatory
- VI. External Affairs
- VII. Finance, Internal Audit, Business Development
- VIII. Shared Services
- IX. SHES
- X. Human Resources
- XI. Gas Operations
- XII. Information Services
- XIII. Next Steps
- XIV. Change agent update

National Grid – KeySpan Integration

Integration Update
Introduction

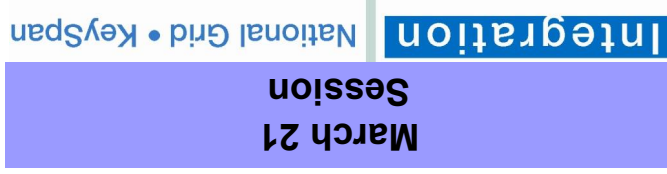
March 21-22, 2007

Integration

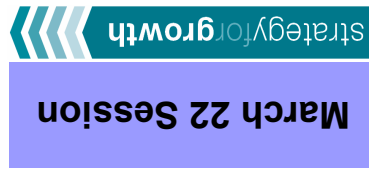
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March Integration Workshop - Objectives



- ◆ **Provide update on overall integration planning progress**
 - Overall merger economics: savings, timing, cost-to-achieve, etc.
 - Status of integration planning (for Day 1 and “Day N”)
- ◆ **Review functional integration plans**
 - Organization structure and global functional alignment
 - Overview of functional integration plans and major initiatives
 - Savings and value identified
 - Next steps and “early starts” for integration
- ◆ **Vision for National Grid**
 - Steve Holliday - Keynote Speaker



- ◆ **Perspectives on the company’s strategy and plans**
 - Overview of the Group Strategy: Group Executive
 - Town Hall discussion and Q&A: Group Executive
- ◆ **Communications plan**

March 21-22 Workshop Agenda

Seaport Hotel, 200 Seaport Blvd., Boston, MA

Wednesday, March 21st

- 10:00-10:15** ♦ **Welcome and Opening Remarks**
John Caroselli and Kwong Nuey
 - Agenda and meeting objectives
 - Overview of integration progress and results
- 10:15 – 5:00** ♦ **Functional Integration Updates**
Leadership Team Designate
 - Customers & Markets
 - Electric Distribution
 - Electric Transmission
 - Generation & Energy Supply
 - Legal and Regulatory
 - External Affairs
- 1:00-1:30** ♦ **Lunch**
- 1:30-2:15** ♦ **Finance**
- 2:15-3:00** ♦ **Internal Audit**
- 3:00-3:30** ♦ **Business Development**
- 3:30-4:15** ♦ **Shared Services**
- 4:15-5:00** ♦ **SHES**
- 5:00-5:15** ♦ **Human Resources**
- 6:30** ♦ **Gas Operations**
- 6:30** ♦ **Information Services**
- 5:00-5:15** ♦ **Closing Remarks**
John Caroselli and Kwong Nuey
- 6:30** ♦ **Cocktails and Dinner - Plaza C**
Keynote address – Steve Holliday

Thursday, March 22nd

- 8:30 - 8:45** ♦ **Welcome and Opening Remarks**
Bob Catell
- 8:45 - 10:15** ♦ **Overview of the Group Strategy**
Group Executive
- 10:15 - 10:30** ♦ **Break**
- 10:30 – 11:30** ♦ **Town Hall: Q&A and Discussion**
Group Executive
- 11:30 – 12:00** ♦ **Communications Plan**
- 12:00 - 12:15** ♦ **Closing Remarks**
Steve Holliday
- 12:15** ♦ **Lunch**

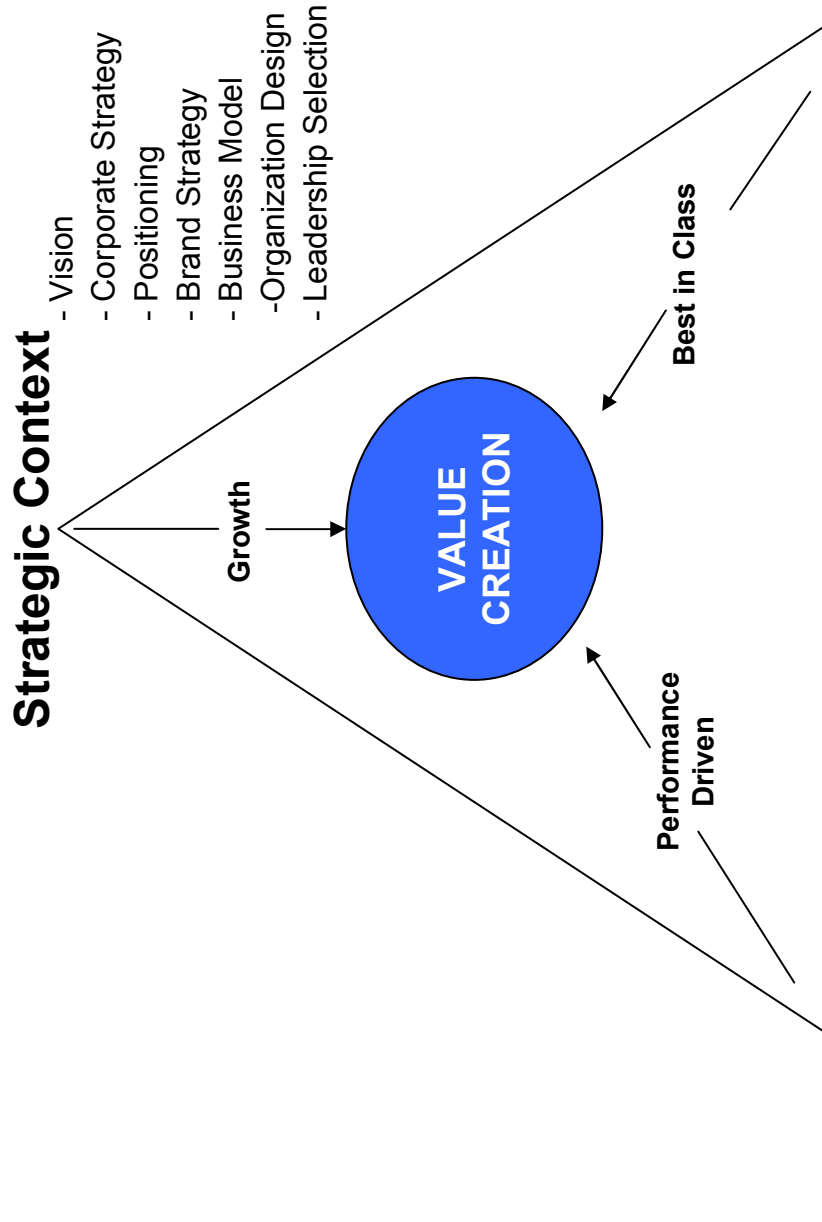
Dress is Business Casual

All meeting sessions will be held in the **Cityview Ballroom** and dinner will be held in room **Plaza C**

March 21st - Breakfast available starting at 9:00am

March 22nd - Breakfast available starting at 7:30am

Critical Elements of a Successful Integration



Cultural Integration

- Cultural Assessment
- Cultural Imperatives
- Cultural Integration Plan
- Change Management

Merger Integration

- Synergies
- Integration Initiatives
- Global Functional Synergies
- Alignment with Global / Strategic Initiatives

Combined company snapshot (customers and infrastructure)

The merger combines two large, but complimentary utilities creating the 2nd largest utility in the US.

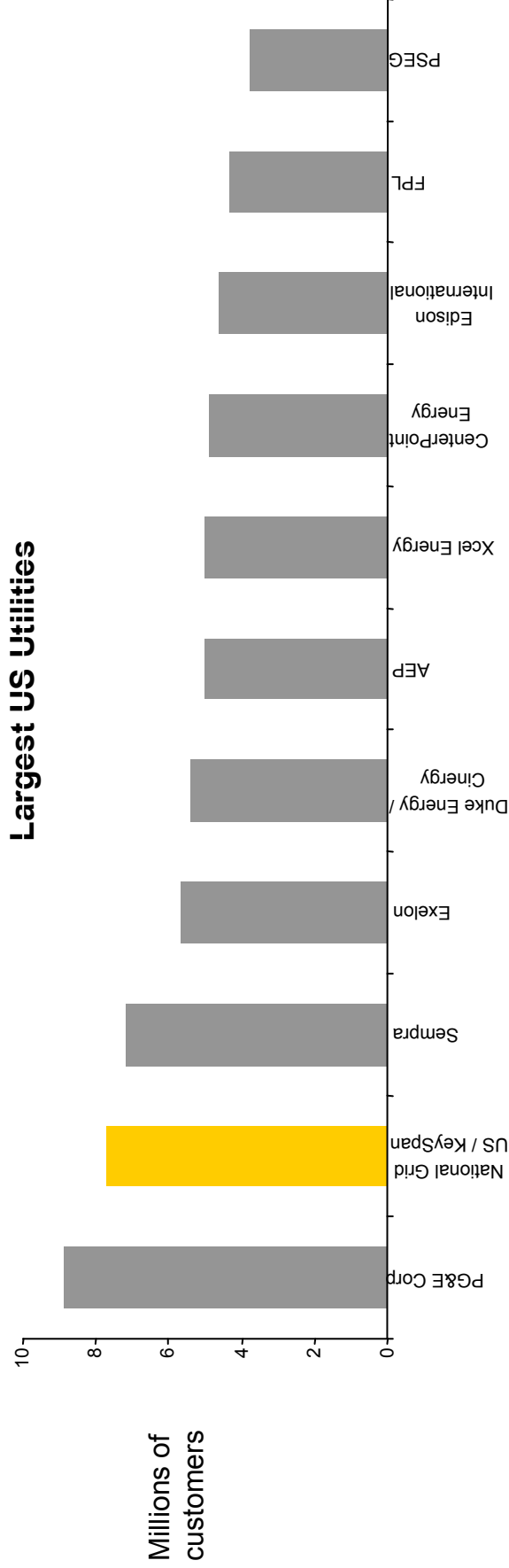
nationalgrid



Integration

National Grid • KeySpan

Electric Customers	3.3 M	1.1 M	4.4
Gas Customers	0.8 M	2.6 M	3.4
Employees	~8,500	~9,000	~17,500
Net Revenues	\$ 4.0B (FY06)	\$ 3.3B (2005)	\$ 7.3B
Gas distribution mains (miles)	11,500	23,000	34,500
Electric distribution lines (miles)	72,000	50,000	122,000
Electric transmission lines (miles)	9,000	1,300	10,300



Integration

National Grid • KeySpan

20070321 Integration Transition Workshop

CONFIDENTIAL DRAFT

Objectives for the Functional Integration Teams (from April 2006)

- ◆ **Create an expanded company that will lead the region in financial performance and customer service, while providing a platform for further growth**
- ◆ **Be ready for “Day One”, when the merger closes**
- ◆ **Make this merger work from a customer, operational, financial and people perspective**

Operational Integration

- ◆ Develop recommendations for the myriad of policies, practices and processes to be used by the integrated company (short-term, long-term)
- ◆ Base post-merger integration on effective analysis and planning and appropriate attention to detail

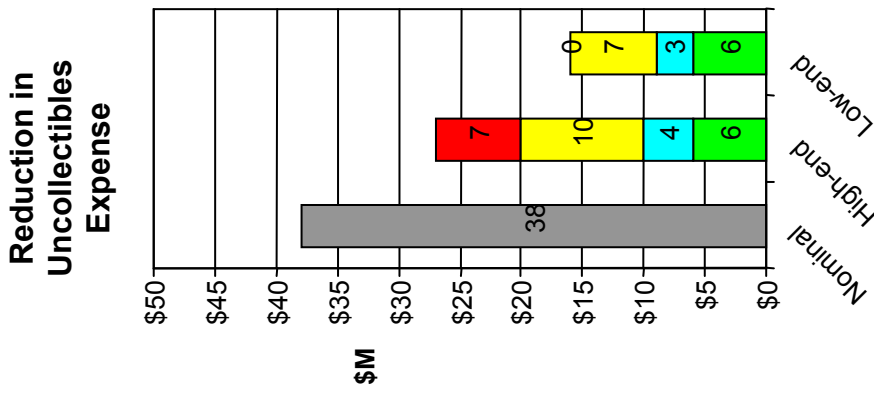
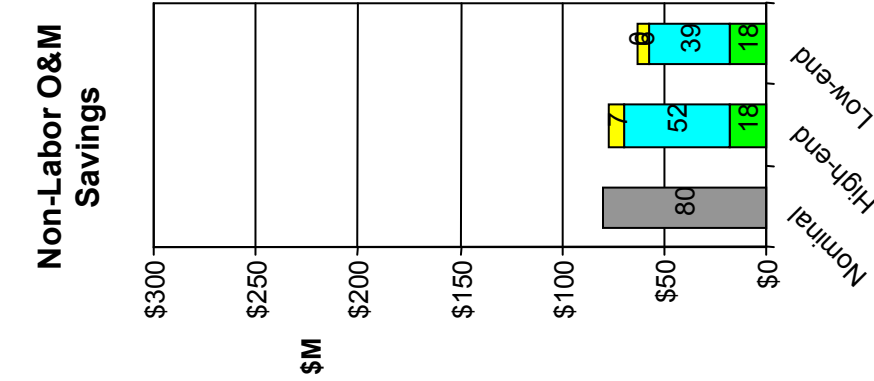
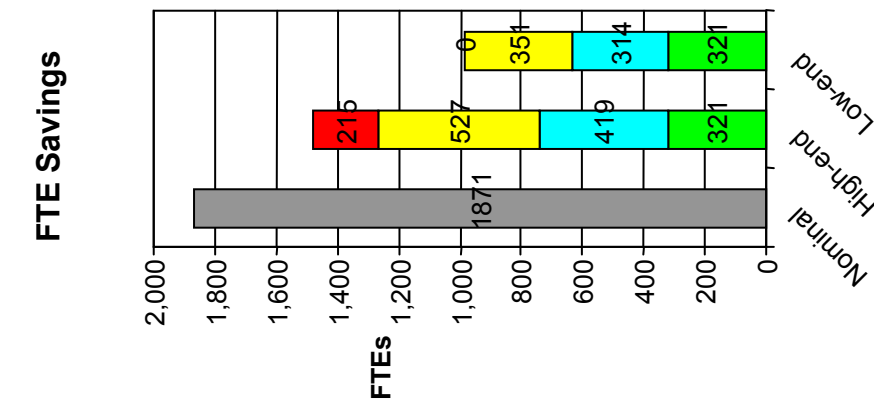
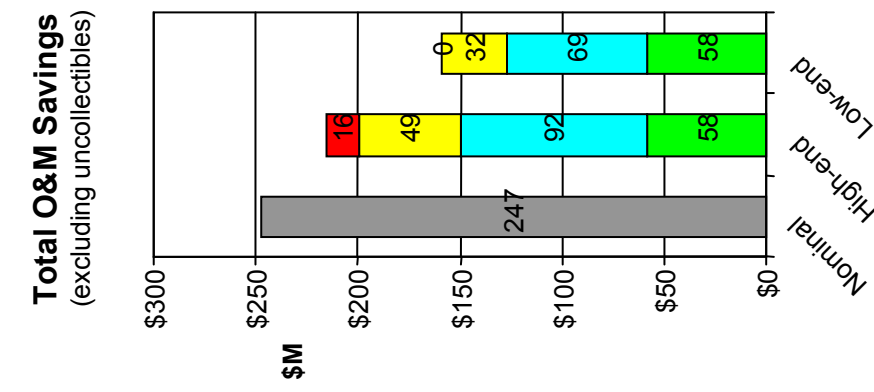
Merger Economics

- ◆ Find savings beyond those identified in the pre-merger acquisition study and develop plans to realize savings
- ◆ Tightly manage costs-to-achieve: Require rigorous justification and budget development for all material expenditures

People Issues

- ◆ Gain understanding and appreciation of each company’s history, culture, strengths and weaknesses
- ◆ Use the teams as “real, working” forums to help build strong, personal relationships between the two management groups
- ◆ Build a culture that is committed to driving change and promotes flexibility

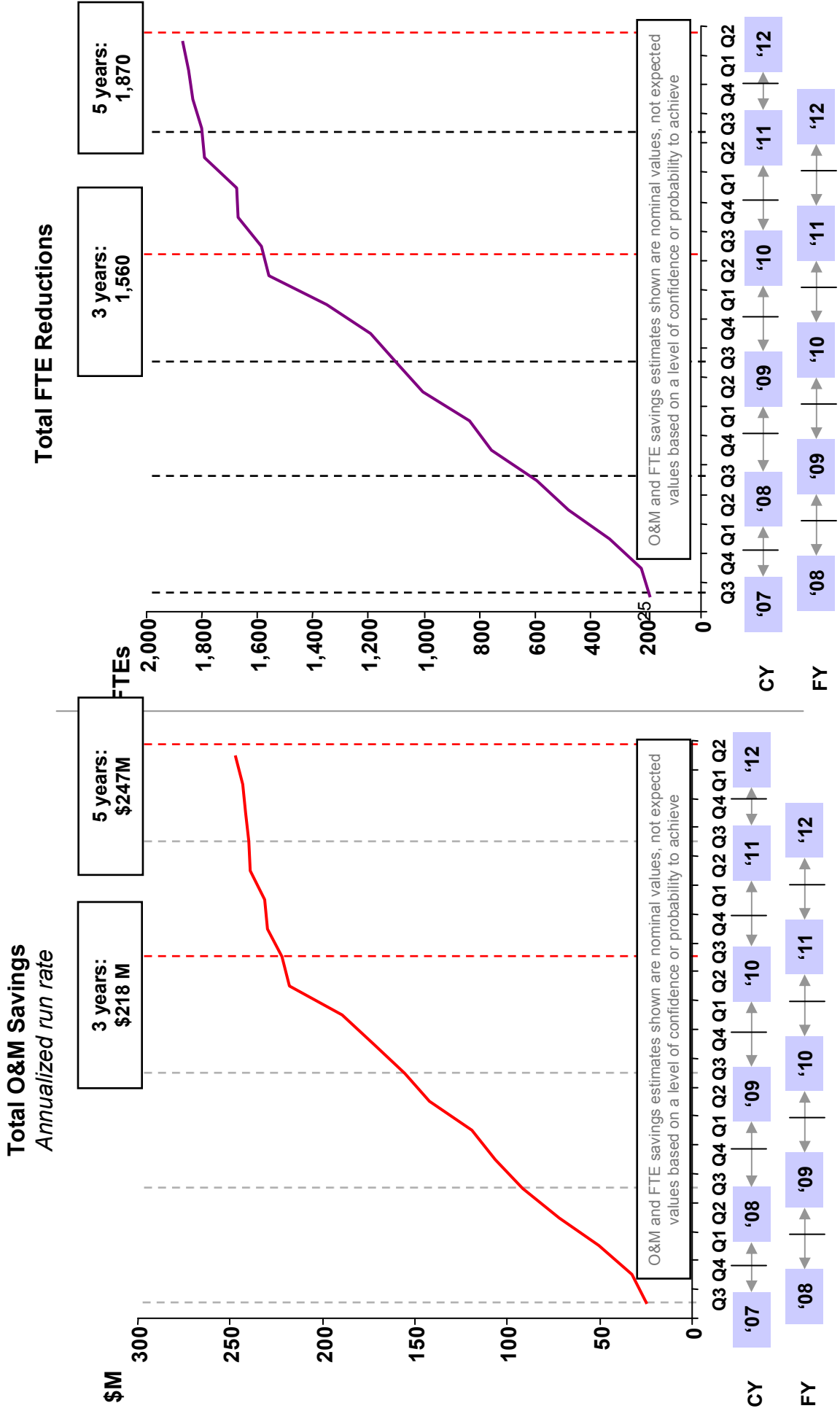
Updated Estimate of Merger Savings – Expected Value



Nominal = identified value not adjusted for constraint levels
 High-end = expected value calculated at high end of probability range
 Low-end = expected value calculated at low end of probability range

■ Low Confidence Level 0-50%/ High Constraints	■ High Confidence Level 75-100%/ Low Constraints
■ Medium Confidence Level 50-75%/ Medium Constraints	■ Certainty ~100% / No Constraints

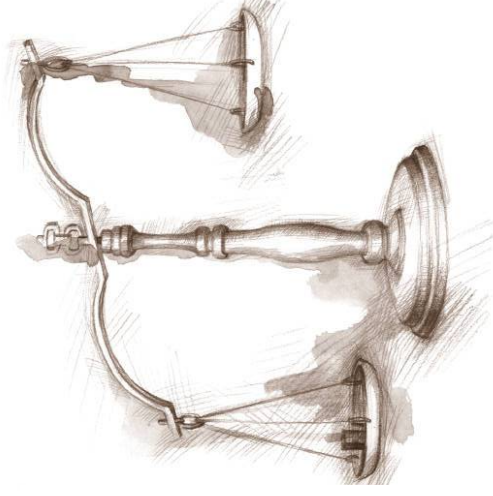
Total O&M savings and FTE reductions over time



IS Approach – Balancing the Scales

Regional Perspective KeySpan Integration

- ◆ Day-N (P1) Integration synergy savings of \$17m per year
- ◆ Strategy fulfillment, platform for future growth in the U.S., e.g., merger ready
- ◆ Regional LoB consistency
- ◆ Standard set of regional business processes and expedite regional best practices
- ◆ Interim global process changes requiring system changes only impact one platform
- ◆ Common regional platform to migrate to future



We have the regional answers, the now we need to focus on the global alternatives

Global Perspective Common Operating Model

- ◆ Strategy fulfillment, global operating model
- ◆ Savings associated with global operating model of ?
- ◆ Global LoB consistency
- ◆ Standard set of global business processes and expedite global best practices
- ◆ Timing, when will we know the global way forward and when can we implement?

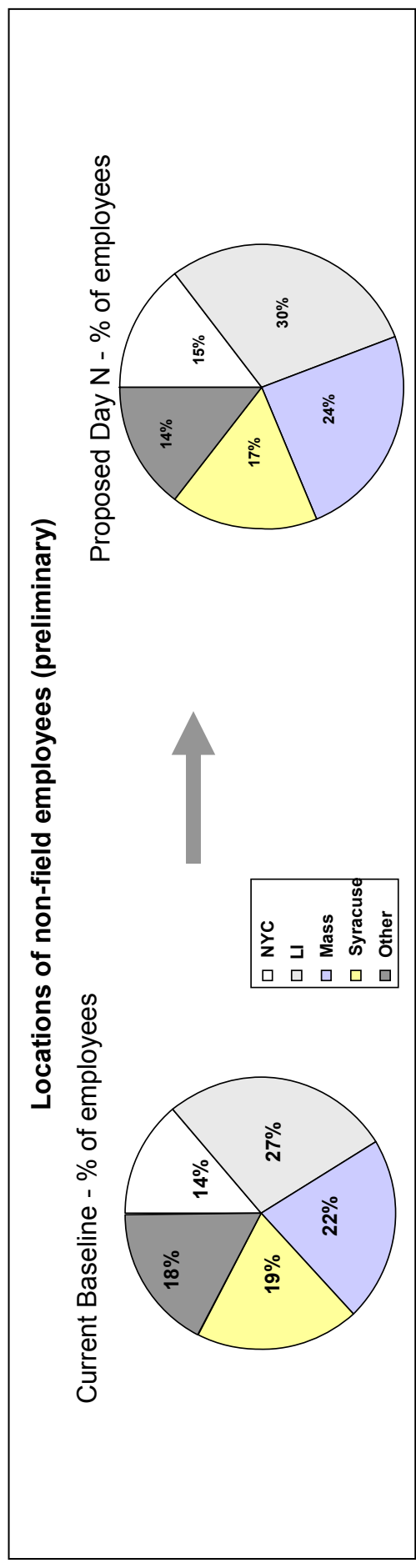
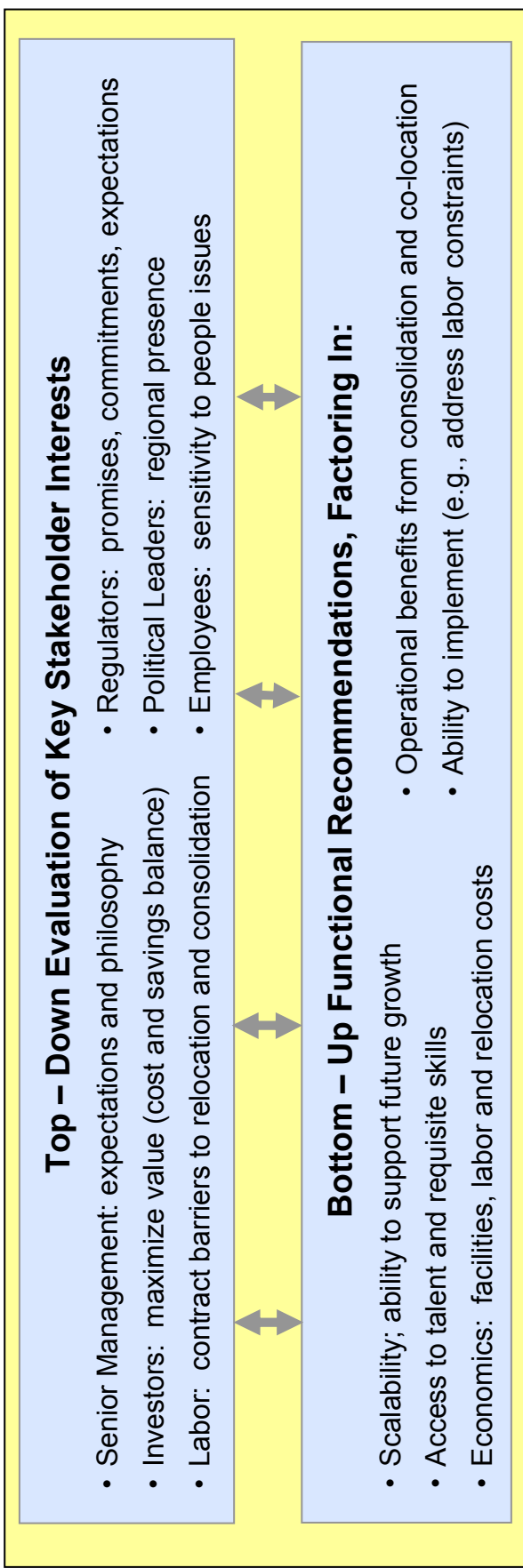
Summary of significant labor implications

There are several major initiatives that will be impacted by dependencies on labor.

Customers and Markets	◆ Contact center consolidation, virtualization, competitive pricing
	◆ Implementation of AMR
Gas	◆ Gas competitive pricing initiatives for various areas
	◆ Protection and communication
Electric	◆ Distribution control center consolidation
	◆ Revenue and plant accounting consolidation
Shared Services	◆ Fleet efficiencies
	◆ Facility consolidation

Employee locations and facilities overview

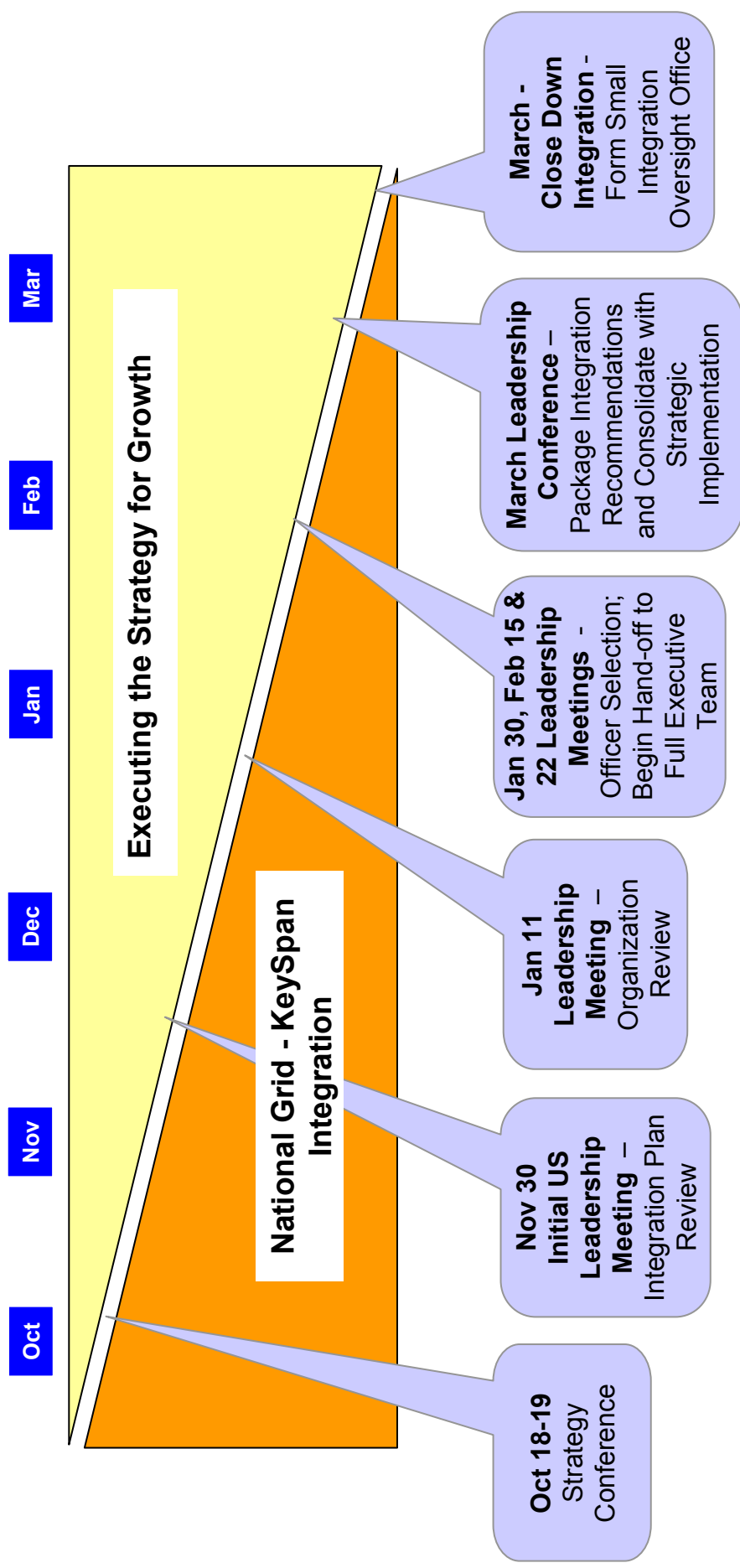
Facilities and employee location decisions will be developed in a top-down, bottom-up manner.



Note: Table includes office-based staff (Metrotech, Westborough, Northborough, Waltham, Hicksville, Melville, Hauppauge, Syracuse office), and excludes field forces and Business Services / field Sales.

Executing Integration Within the Strategy for Growth

KeySpan integration will be recast as major ‘transitional’ component in the achievement of the strategy and establishment of the global operating model



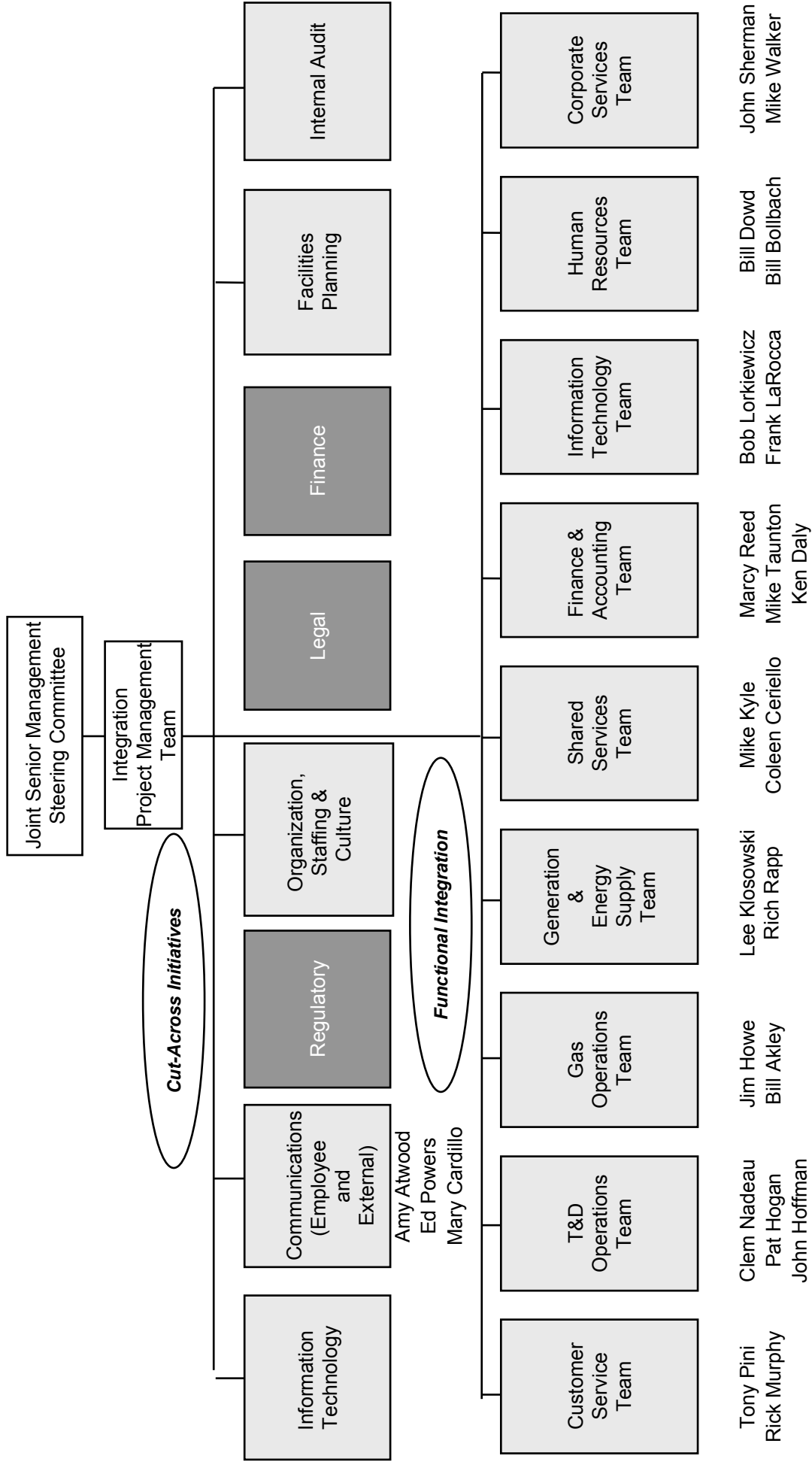
In late March, the Integration Team will be largely moved back into the line. A small Integration program oversight office will continue to work with leaders to transition initiatives, develop monitoring/reporting capabilities and focus on key Day One implementation tasks.

Ground rules for today

- ◆ Be involved; ask questions....
- ◆ ...But also allow the team to get through their presentation
- ◆ Limit side conversations and comments
- ◆ Shut off all cell phones or put them on vibrate

The Team

The integration involved a massive company wide effort



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Building the New Company: Customers & Markets

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



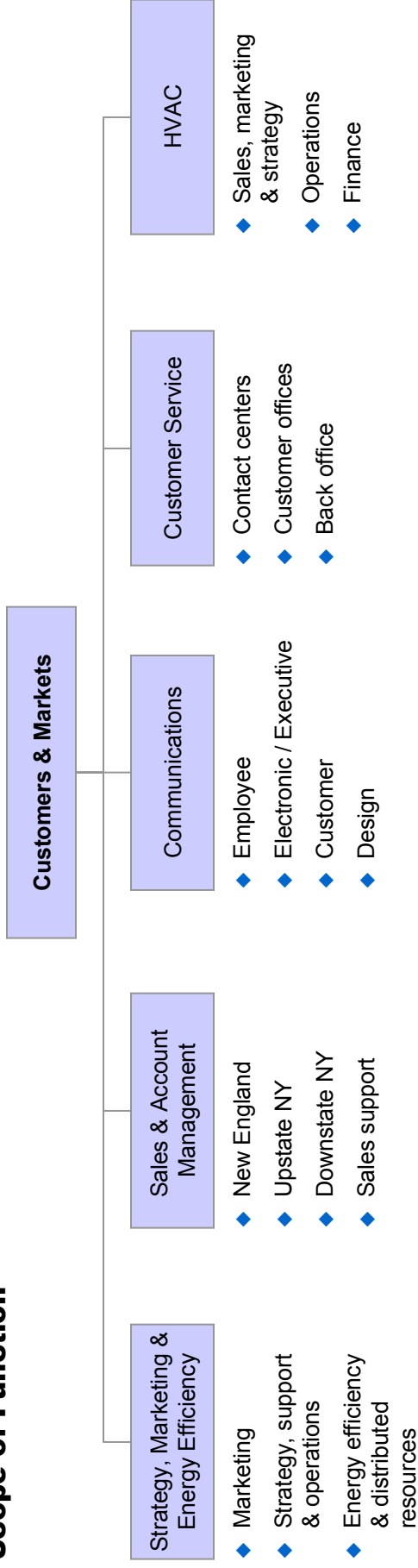
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: Customers & Markets Overview

The new Customers & Markets organization will result in a consolidated business with standardized practices and policies.

Scope of Function



Guiding Principles & Operating Philosophy

- ◆ Improve customer service and satisfaction levels as appropriate
- ◆ Operate a centralized and consolidated organization wherever practical
- ◆ Standardize and streamline work
- ◆ Move customers to lower cost service options
- ◆ Adopt common technology platforms
- ◆ Expand gas organic sales growth within the footprint

Executive Summary: Customers & Markets

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall the identified opportunities will yield approximately \$4M of O&M savings in 5 years and \$7M in margin & operating income over 4 years.

	National Grid	KeySpan	Combined	Value Created	Post-Merger	Percentage
Staffing (a)	696.5	1,653.0	2,349.5	494.0	1,855.5	21.0%
Labor	\$44	\$104	\$148	\$31.0 (b)	\$117	20.9%
O&M Non-Labor Costs	\$81	\$157	\$238	\$9.6	\$228	4.0%
Total (c)	\$125	\$261	\$386	\$40.6	\$345	10.5%
Regulated Margin - RI	\$1	\$50	\$51	\$2.0	\$53	3.9%
HVAC – Operating Income	\$0	\$6	\$6	\$4.5	\$10.5	75.0%
Value Realized in 5 years				\$47.1		
% of Total Target				112%		
Value Realized in 3 years				\$32.7		
% of Total Target realized in 3 years				77.7%		

Key Initiatives

- ◆ Move calls to a competitive cost structure
- ◆ Consolidate contact centers
- ◆ Consolidate back office
- ◆ Expand and enhance the attractiveness of customer self service options (IVR/Web)
- ◆ Implement virtualization software at remaining contact centers
- ◆ Improve efficiency of KeySpan gas regulated growth model, enhance prospect/contractor self-service and expand into Rhode Island
- ◆ Execute on the plan to grow the operating profit of the HVAC unregulated business and expand into RI footprint
- ◆ Move to most efficient and effective model for account management, community relations, economic development and DSM

(a) Does not include Telecom and non-HVAC Other Unregulated FTEs and excludes 8 FTEs anticipated to transfer to Gas Operations

(b) Includes competitive pricing adjustment

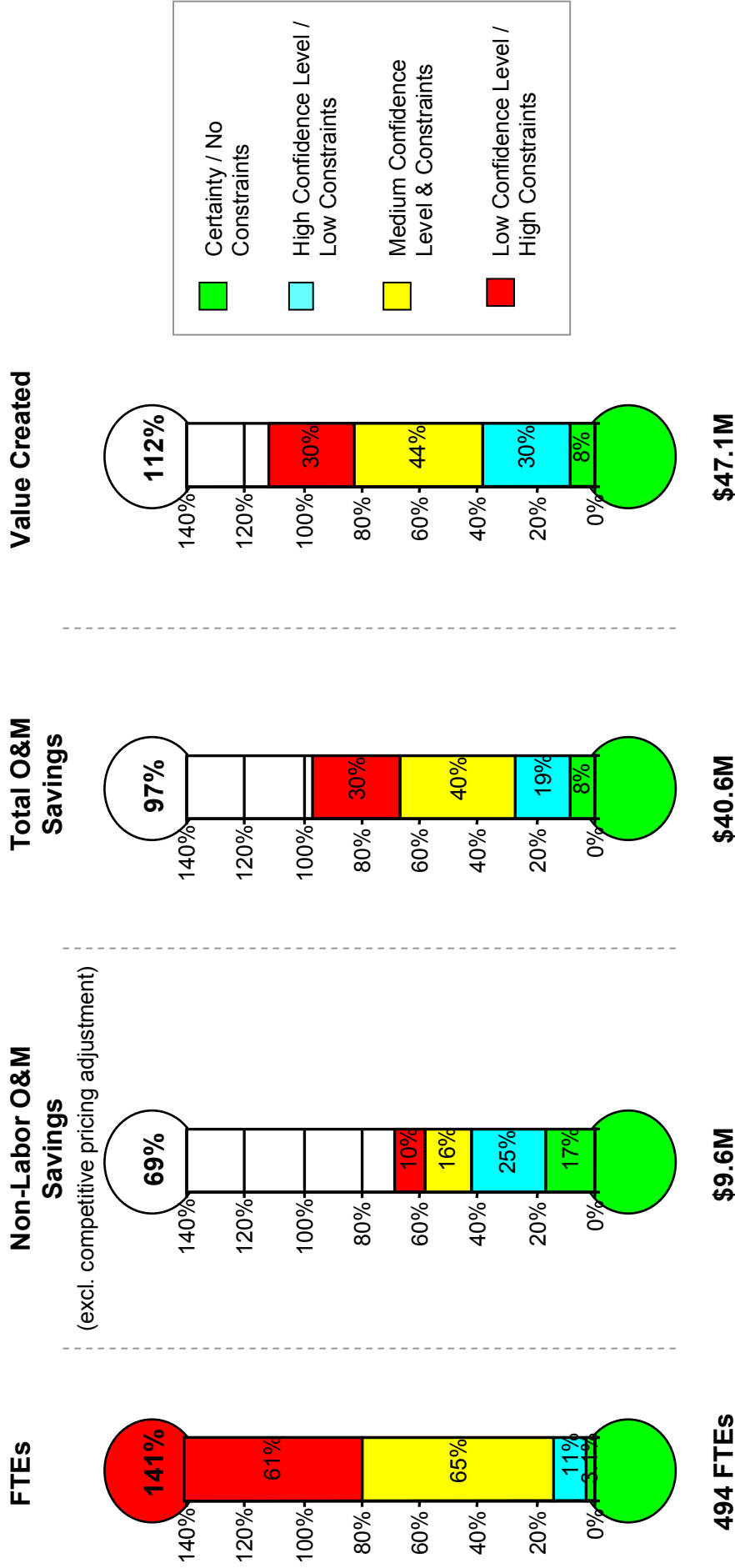
(c) O&M budget \$ are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 50% loader on labor

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Targets

The \$40.6M in identified O&M savings over 5 years is 97% of the Integration target.

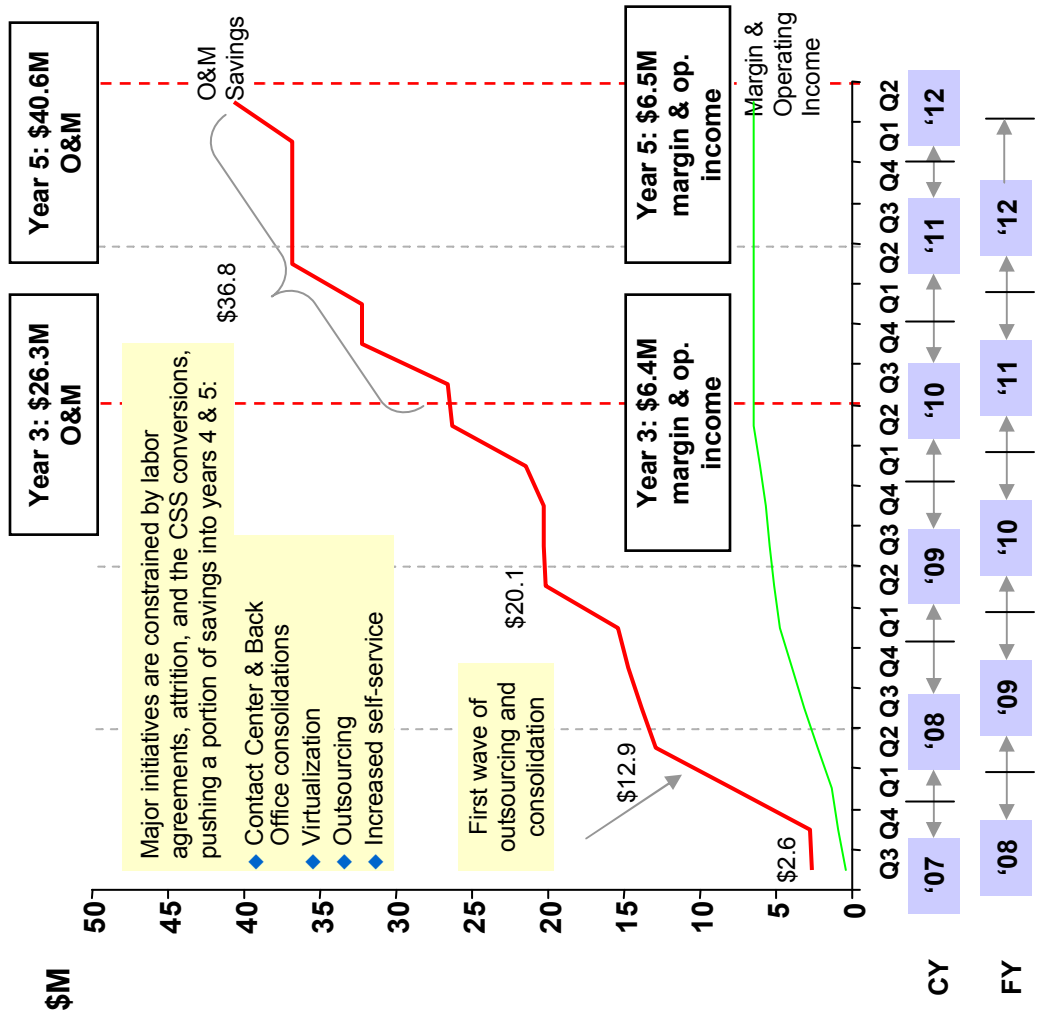
Progress Against Targets



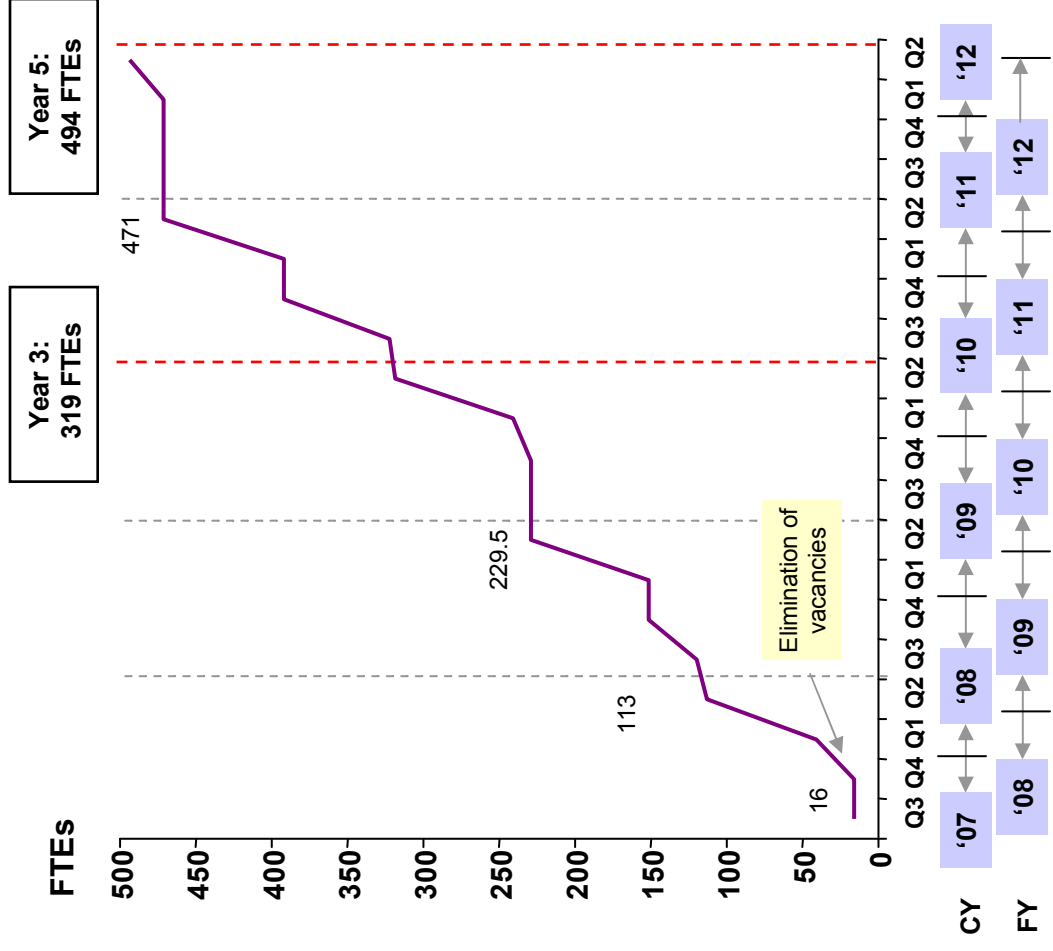
Executive Summary: Savings and Margin Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings and Margin & Operating Income (Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor Savings (\$000s)	Non-Labor Savings (\$000s)	Total Savings (\$000s)	Cost to Achieve (\$000s)	Business Case IRR (10 yrs)
◆ Contact Center consolidations	\$6,100	\$1,060	\$7,160	\$540	N/A
◆ Move calls to a competitive cost structure	\$7,790	\$0	\$7,790	\$230	N/A
◆ Consolidate the Customer Service back office	\$4,060	\$90	\$4,150	\$230	N/A
◆ Implement self service at KeySpan customer offices (Kiosks)	\$230	\$50	\$280	\$210	N/A
Subtotal	\$18,180	\$1,200	\$19,380	\$1,210	
◆ Increase customer self-service at contact centers:					
– Increase self-service through the web	\$160	\$910	\$1,070	\$5,470	22.2%
– Increase self-service through the IVR	\$1,520	\$1,100	\$2,630	\$1,850	22.8%
◆ Increase self-service for plumbers, contractors, and prospects through web and IVR ^(a)	\$913	\$0	\$913	\$4,500	18.7%
◆ Virtualize remaining contact centers	\$3,200	\$170	\$3,370	\$230	N/A
◆ CSR training and support	\$870	\$20	\$890	\$50	N/A
Subtotal - IS-Related ^(b)	\$6,663	\$2,200	\$8,873	\$12,100	
Total	\$24,843	\$3,400	\$28,253	\$13,310	

(a) Potential to expand to Electric business and to increase margin; additional labor savings reflected in Gas Operations included in the business case; IRR calculation includes increased revenue stream of \$100K for 3 years

(b) IS-related CTA will be presented by the IS team as well

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Customers & Markets: Recommended Day N Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration FTE Reductions	Integration FTE % Reductions	End State FTEs (incl. NEG)	Labor O&M Savings (\$M)	Non Labor O&M Savings (\$M)	Margin/ Operating Income (\$M)	Total Value (\$M)
Communications								
◆ Functional consolidation	43	14	33%	29	\$1.8	\$1.1	\$0	\$2.8
Strategy, Marketing & Energy Efficiency								
◆ Tight execution to improve customer satisfaction, image and customer awareness	205.5 + 1	14 (a)	7%	189.5	\$1.3	\$2.0	\$0	\$4.7
Sales & Account Management								
◆ Leverage existing operation to expand incremental margin growth and improve ROIC performance	385 + 12	39	10%	358	\$3.7	\$1.3	\$2.0	\$5.7
◆ One face to the customer								
◆ Move certain simple calls to centralized location								
Customer Services								
◆ Move calls to a competitive cost structure	1206 + 78.5	427 (b)	35%	780.5 (c)	\$24.2	\$3.4	\$0	\$27.6
◆ Consolidate of contact centers and back offices								
◆ Increase self service through the web and IVR								
HVAC Business Services								
◆ Enhance customer experience and customer relationships	510 + 2.5	0	0%	512.5	\$0	\$0	\$4.5	\$4.5
◆ Increase revenue base by growing market share in existing footprint and expanding into RI								
◆ Improve efficiency of program delivery								
Procurement Identified Savings								
Total	2349.5 + 94	494	21%	1869.5	\$31.0	\$9.6	\$6.5	\$47.1

Note: NEG FTEs are included in red





(a) Excludes 3 FTE reduction from DSM group


(b) Includes 32 reductions identified by Credit & Collections team to outsource KeySpan outbound callers

(c) Reflects reduction of 77 FTEs for USBR

Day 1 Initiatives and Early Starts

Critical Day 1 Initiatives

Initiative	Lead Time	Progress	Comments/ Status	Responsible Functional Area
◆ External Websites Day 1 Preparation	◆ 4 month		◆ Ahead of schedule for original plan	◆ Strategy & Operations Support
◆ Internal Websites Day 1 Preparation	◆ 4 month		◆ Ahead of schedule for original plan; UK initiated discussions on integrated intranet not expected to alter schedule	◆ Strategy & Operations Support
◆ Account management for common key & national accounts	◆ 3 months		◆ Common key accounts have been identified ◆ Next steps: – Assign accounts in the cross-over areas – Review criteria for managing key accounts	◆ Sales & Account Management
◆ Communications Strategy	◆ 3 months		◆ Awaiting direction on branding, positioning, name, identity, and web sites	◆ Communications

Legend:
 On target
 At risk
 Behind
 Not started

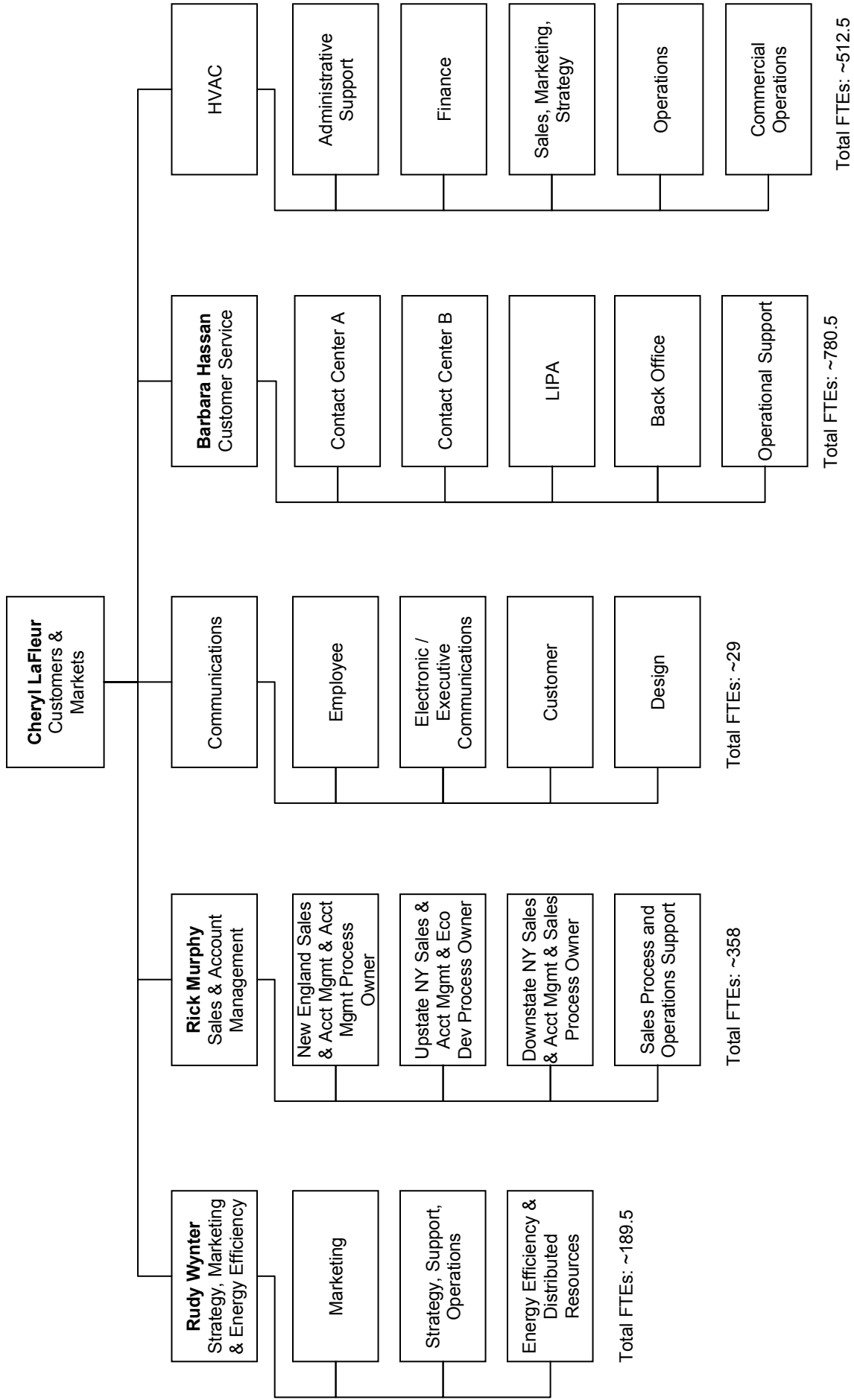
Early Start Initiatives

Initiative Description	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
◆ Web Strategy & Development: Quick Hits Market Research, Targeted Communications & CSR Training / Development	◆ Customer Strategy & Operations Support	◆ TBD	◆ April 2007	◆ Contribute to Web Projected Savings of \$1.1M (>\$3M with USBR)

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

Customers & Markets High Level Organization Structure



Note: NEG FTEs are included in FTE #s

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Implementation Challenges and Mitigation

Implementation Challenges	Mitigation Plans
<ul style="list-style-type: none"> ◆ Union contracts for majority of FTEs 	<ul style="list-style-type: none"> ◆ Form plans with HR Labor Relations on union issues
<ul style="list-style-type: none"> ◆ Timing of CSS consolidation 	<ul style="list-style-type: none"> ◆ Work with IT to ensure the timeline is as aggressive as possible
<ul style="list-style-type: none"> ◆ Market conditions (e.g. drop in new construction) affect sales forecasts 	<ul style="list-style-type: none"> ◆ Reallocate resources to compensate for any downturn in the new construction market with an increase in conversions
<ul style="list-style-type: none"> ◆ LIPA MSA and service level agreements 	<ul style="list-style-type: none"> ◆ Work closely with LIPA on new org structures and business process changes ◆ Demonstrate value of changes
<ul style="list-style-type: none"> ◆ Reaction from trades in RI to HVAC competition 	<ul style="list-style-type: none"> ◆ Get out early and reach out to trades ◆ Communicate increase in gas sales to business
<ul style="list-style-type: none"> ◆ Regulatory interventions on implementing operations changes 	<ul style="list-style-type: none"> ◆ Maintain regular communication and dialogue with regulators in affected areas
<ul style="list-style-type: none"> ◆ Resistance to standardization based on geographic nuances 	<ul style="list-style-type: none"> ◆ Ensure leadership focus on standardization of policies and procedures across the organization

Next Steps

- ◆ Continue to work with named leadership
 - Transfer knowledge
 - Develop detailed implementation plans
 - Finalize and gaining approval of business cases
- ◆ Monitor and ensure Day 1 projects are on track and are properly staffed
- ◆ Finalize and launch early start initiatives
- ◆ Execute on Customers & Markets key objectives:
 - Rebuild customer satisfaction with consistent excellent service
 - Drive consistency and efficiency to meet merger synergy targets
 - Bring KeySpan and National Grid cultures together
 - Challenge the combined organization to find new and efficient ways to meet growth objectives

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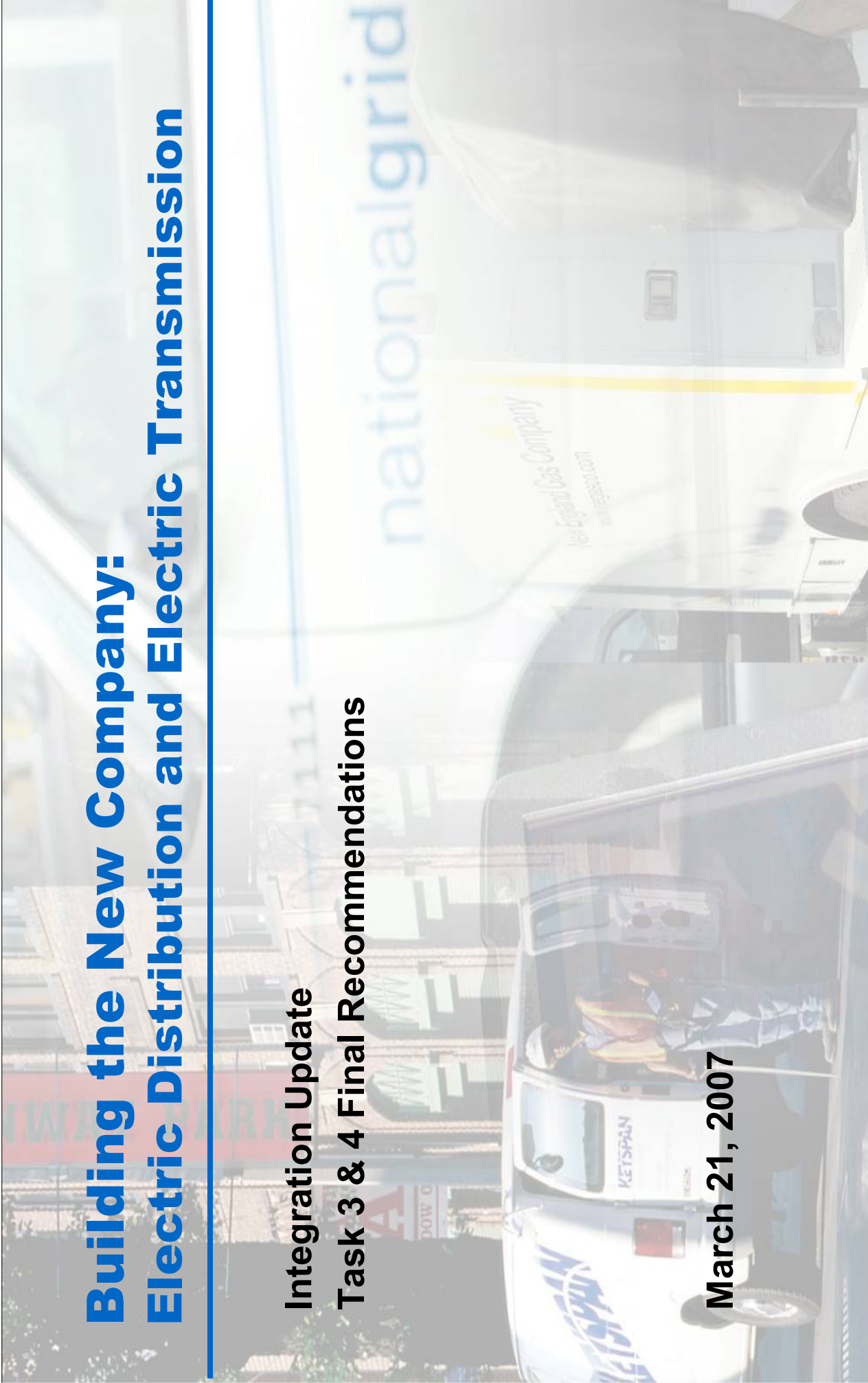
Building the New Company: Electric Distribution and Electric Transmission

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



Contents

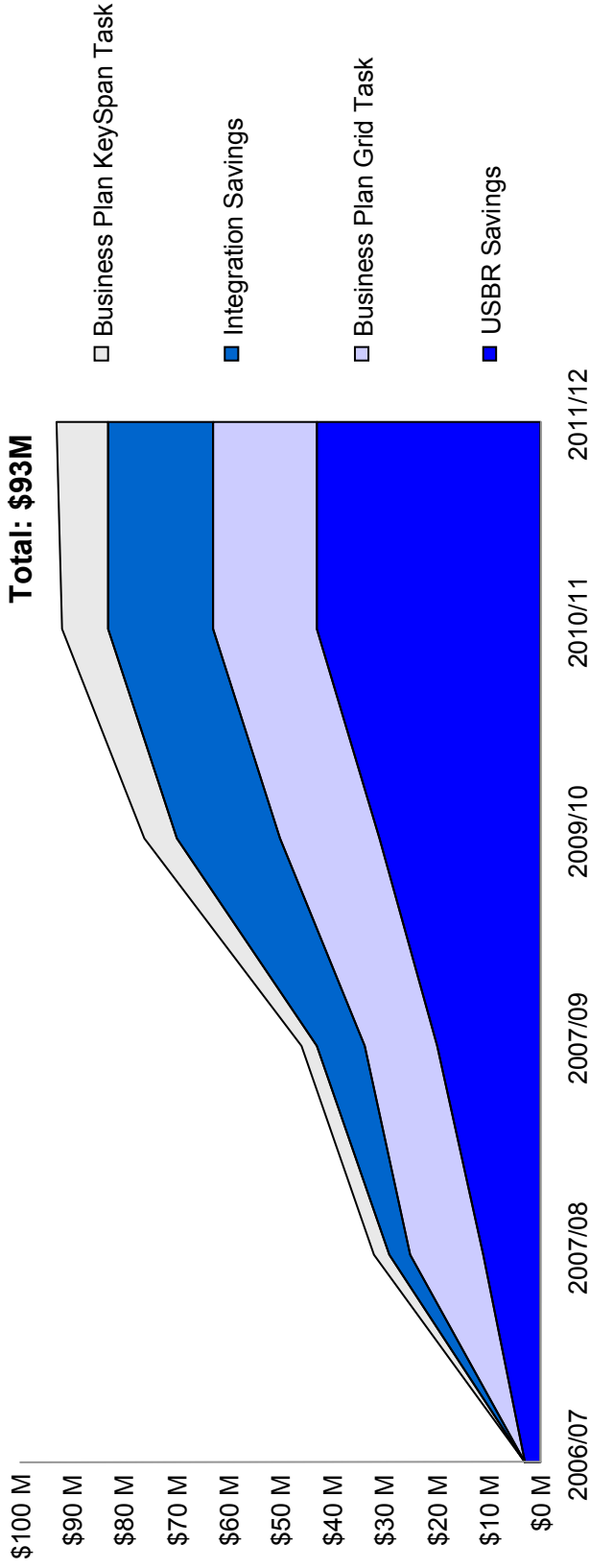
- ◆ **Executive Summary: Major Initiatives and Timing**

- ◆ Next Steps

- ◆ High Level Organization Structure

Executive Summary: Financial Challenges for Electric Distribution

Electric Distribution Savings

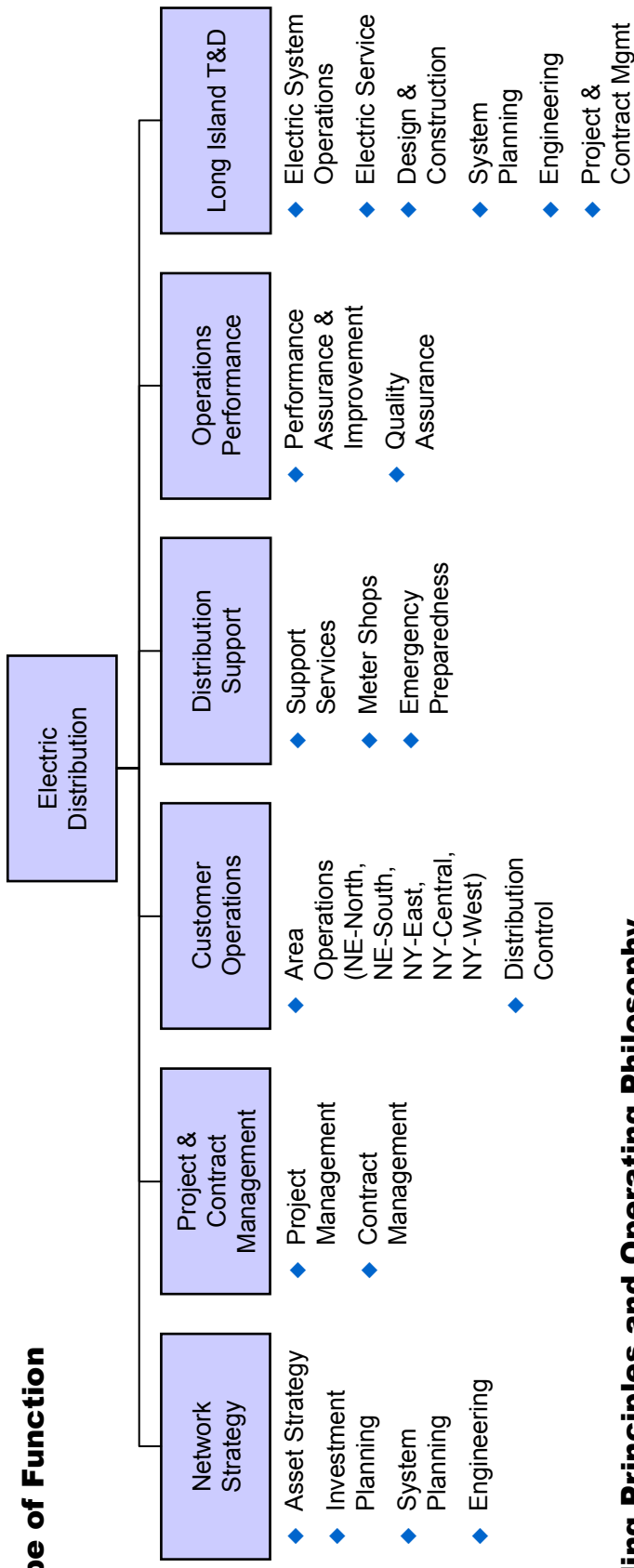


- ◆ Electric Distribution Business has O&M of \$600-\$700M per year
- ◆ Currently has a number of initiatives running to deliver savings by 2011
 - USBR: \$43M
 - US Grid BP task: \$20M
 - Keyspan task: \$10M
- ◆ Integration savings: \$20M
- ◆ Summary - task will reduce total O&M by over 10% in 3 years and over 12% by end of business plan period.

Executive Summary: Electric Distribution Overview

The integration of National Grid and KeySpan Electric Distribution and Transmission will result in a consolidated business with standardized policies and procedures

Scope of Function



Guiding Principles and Operating Philosophy

- ◆ Support and help drive strategy execution
- ◆ Reinforce the global operating model
- ◆ Enhance customer focus and the ability to deliver quality service and performance
- ◆ Capture economic and / or process synergies
- ◆ Provide clear accountability and responsibility for results
- ◆ Support employee development and career path opportunities

Executive Summary: Electric Distribution

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall identified opportunities will yield approximately \$20M of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing (FTEs) ¹	3,916.5	1,175.5	5,092	135	4,957	3%
O&M Labor Costs (unloaded) (\$M)	\$185	\$44	\$229	\$7	\$222	3%
Labor Loader (\$M)	\$92	\$22	\$114	\$3	\$111	3%
O&M Non-Labor Costs (\$M)	\$177	\$31	\$208	\$10	\$198	5%
Total (\$M) ²	\$454	\$98	\$552	\$20	\$532	4%

- ◆ Total O&M reduction of \$20M
- ◆ 111% of target
- ◆ 4% of total O&M
- ◆ \$10M labor O&M savings (74% of target)
- ◆ \$10M non-labor O&M savings (205% of target)
- ◆ 135 FTE reductions (78% of target)

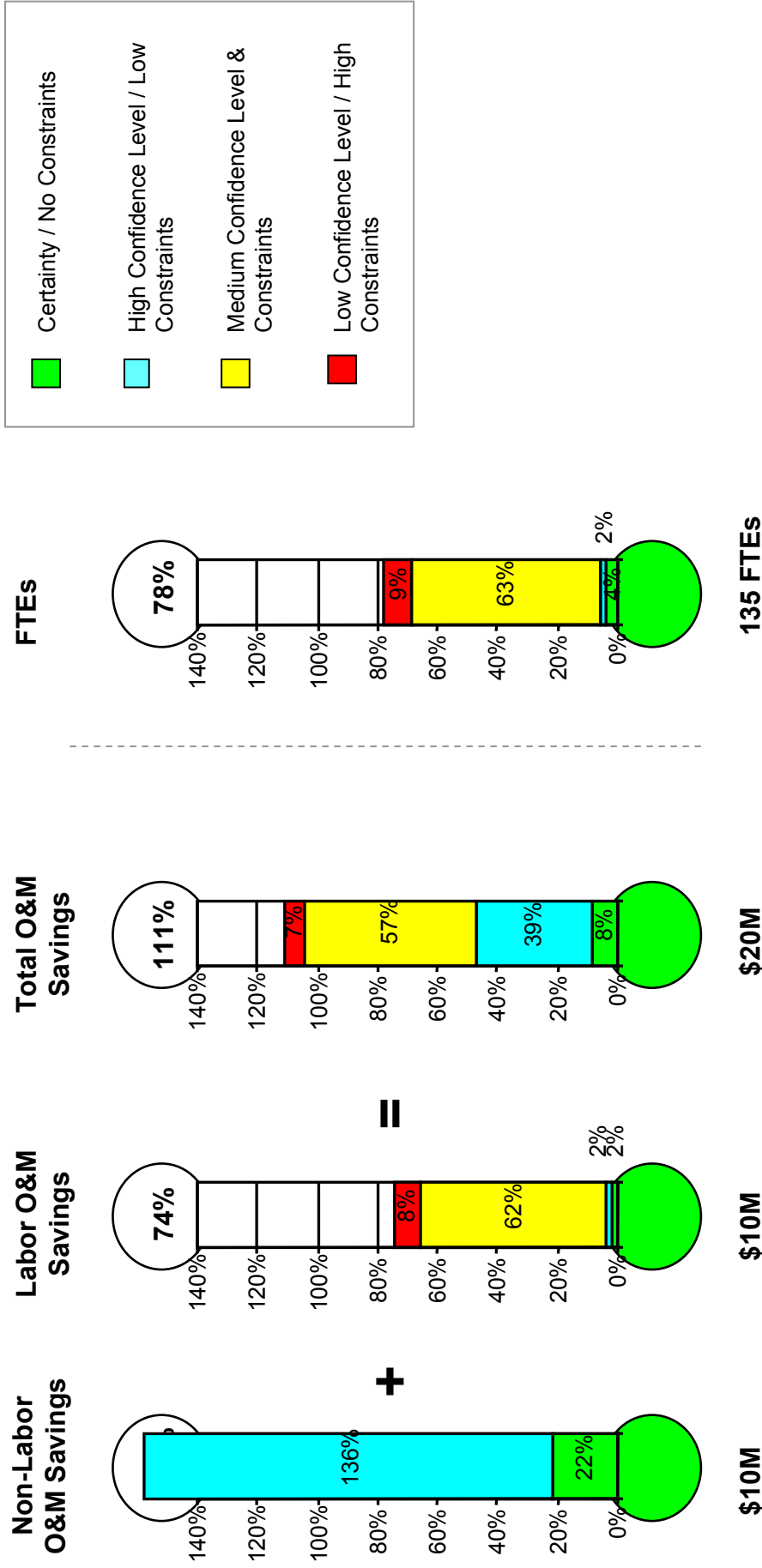
1. Excludes vacancies.
 2. O&M budget dollars are approximate and exclude fleet and facilities allocations, and benefits/bonuses are calculated using a 50% labor loader.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Executive Summary: Progress Against Targets

The identified O&M savings are 111% of the Integration target.

Progress Against Targets



Executive Summary: Key Initiatives

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Initiative Description	FTEs	Total O&M Savings (\$000s)	Total Capital Savings (\$000s)	Confidence Level	Constraints
◆ Standardize field worker to support ratios across organization	72	\$4,553	\$2,526	Medium	◆ IS system improvements
◆ Consolidate control centers	28	\$3,376	\$0	Medium	◆ LIPA considerations ◆ Labor agreements
◆ Adopt best practices associated with permanent connections	0	\$1,000	\$0	High	◆ Labor agreements
◆ Organization consolidation (relay technicians)	22	\$924	\$1,386	Medium	◆ Labor agreements
◆ Procurement-related savings	0	\$5,066	\$11,700	High (75%) Med. (25%)	◆ Driven by Shared Services
◆ Additional synergy opportunities	13	\$5,104	\$2,967		
Total	135	\$20,023	\$18,579		

Executive Summary: Timing of Savings

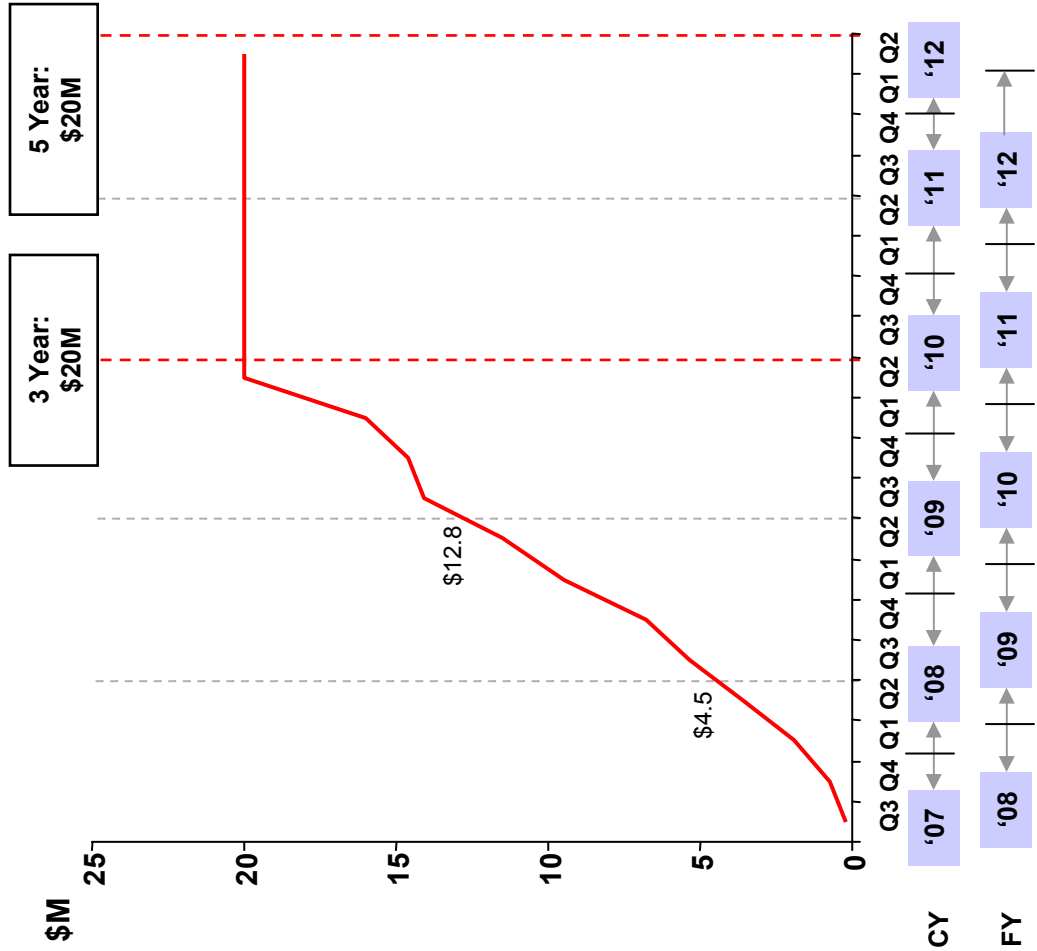
O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Initiative Description	Year 1		Year 2		Year 3	
	FTEs	O&M (\$000s)	FTEs	O&M (\$000s)	FTEs	O&M (\$000s)
◆ Standardize field worker to support ratios across organization	14	\$922	34	\$2,232	24	\$1,399
◆ Consolidate control centers	0	\$0	0	\$0	28	\$3,376
◆ Adopt best practices associated with permanent connections	0	\$250	0	\$750	0	\$0
◆ Organization consolidation (relay technicians)	4	\$168	6	\$252	12	\$504
◆ Procurement-related savings	0	\$1,119	0	\$2,066	0	\$1,881
◆ Additional synergy opportunities	1	\$1,190	9	\$2,798	3	\$1,116
Total	19	\$3,649	49	\$8,098	67	\$8,276

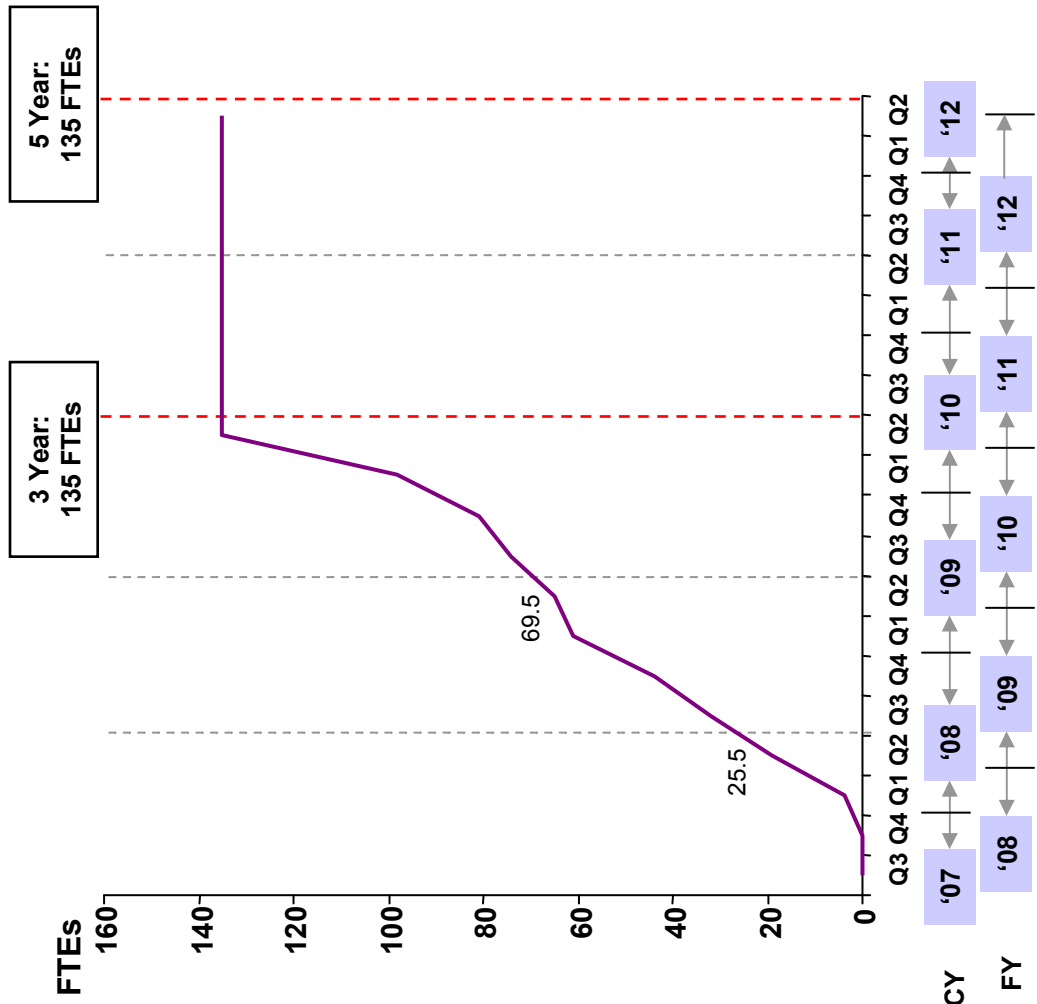
Executive Summary: Total Savings and FTE Reductions Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings
(Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor O&M Savings (\$000s)	Non-Labor O&M Savings (\$000s)	Labor Capital Savings (\$000s)	Non-Labor Capital Savings (\$000s)	Cost to Achieve (\$000s)
◆ Control center consolidation	\$3,376	\$0	\$0	\$0	\$11,141
◆ Project office transformation program	\$6,268	\$9,591	\$3,859	\$13,919	\$5,000
◆ Adopt unified standards and specifications	\$0	\$0	\$0	\$400	\$1,500
◆ Install GPS / AVL	\$0	\$250	\$400	\$0	\$970
◆ Develop uniform standards and specs ¹	\$0 ¹	\$0 ¹	\$0 ¹	\$0 ¹	\$200
Subtotal	\$9,644	\$9,841	\$4,259	\$14,319	\$18,811
◆ Usage of cost data reports and productivity management systems	\$0	\$237	\$0	\$0	IS CTA (P1)
◆ Installation of systems (GIS, design, AIMMS, ACIS, scheduling, etc.)	\$200	\$100	\$0	\$0	IS CTA (P2)
Subtotal – IS-related	\$200	\$337	\$0	\$0	Reported by IS
Total	\$9,844	\$10,178	\$4,259	\$14,320	\$18,811 + IS CTA

1. Related to procurement savings.

Executive Summary: Day 1 Initiatives and Early Starts

Day 1 Initiatives

Initiative	Progress	Comments/ Status
<ul style="list-style-type: none"> FCC Radio licenses - ownership transfer requirements 		<ul style="list-style-type: none"> Applications for FCC registration numbers for National Grid US and two other National Grid entities have been submitted
<ul style="list-style-type: none"> Develop linked emergency and storm plans 		<ul style="list-style-type: none"> Once received, the radio license application will be submitted
<ul style="list-style-type: none"> Put a mutual assistance agreement in place 		<ul style="list-style-type: none"> Complete
<ul style="list-style-type: none"> Establish RTO and ISO relations and committees (National Grid - LIPA Standards of Conduct) 		<ul style="list-style-type: none"> Gathering list of LIPA reps Need to develop common strategy
<ul style="list-style-type: none"> Emergency notifications 		<ul style="list-style-type: none"> Waiting on management to be named to collect contact info
<ul style="list-style-type: none"> Provide training on the KeySpan/LIPA MSA 		<ul style="list-style-type: none"> Senior executives, business leaders, and support functions throughout NG have been briefed on the details of the LIPA MSA TBD: Need to decide the extent of the organization that needs to be briefed pre-Day 1 TBD: Need to establish process for educating National Grid leaders on the MSA going forward (e.g., procurement)

Legend:

On target
 At risk
 Behind
 Not started

Early Start Initiatives

Initiative	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
<ul style="list-style-type: none"> None 				

Contents

- ◆ Executive Summary: Major Initiatives and Timing
- ◆ **Next Steps**
- ◆ High Level Organization Structure

Implementation Challenges and Mitigation

Implementation Challenges	Mitigation Plans
<ul style="list-style-type: none"> ◆ LIPA input on consolidating control centers and standardizing systems 	<ul style="list-style-type: none"> ◆ Manage LIPA relationship
<ul style="list-style-type: none"> ◆ IS systems implementation and timing 	<ul style="list-style-type: none"> ◆ Work closely with IS on business cases to ensure realization of IS-enabled savings in the business
<ul style="list-style-type: none"> ◆ Contractual labor agreements and constraints 	<ul style="list-style-type: none"> ◆ Work with Human Resources on union relationships and contract language
<ul style="list-style-type: none"> ◆ Dependency on Shared Services to achieve procurement-related savings 	<ul style="list-style-type: none"> ◆ Work with Shared Services to realize procurement-related savings
<ul style="list-style-type: none"> ◆ Coordinating all initiatives against various financial challenges 	<ul style="list-style-type: none"> ◆ Coordinated project management approach to project delivery

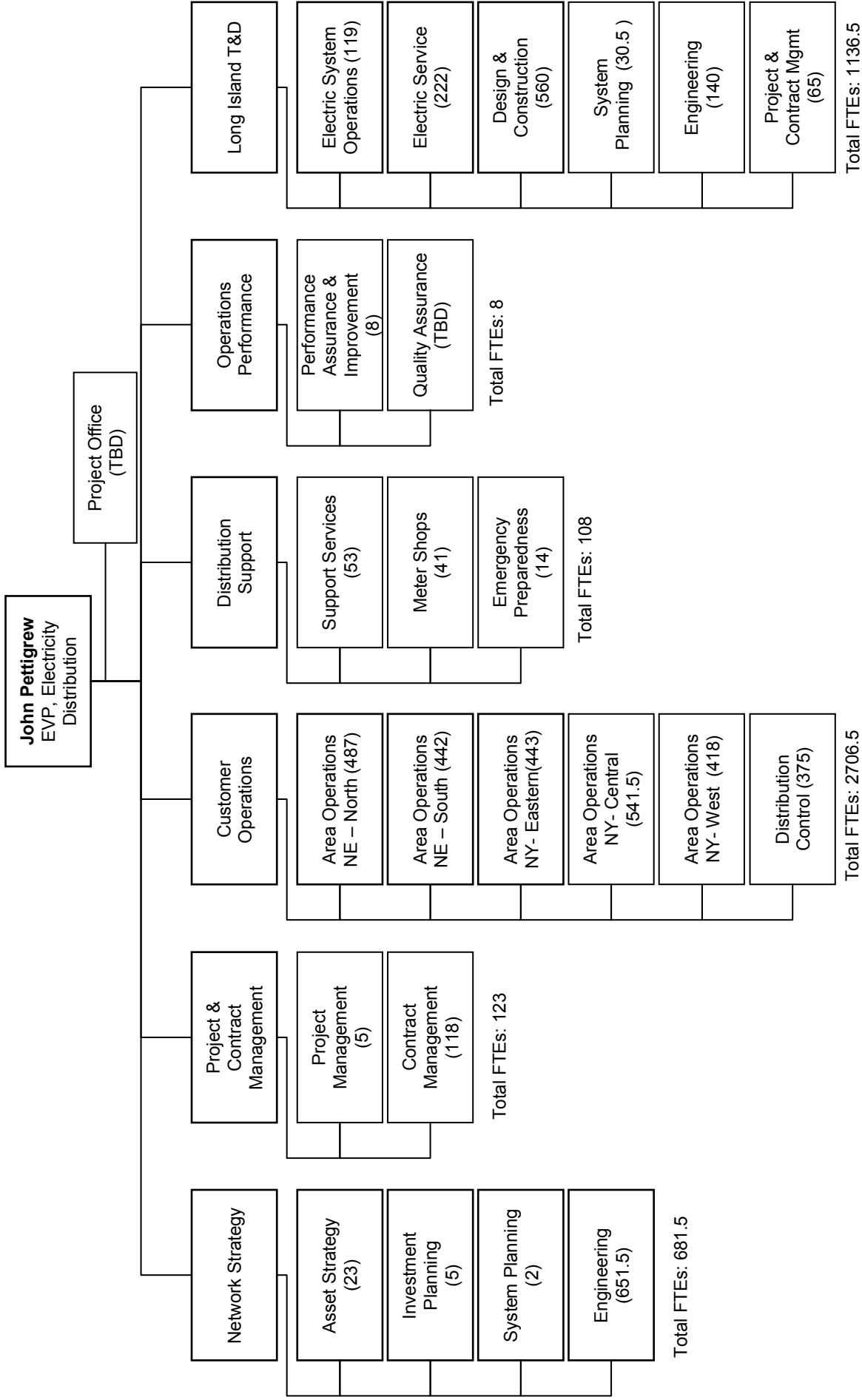
Next Steps

- ◆ Further refine next level of organization
- ◆ Define overall scope of change management program for integration, USBR, task, and develop implementation plans

Contents

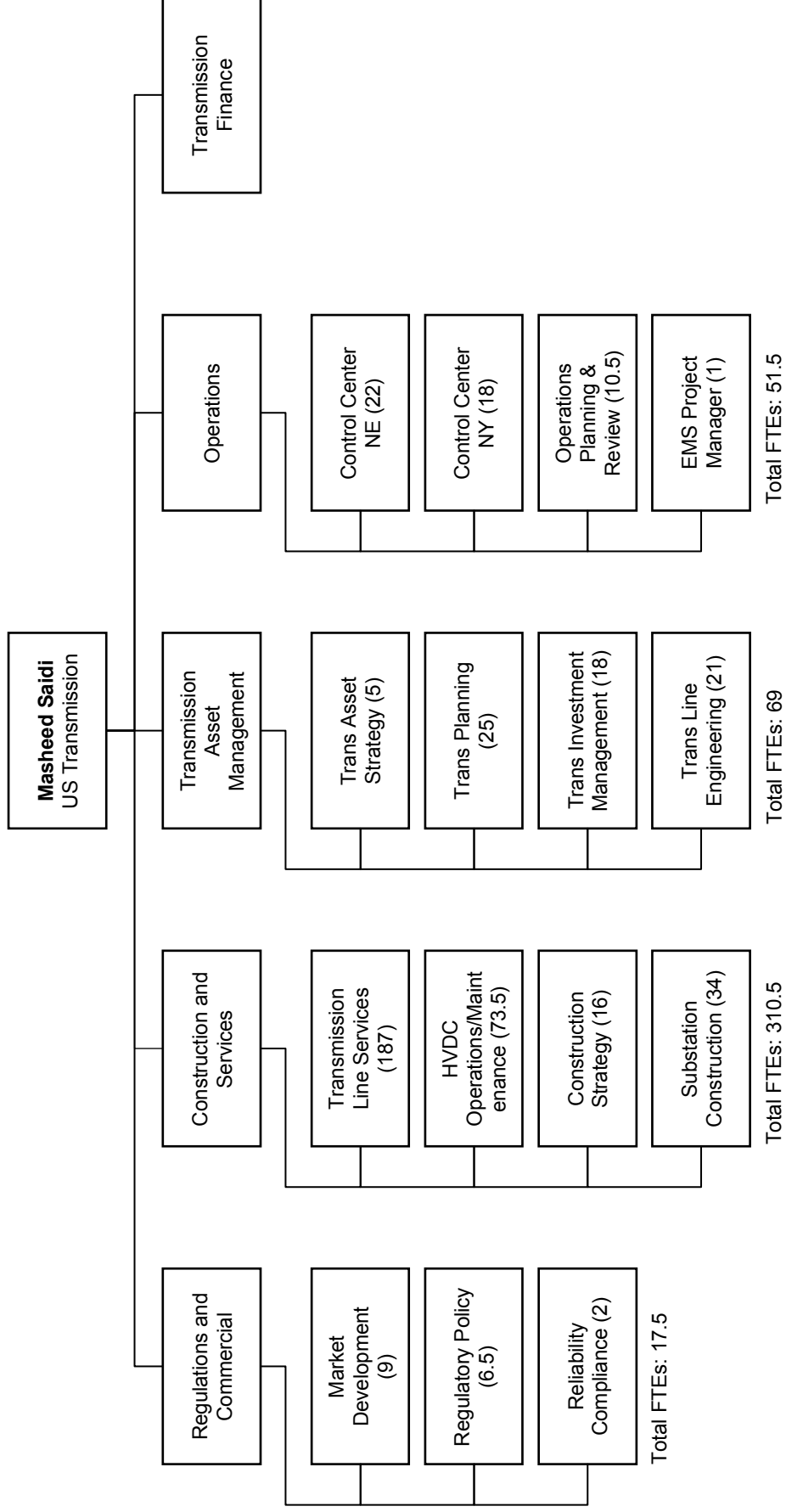
- ◆ Executive Summary: Major Initiatives and Timing
- ◆ Next Steps
- ◆ **High Level Organization Structure**

Electric Distribution High Level Organization Structure



Note: Excludes NEG FTEs, 39 vacancies, and 6 FTEs to be transferred to Customer Service & Marketing; includes reductions from Integration.

Electric Transmission High Level Organization Structure



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Building the New Company: Generation & Energy Supply

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



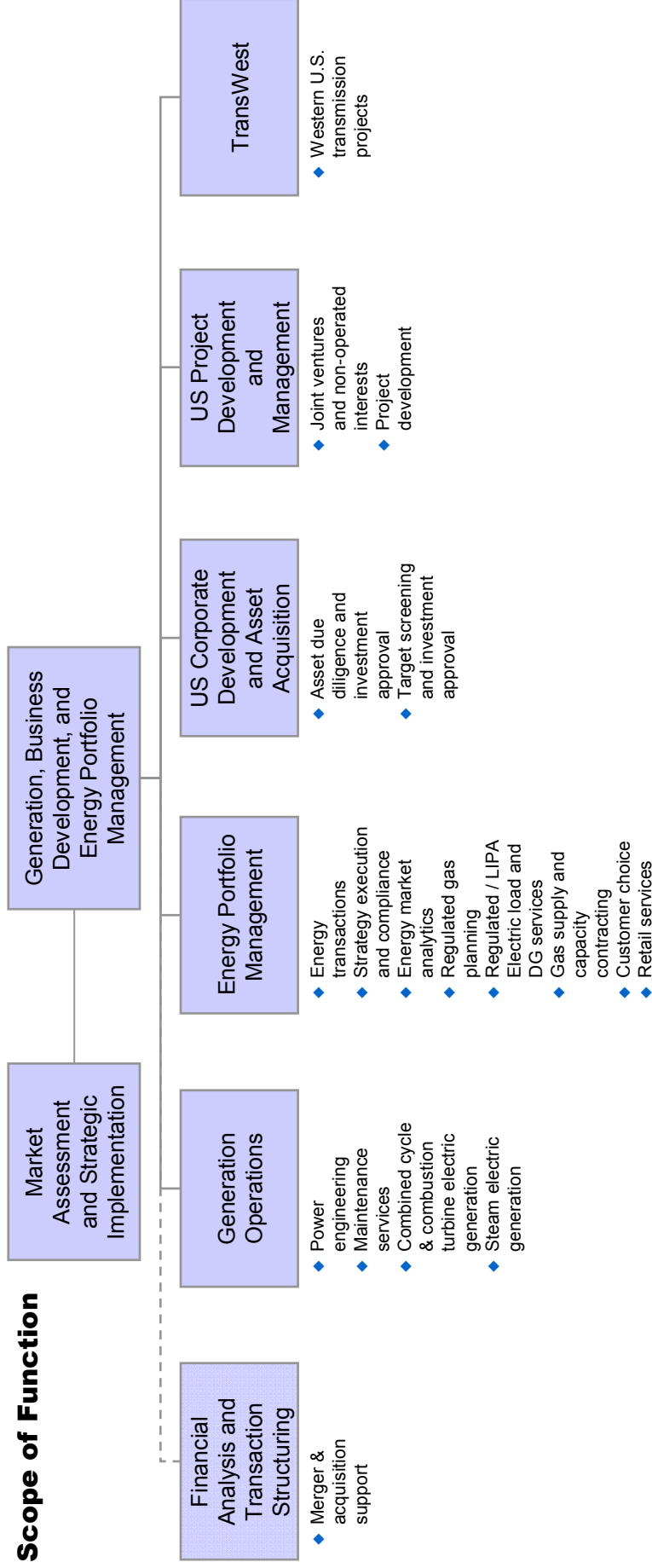
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: Generation & Energy Supply Overview

Generation, Business Development, and Energy Portfolio Management will not be impacted significantly by the National Grid - KeySpan Integration.

Scope of Function



Guiding Principles and Operating Philosophy

- ◆ Support and drive strategy execution
- ◆ Enhance reliability and efficiency through structuring of energy supply portfolio
- ◆ Optimize energy portfolios to drive unregulated energy margins
- ◆ Support employee development and career path opportunities

Executive Summary: Generation & Energy Supply

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall identified opportunities will yield approximately \$1.7M of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction	Incremental Growth margin ³ \$M
Staffing (FTEs) ¹	31.5	65.5	97	11	86	11%	\$10M - \$25M
O&M Labor Costs (unloaded) (\$M)	\$2.3	\$3.5	\$5.8	\$0.8	\$5.0	14%	
Labor Loader (\$M)	\$1.2	\$1.7	\$2.9	\$0.4	\$2.5	14%	
O&M Non-Labor Costs (\$M)	\$0.3	\$3.4	\$3.7	\$0.5	\$3.2	14%	
Total (\$M) ²	\$3.8	\$8.6	\$12.4	\$1.7	\$10.7	14%	

Key Initiatives

- ◆ Consolidate and centralize customer choice program management, electric supply acquisition and planning, gas supply planning, gas transactions & portfolio optimization and risk management functions
- ◆ Leverage consistent set of processes and capabilities to enable FTE reductions
- ◆ Reduce non-labor IS expenditures wherever possible
- ◆ In-source gas portfolio optimization of National Grid resources

Open Issues/Next Steps

- ◆ Finalize the business plan for the portfolio optimization opportunity
- ◆ Finalize the organization structure and remaining open issues
- ◆ Develop implementation plans for initiatives

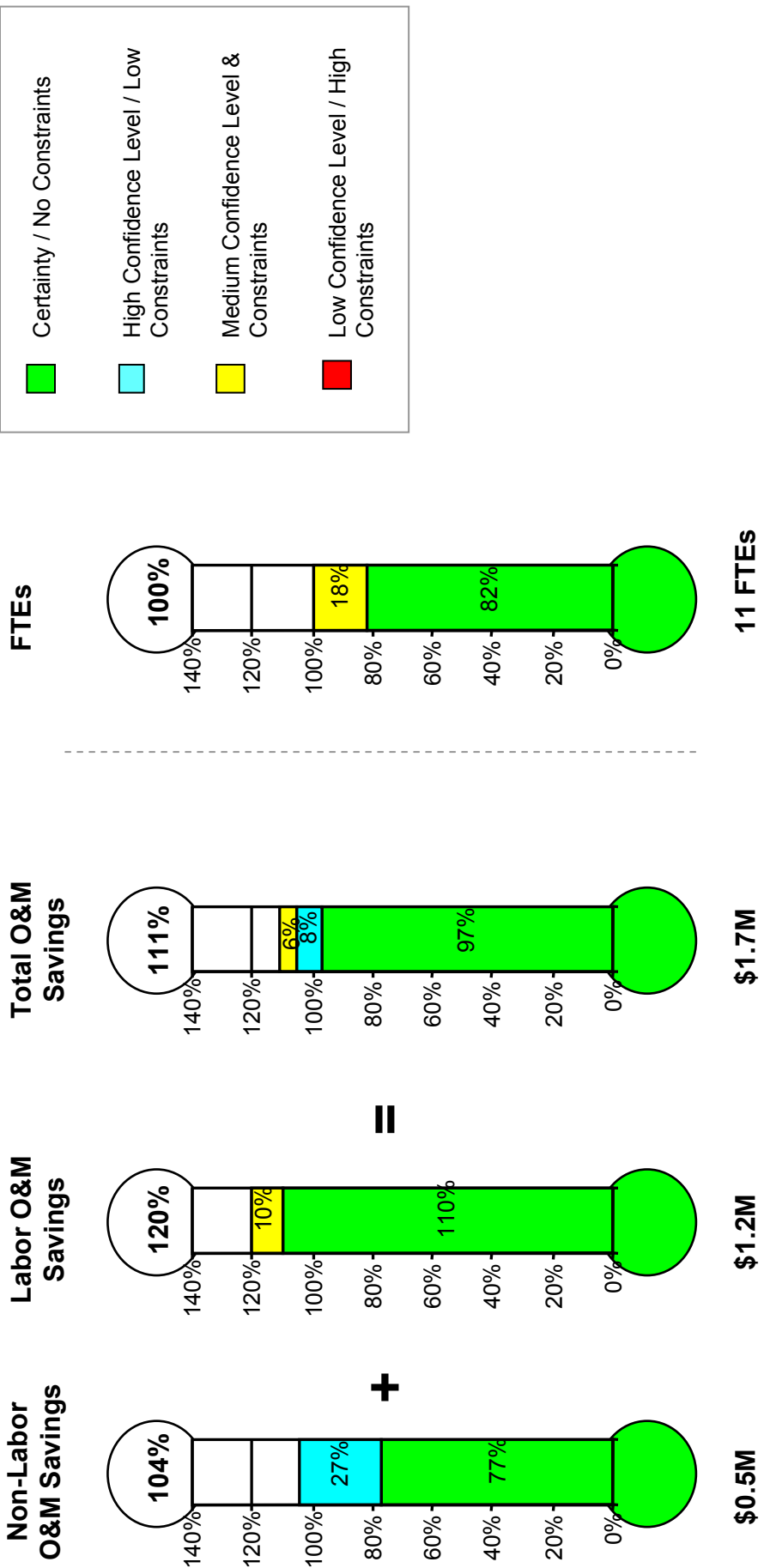
1. Includes 2 vacancies at National Grid and 9 at KeySpan; does not include Asset Investment Strategy and Valuation, Electric Transactions, or Generation Operations.
 2. O&M budget dollars are approximate and exclude fleet and facilities allocations, and benefits/bonuses are calculated using a 50% labor loader.
 3. Represents total incremental opportunity; assuming an 80%/20% share with for the company is \$2M - \$5M.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Targets

The identified O&M savings are 111% of the in-scope Generation and Energy Supply Integration target.¹

Progress Against Targets

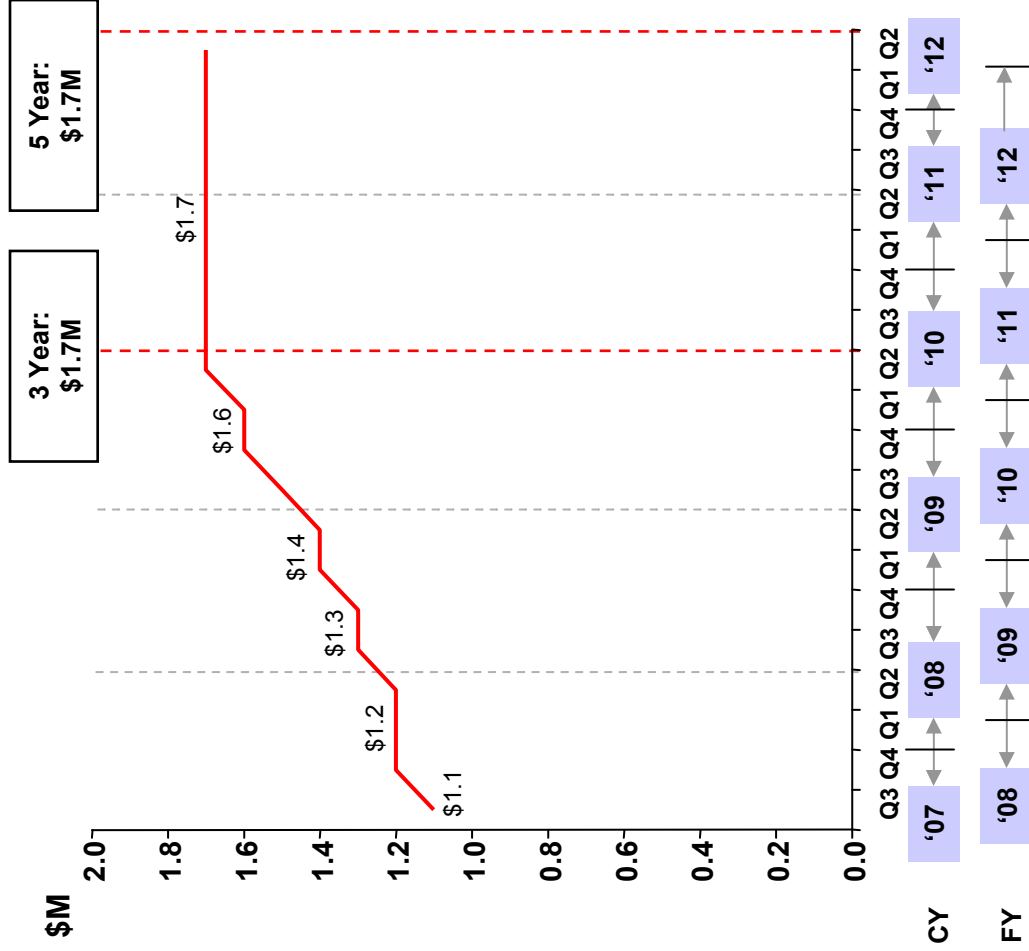


1. A 12% target has been assumed for non-labor, labor, and FTEs associated with Customer Choice, Gas Transactions and Portfolio Optimization, Electric Acquisition, and Gas Supply Planning.

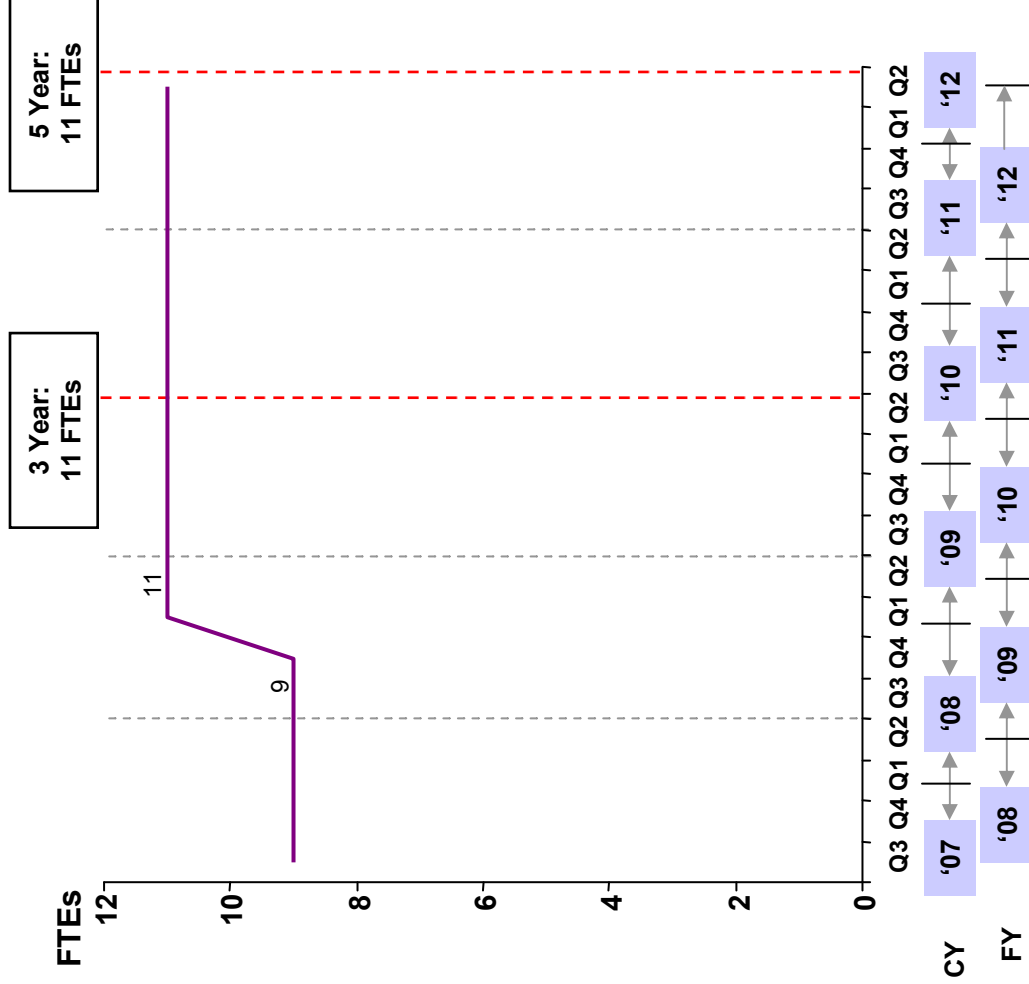
Executive Summary: Total Savings and FTE Reductions Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings
(Run-rate)



Total FTE Reductions



Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Energy Portfolio Management: Recommended Future Approach

Department	Baseline FTEs	Integration Reductions	Net Transfers	Management FTEs	Union FTEs	Total FTEs
Energy Portfolio Management Leadership	2	0	0	2	0	2
Energy Transactions	35.5 (+1)	1 (+1)	-1	33.5	0	33.5
Strategic Execution and Compliance	3	0	0	3	0	3
Energy Markets Analytics	10	2	0	8	0	8
Regulated Gas Planning	19.0 (+4.5)	5 (+1)	0	13 (+3)	1 (+0.5)	14 (+3.5)
Regulated/LIPA Electric Load and DG Services	13.5	0	3 ^(a)	16.5	0	16.5
Customer Choice	12.5	2	16	26.5	0	26.5
Supply and capacity contracting	1	0	0	1	0	1
Retail Services	5.5	1	0	4.5	0	4.5
Total	102 (+5.5)	11 (+2)	18	108 (+3)	1 (+0.5)	109 (+3.5)

Note: NEG FTEs are denoted in red.

Key Initiatives / Major Recommendations

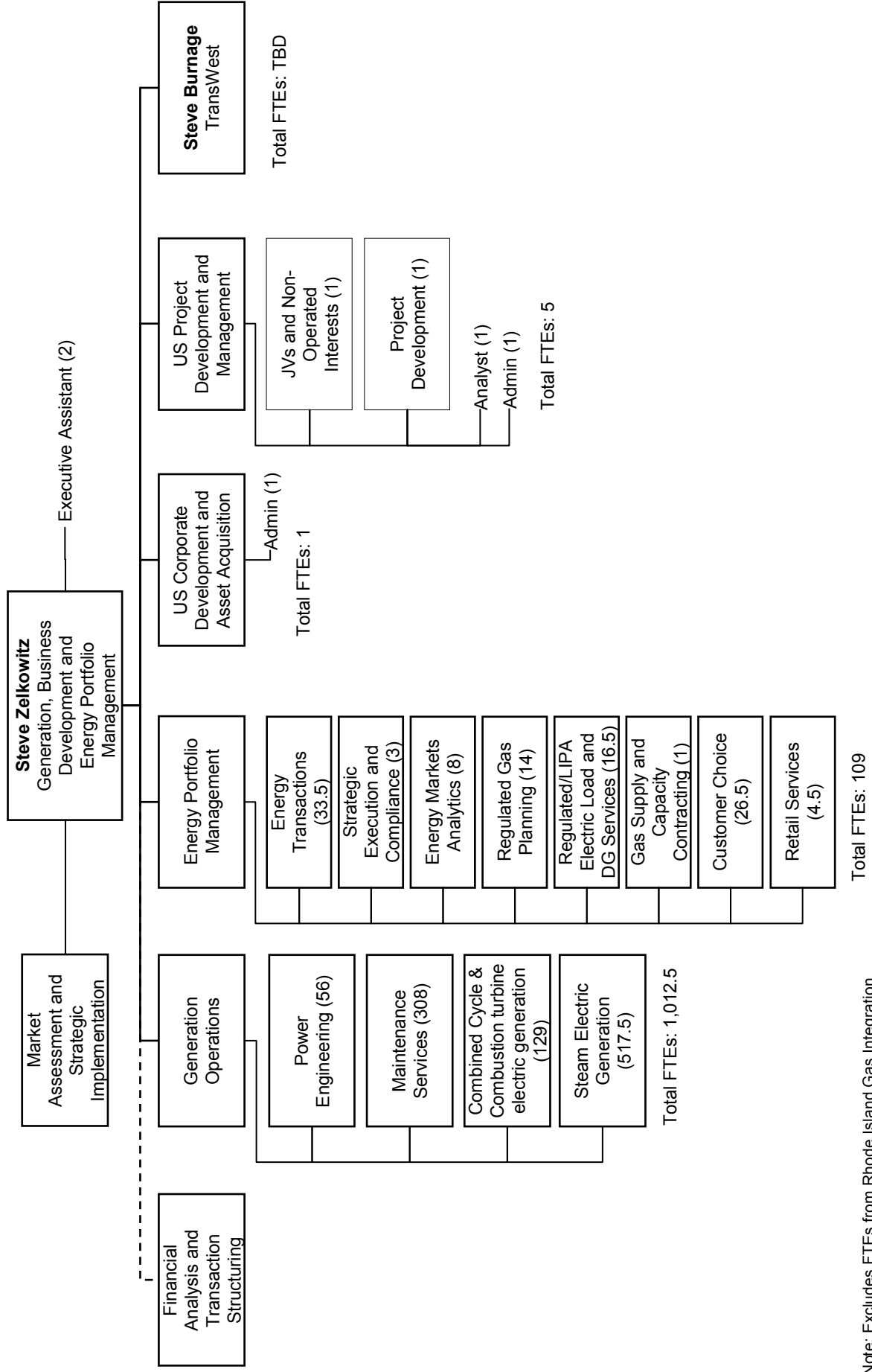
- ◆ Consolidate functions in several areas, including: gas supply planning, gas transactions & portfolio optimization, electric supply acquisition & planning and customer choice program management
- ◆ In-source optimization (Non-labor savings [avoid 3rd party payments], Revenue enhancement)
- ◆ Centralize gas/electric hedging
- ◆ Standardize NAESB special provisions and centralize Base Contract negotiation and approval process
- ◆ Single gas transactions tracking and reporting application
- ◆ Manage all LDC assets as a portfolio
- ◆ Customer choice: nomination/confirmation process (moved from Gas Operations)

(a). The 3 transfers constitute: +8 (S. Cantore), +1 (T. Roughan) and -6 (Back office).

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

Generation and Energy Supply High Level Organization Structure



Note: Excludes FTEs from Rhode Island Gas Integration.

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Next Steps

- ◆ Finalize the business plan for the portfolio optimization opportunity
- ◆ Finalize the organization structure and remaining open issues
- ◆ Develop implementation plans for initiatives

Building the New Company: US Regulation and Legal

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



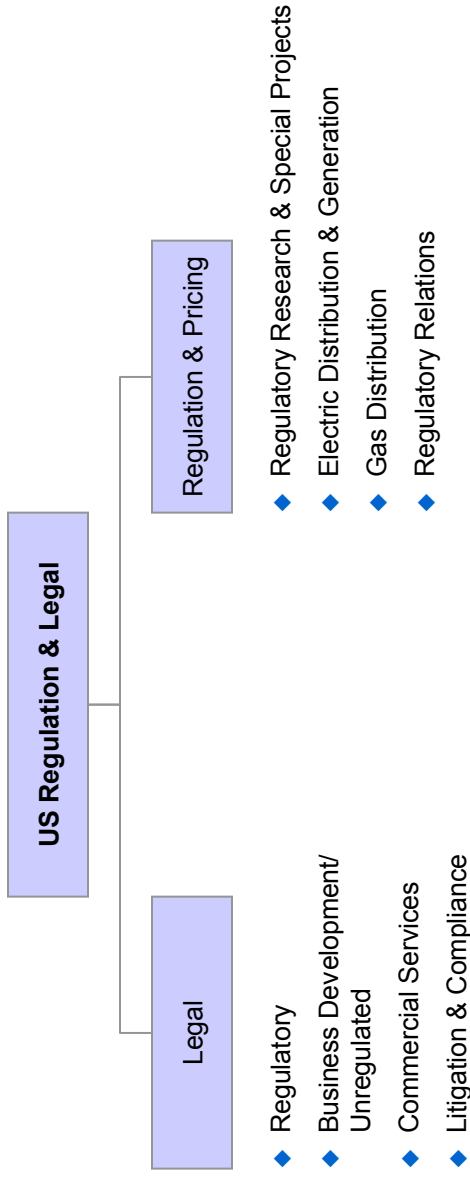
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: US Regulation & Legal Overview

US Regulation & Legal will result in a consolidated business with standardized practices and policies.

Scope of Function



Guiding Principles and Operating Philosophy

Regulatory

- ◆ Ensure timely revenue recovery and establishment of appropriate performance standards
- ◆ Be recognized as a leader in regulatory policy and practice at both the federal and state levels

Legal

- ◆ Focus on providing the highest level of client service and satisfaction, while managing costs appropriately
- ◆ Developing and retaining substantive in-house expertise in those areas of law that are core competencies for the combined company
- ◆ Develop a Business Partner model that supports the Company's global operating model

Executive Summary: US Regulation & Legal

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall identified opportunities will yield approximately \$12M of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing	101.0	100.0	201.0	24.0	177.0	11.9%
O&M Labor Costs (unloaded)	\$10	\$11	\$21	\$3.3	\$17.9	15.4%
Labor Loader	\$5.1	\$5.5	\$11	\$2.1	\$8.5	19.8%
O&M Non-Labor Costs	\$36.7	\$26.2 (a)	\$63	\$6.6	\$56.4	10.4%
Total Costs (b)	\$52.0	\$42.8	\$94.7	\$12.0 (c)	\$82.8	12.6%

Key Initiatives

- ◆ Consolidate and centralize where practical
- ◆ Reduce and optimize the use of outside professional services
- ◆ Eliminate redundant functions

Next Steps

- ◆ Further refine next level of organization
- ◆ Further location analysis for function
- ◆ Develop implementation plans

(a) Includes \$150K for Ravenswood outside counsel

(b) O&M budget \$ are approximate. exclude fleet and facilities allocations, and benefits/bonus are calculated using a 50% loader on labor.

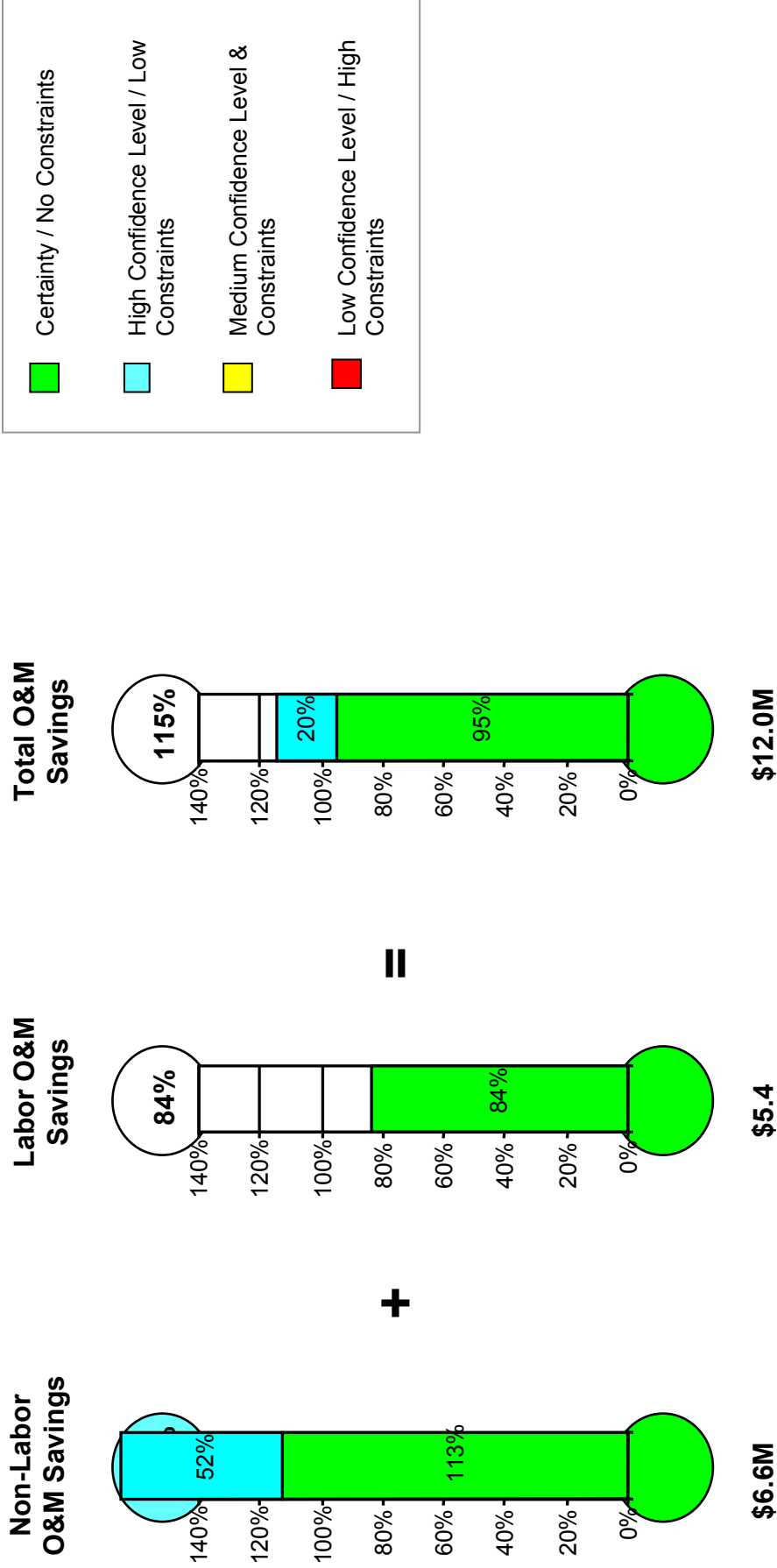
(c) Does not include cost of increase in audits

Executive Summary: US Regulation & Legal Progress Against Targets

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

The \$12M identified O&M savings are above the Team's Integration target.

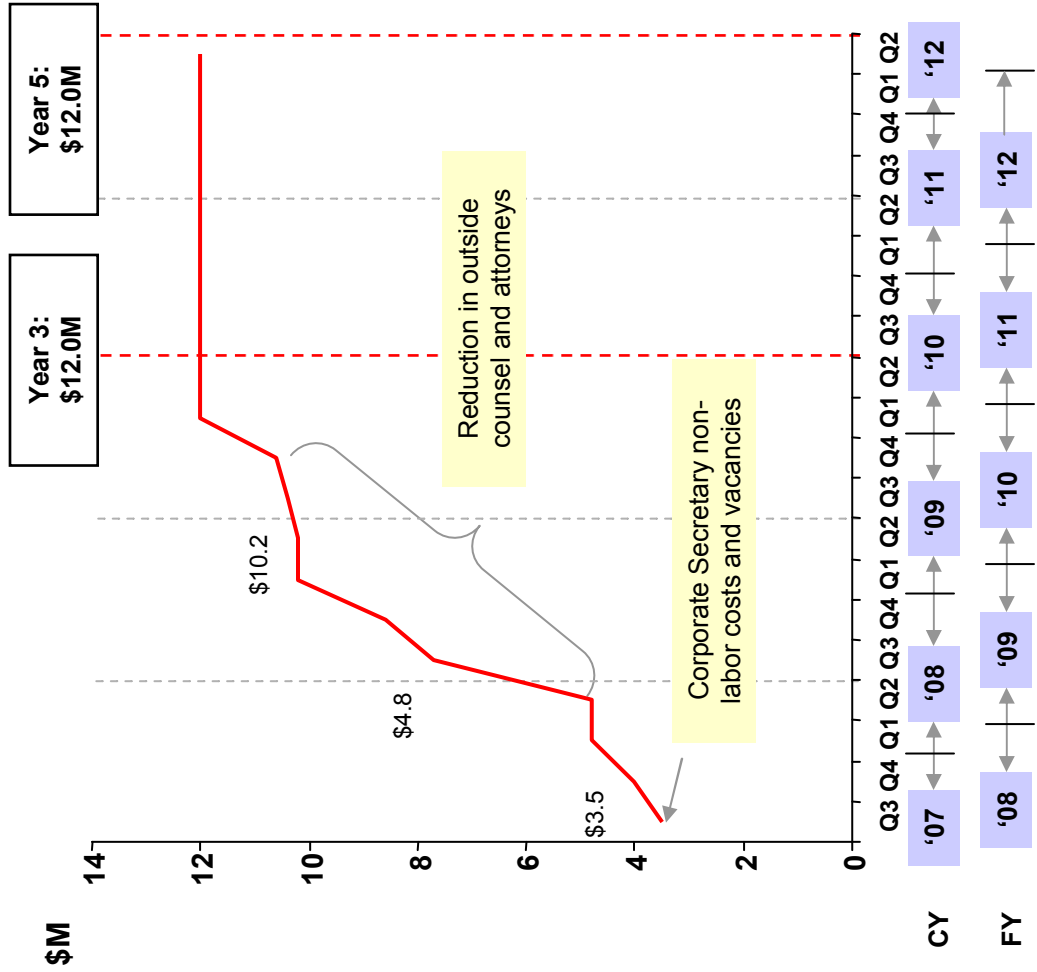
Progress Against Targets



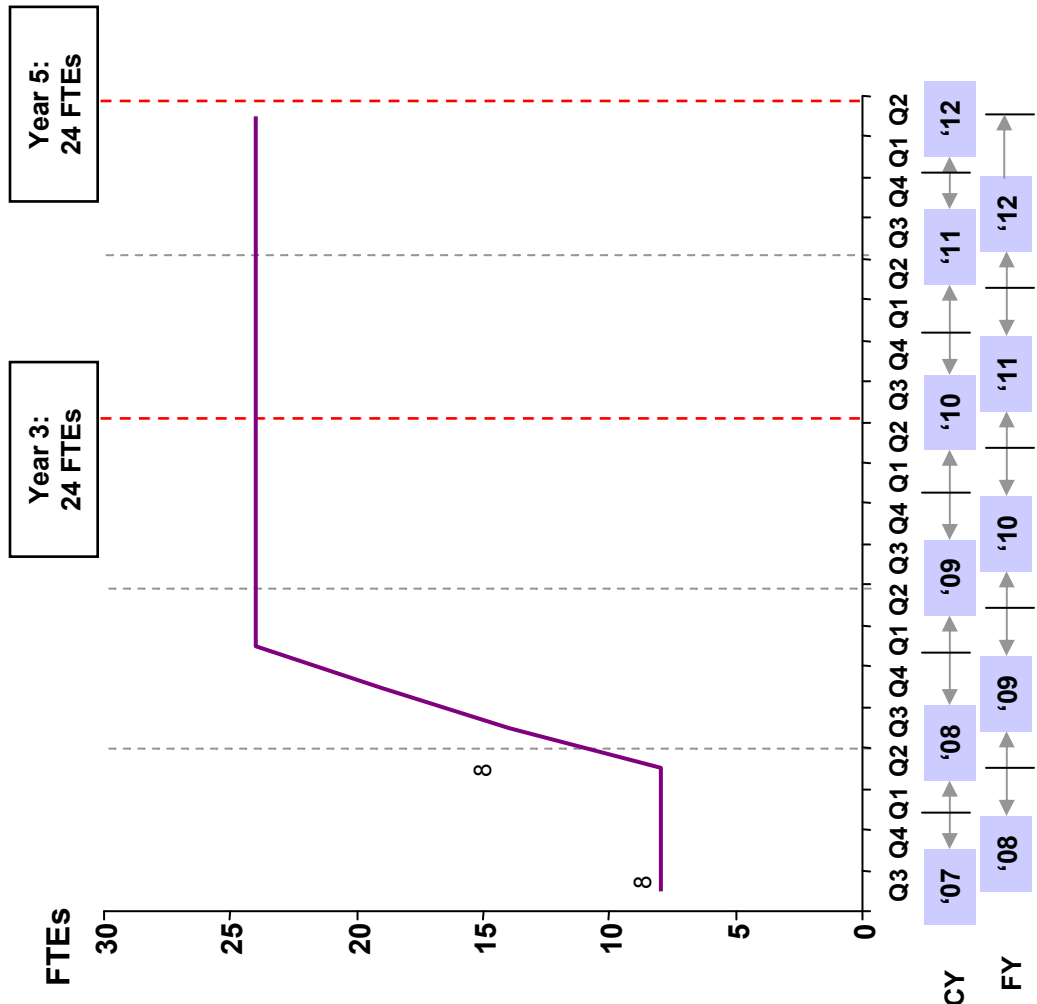
Executive Summary: US Regulation & Legal Savings Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings (Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Draft:

All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Non-Labor Savings (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ Adverse impact study for staffing for KeySpan/Grid merger		\$100	√
Subtotal		\$100	
◆ Expand National Grid Legal eXchange application to incorporate KeySpan	\$100	\$30	
◆ Implement Hummingbird document management platform at National Grid	\$170	\$85	
Subtotal - IS Related (a)	\$270	\$115	
Total	\$270	\$215	

(a) IS will be presenting CTA related to this initiative as well

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

US Regulation & Legal: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions FTEs	Integration % FTE Reductions	USBR FTE Reductions	Total % FTE Reductions	Non-Labor Savings (\$M)	Total O&M Savings (\$M)
Legal	123.5	23	19%	1	19%	\$4.4	\$9.0
Regulatory Affairs & Legal Practice	67.5	-1 (a)	-1%	0	0%	\$0.2	\$0.7
Ethics and Compliance	8	0	0%	0	0%	\$0.0	\$0.0
Corporate Secretary	2	2	100%	0	100%	\$1.9	\$2.2
Procurement Savings						\$0.05	\$0.05
Total	201	24	12%	1	12.4%	\$6.6	\$12.0

Key Initiatives / Major Recommendations

- ◆ Consolidate and centralize where practical
- ◆ Reduce and optimize the use of outside professional services and in-house attorneys
- ◆ Eliminate redundant functions
- ◆ Consolidate Regulatory management and add specialists to handle increased workload and focus on regulatory relations
 - Potential FTE synergy savings of 14, offset by additional specialists needed in connection with numerous regulatory filings
 - Net savings of \$0.7M due to elimination of duplicate higher level positions and regulatory legal expenses budgeted by KeySpan in Regulatory which will now be accounted for in the Legal budget
- ◆ Increase KeySpan compliance audits to comply with National Grid standards
 - Savings estimates do not reflect an estimated \$450K incremental increase in compliance audits
- ◆ Implement electronic invoicing in KeySpan legal department

(a) Addition of Peter Flynn to Regulatory function

US Regulation & Legal: Regulatory Requirements

There are no FTE savings in Regulatory because the 14 identified reductions in management are offset by 14 additional specialists needed to handle an increased workload.

- ◆ The KeySpan and National Grid Regulatory departments are currently not staffed sufficiently to handle the workloads of >600 filings/year on a sustained basis
- ◆ Increased capital expenditures and strategic focus on core regulated operations make the regulatory recovery function increasingly important
- ◆ External pressures will require effort above present levels to maintain revenue levels and minimize losses
 - Lower energy delivery volumes
 - Decreased revenues due to regulatory changes
 - Additional revenue recovery initiatives required due to regulatory and legislative changes
- ◆ A total of 14 additional specialists will be needed to handle the company regulatory strategy, rate filings, and deferral/capital recovery and service quality filings, offsetting the 14 identified reductions in management
- ◆ There are significant risks associated with additional reductions
 - Regulatory influence would decline
 - Recovery of CAPEX spend plans would be at risk
 - Additional revenues for O&M would be at risk
 - Additional use of outside consultants would be necessary to address workload needs, requiring added supervision by accounting/finance

Day 1 Initiatives and Early Starts

Critical Day 1 Initiatives

Initiative	Progress	Comments/ Status
◆ Roll out and training for Standards of Ethical Conduct		◆ Final draft currently at designers for inclusion of pictures, color, etc. ◆ Next Steps: – Distribution of standards concurrent with closure of merger – Training video scheduled for completion in April/May
◆ Roll out and training for Compliance and Business Risk Reporting, Letter of Assurance, Processes		◆ Anticipate live presentations to officers with Q&A regarding the various programs and processes ◆ Risk workshops to be held as necessary throughout KeySpan.
◆ KeySpan Rate Plan Implementation		◆ Dependent on the final rate plan
◆ Regulatory Codes of Conduct		◆ Next Steps: – Update codes of business conduct and federal and state regulatory compliance standards/policies – Distribution of documents and training for FERC Order 2004 and the various state affiliate rules and standards of conduct
◆ Corporate Services – Satisfaction of Closing, Conditions		◆ All closing conditions have been identified ◆ Many conditions already satisfied (FERC, HSR, NJBPU and Shareholder approval have been obtained); (NYPSC, NHPUC and FCC remaining)

Legend:				
	On target	At risk	Behind	Not started

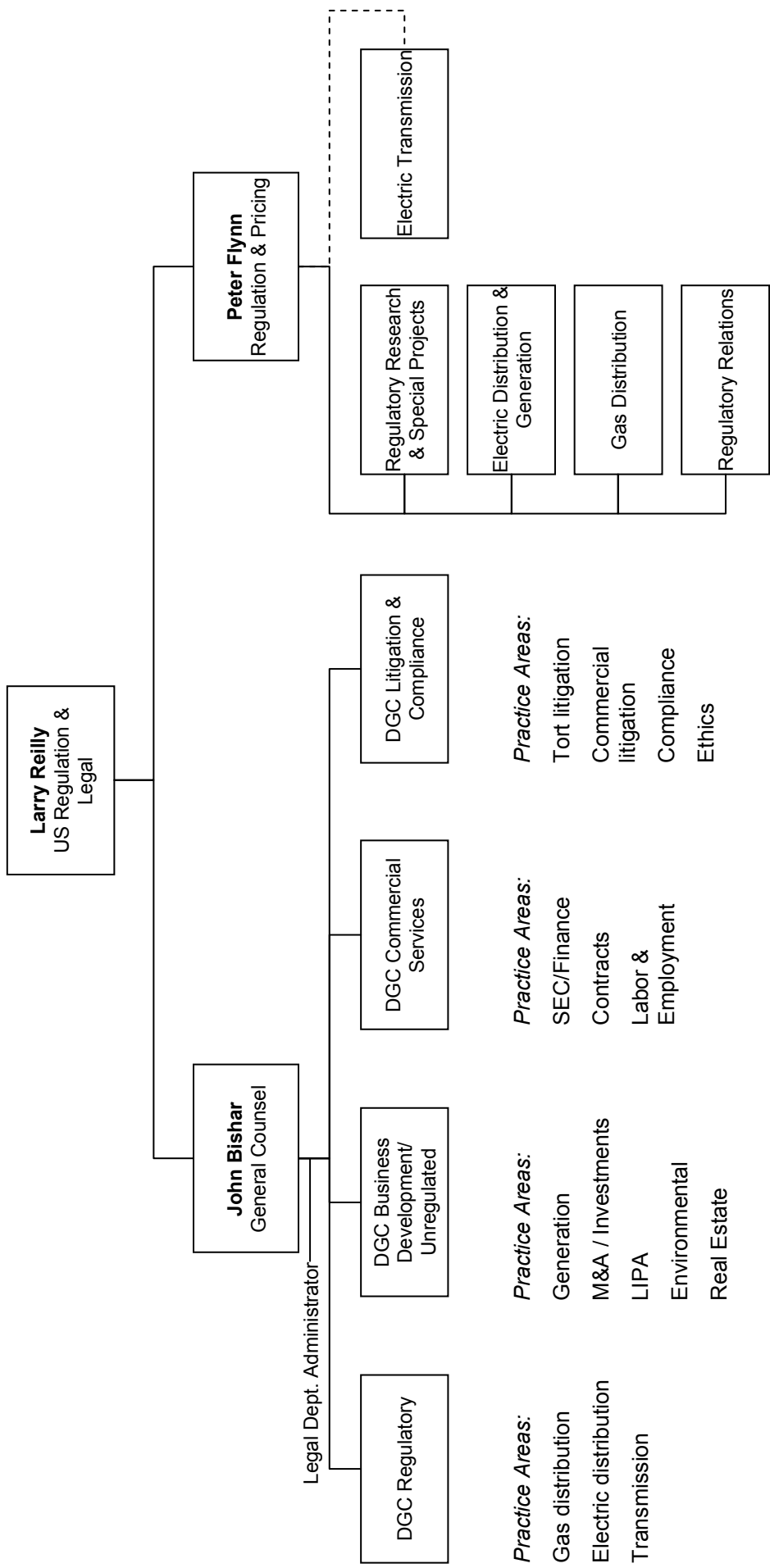
Early Start Initiatives

Initiative Description	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
◆ Implement electronic invoicing in KeySpan Legal Dept	◆ US Regulation & Legal	◆ T. Damico/ R. Carlucci	◆ Pre-close	◆ \$100
◆ Implement document management system	◆ US Regulation & Legal	◆ T. Damico/ R. Carlucci	◆ Pre-close	◆ \$170

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

US Regulation & Legal High Level Organization Structure



Total FTEs: ~100

Total FTEs: ~68.5 – 72.5
(depending on LIPA)

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Implementation Challenges and Mitigation

Implementation Challenges	Mitigation Plans
<ul style="list-style-type: none">◆ Legal having complete control of the outside counsel budget	<ul style="list-style-type: none">◆ Ensure budget transfer from other KeySpan operating areas: Ravenswood, Tax, Regulatory Affairs◆ Communicate the change and any implications to KeySpan groups

Next Steps

- ◆ Further refine next level of organization
- ◆ Further location analysis for function
- ◆ Develop implementation plans

Building the New Company: External Affairs

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



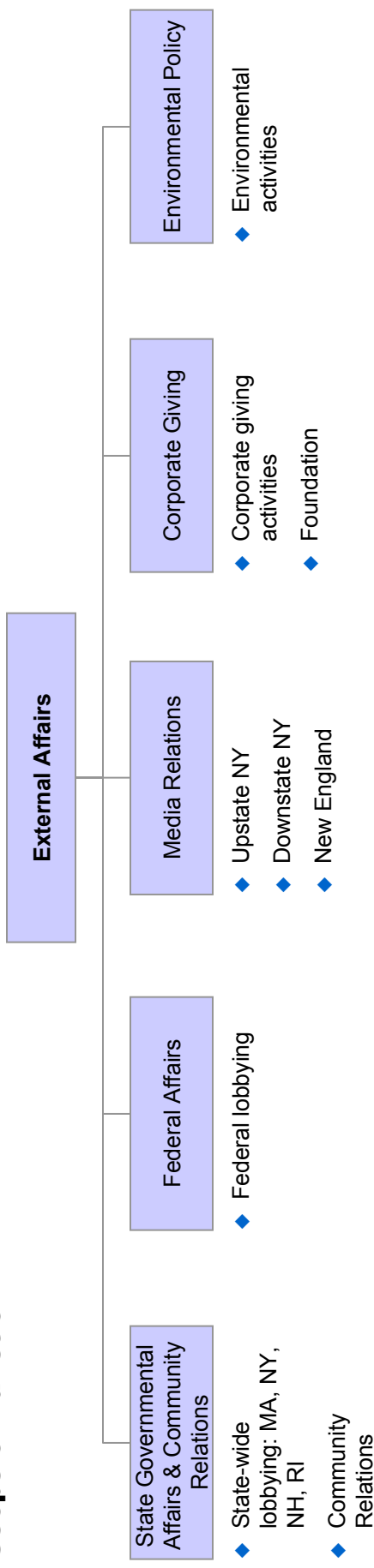
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: External Affairs Overview

The External Affairs organization will result in a consolidated business with standardized practices and policies.

Scope of Function



Guiding Principles & Operating Philosophy

- ◆ Act as business partner to the main operating units of the company; understand their issues and work collaboratively to communicate productively with key external stakeholders, including elected officials, community leaders, and the media to achieve the desired result
- ◆ Be proactive and “on the minds” of key stakeholders; work with the UK to communicate locally consistent messages from a global perspective, thereby enhancing the corporate positioning of the company

Executive Summary: External Affairs

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall identified opportunities will yield approximately \$2M of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing (FTEs)	21.0	29.0	50.0	9.0	41.0	18%
O&M Labor Costs (unloaded) (\$M)	\$1.8	\$2.3	\$4.1	\$1.0	\$3.1	24%
Labor Loader (\$M)	\$0.9	\$1.2	\$2.1	\$0.6	\$1.5	30%
O&M Non-Labor Costs (\$M)	\$3.2	\$3.1	\$1.5	\$0.5	\$1.0	34%
Total (\$M) ^(a)	\$5.9	\$6.6	\$7.7	\$2.1	\$5.6	28%

Key Initiatives

- ◆ Consolidate and centralize wherever possible
- ◆ Reduce and optimize the use of outside professional services

Next Steps

- ◆ Conduct an inventory of outside resources used by the combined companies to reduce and optimize them
- ◆ Develop a common structure around community support
- ◆ Define the interface between Environmental Policy and Environmental Operations

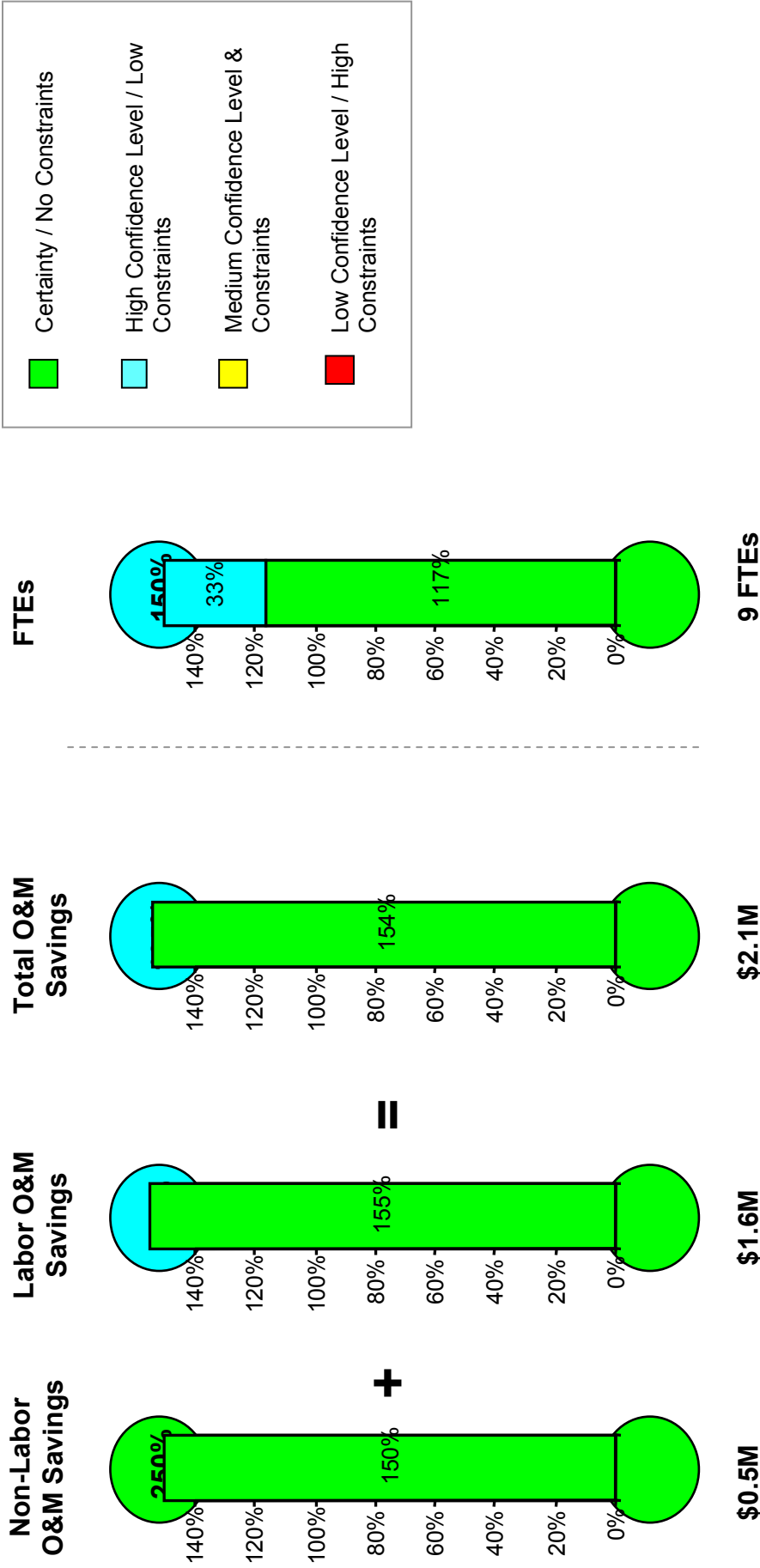
(a) O&M budget \$ are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 50% loader on labor.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Executive Summary: Progress Against Targets

The identified O&M savings are 195% of the Integration target.

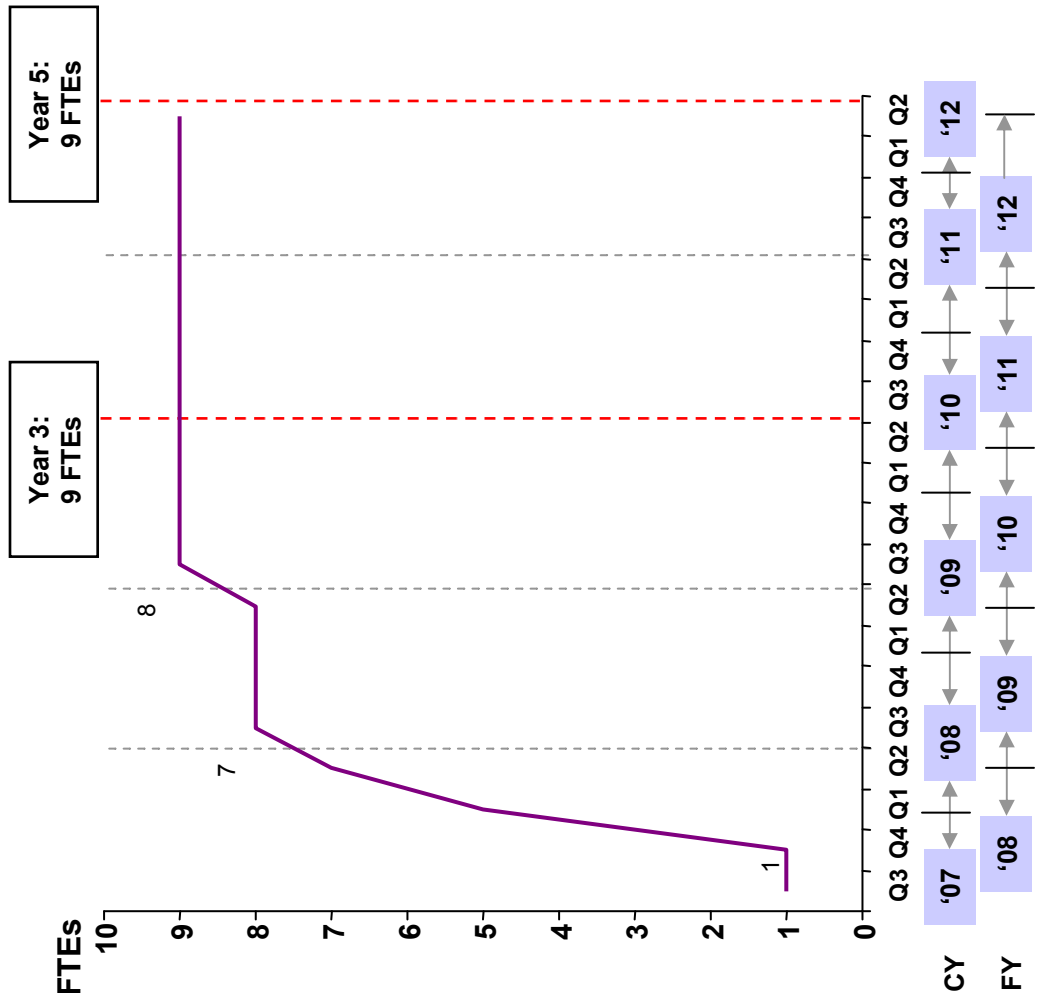
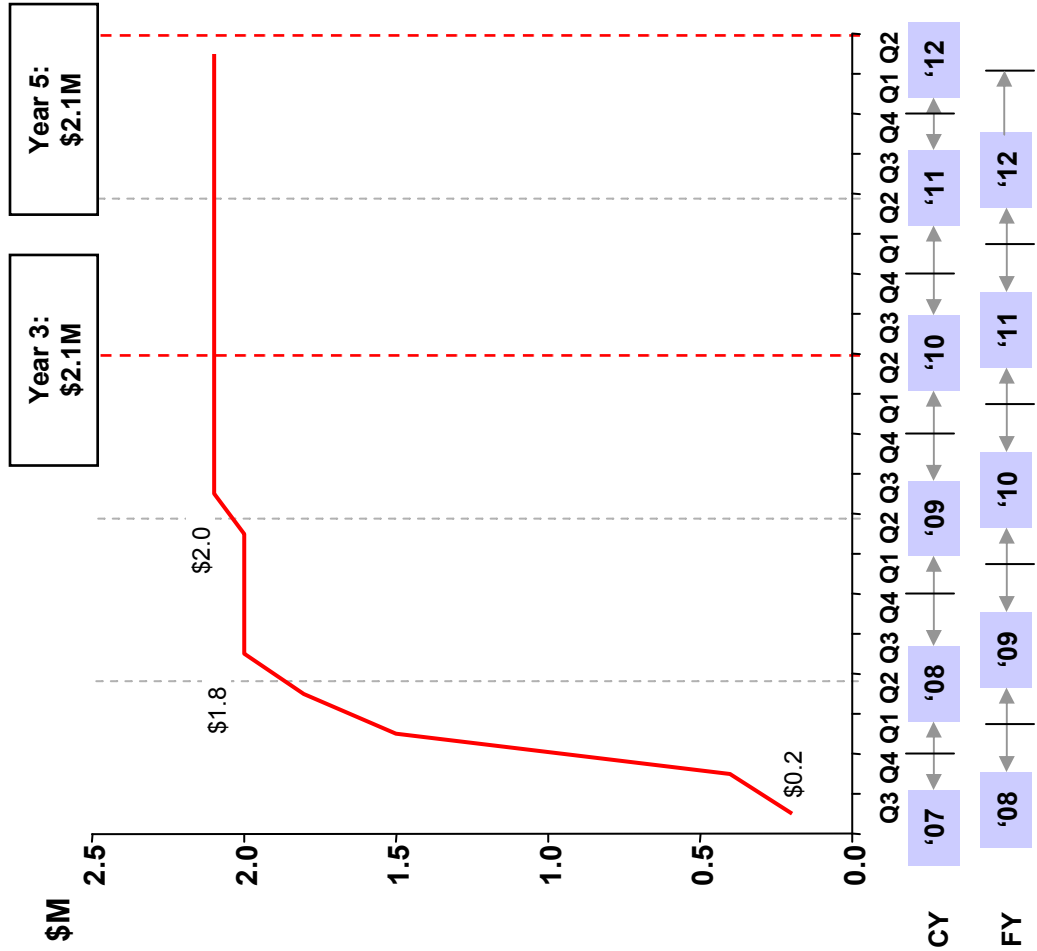
Progress Against Targets



Executive Summary: Savings Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Total O&M Savings
(Run-rate)



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor Savings (\$000s)	Non-Labor Savings (\$000s)	Incremental Margin (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ Federal PAC consolidation in accordance with FEC regulations				\$10.5	✓
Subtotal				\$10.5	
◆ Implement CyberGrants into National Grid Corporate Giving				\$10	
Subtotal – IS-Related				\$10	
Total				20.5	

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

External Affairs: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	% FTE Reductions	Non-Labor Savings (\$M)	Total O&M Savings (\$M)
State Governmental Affairs & Community Relations	28.5	6	21%	\$0.3	\$1.6
Federal Affairs	2.5	0	0%	\$0	\$0
Media Relations	13	2	15%	\$0.2	\$0.4
Corporate Giving*	5	1	20%	\$0	\$0.1
Environmental Policy	1	0	0%	\$0	\$0
Total	50	9	18%	\$0.5	\$2.1

Major Process/System Decisions

- ◆ Consolidate and centralize wherever possible
- ◆ Reduce and optimize the use of outside professional services

* Note: Includes 2 Foundation FTEs included. The Foundation is being handled outside of the integration process

Day 1 Initiatives and Early Starts

Critical Day 1 Initiatives

Initiative	Progress	Comments/ Status
<ul style="list-style-type: none"> Emergency response procedures for Governmental Affairs 	●	<ul style="list-style-type: none"> Clarify roles between External Affairs and Customer Service before Day 1

Legend:	On target	At risk	Behind	Not started
	●	●	●	○

Early Start Initiatives

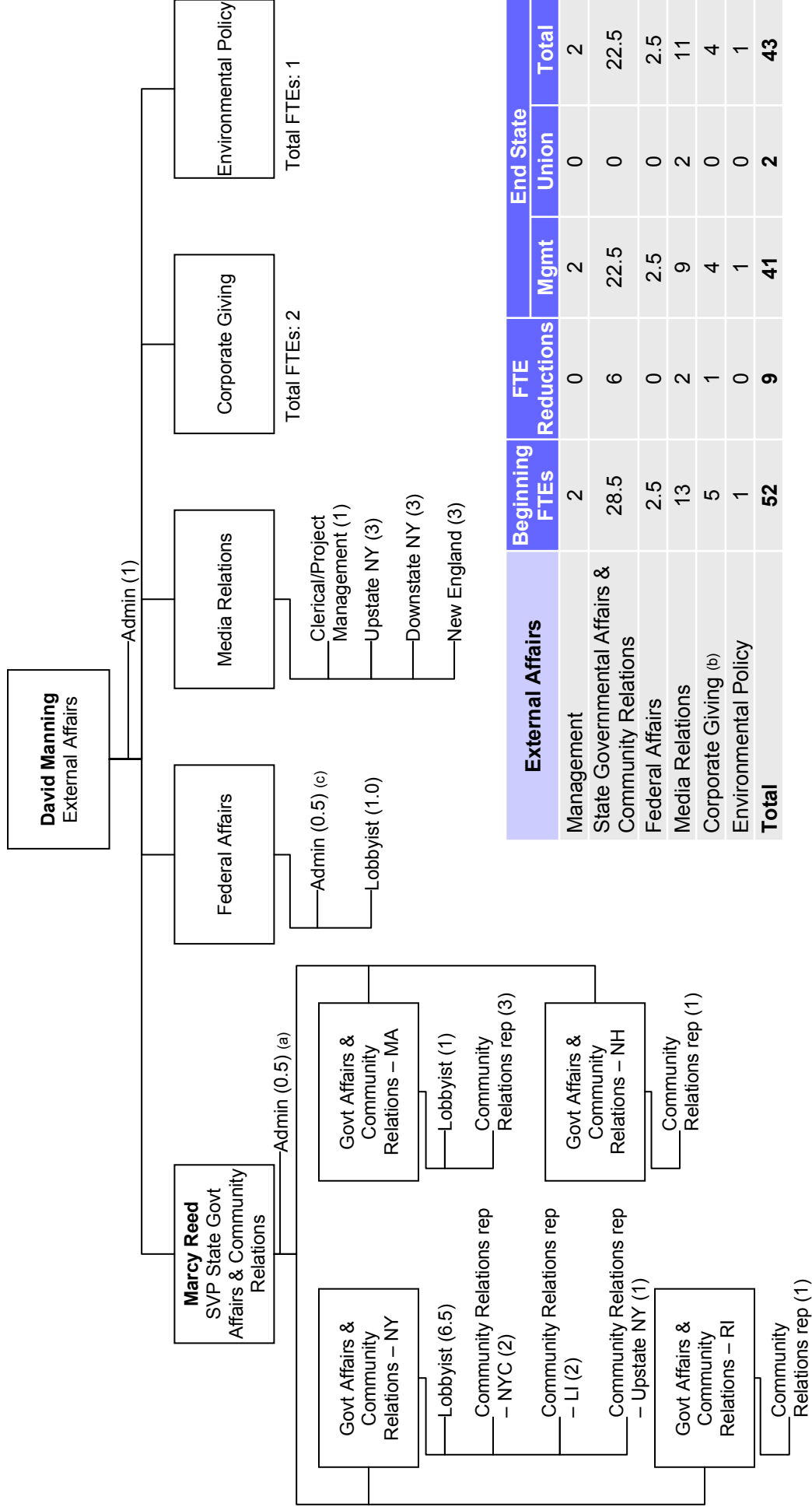
Initiative Description	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
<ul style="list-style-type: none"> Lobbying (includes PAC consolidation) 	◆ External Affairs	◆ TBD	◆ Summer 2007	◆ TBD
<ul style="list-style-type: none"> Identify appropriate affiliations/ memberships 	◆ External Affairs	◆ TBD	◆ Post close	◆ TBD
<ul style="list-style-type: none"> Implement software to track lobbyist time 	◆ External Affairs	◆ TBD	◆ TBD	◆ \$0

Contents

- ◆ Executive Summary
- ◆ Major Initiatives & Initial Timing
- ◆ **High Level Organization Structure**
- ◆ Next Steps

External Affairs: High Level Organization Structure

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving



(a) Administrative assistant to be shared with another function currently not included in head count
 (b) Includes 2 FTEs who manage the Foundation not reflected in the org chart
 (c) Admin will be shared with Regulatory

Contents

- ◆ Executive Summary
- ◆ Major Initiatives & Initial Timing
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Next Steps

- ◆ Conduct an inventory of outside resources used by the combined companies to reduce and optimize them
- ◆ Develop a common structure around community support
- ◆ Define the interface between Environmental Policy and Environmental Operations

Building the New Company: Finance

Integration Update
Task 3 & 4 Recommendations

March 21, 2007

Integration

National Grid • KeySpan



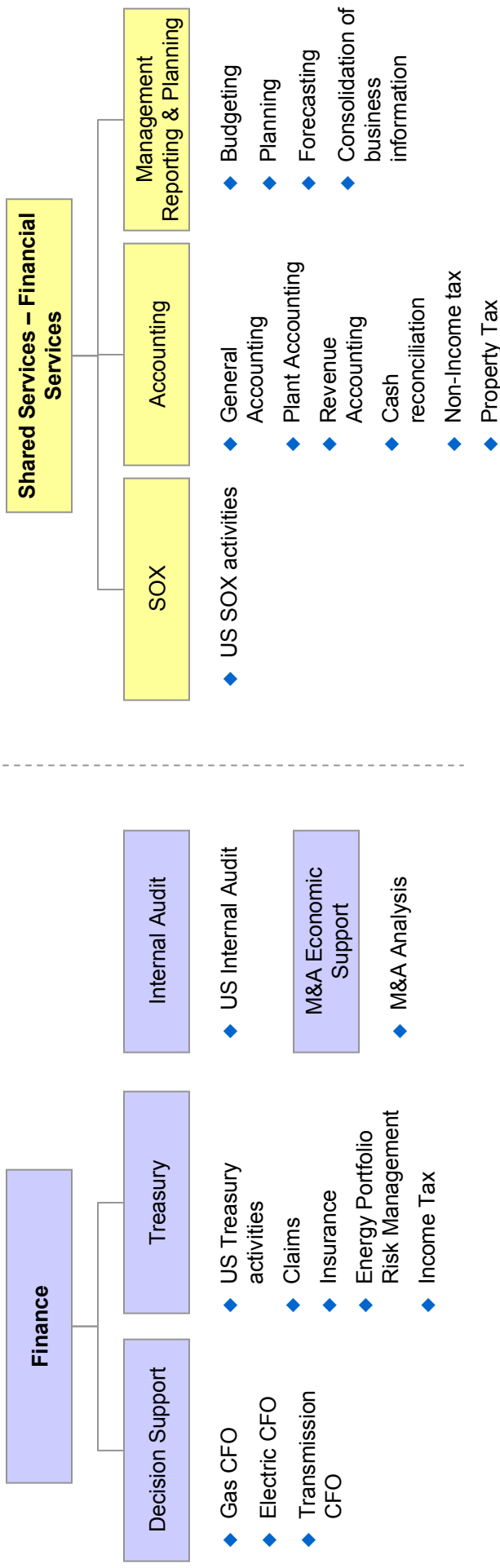
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Charts
- ◆ Next Steps

Executive Summary: Finance Overview

The new Finance organization will be focused on providing support to the business units and ensuring that US fiduciary and funding requirements are met

Scope of Functions



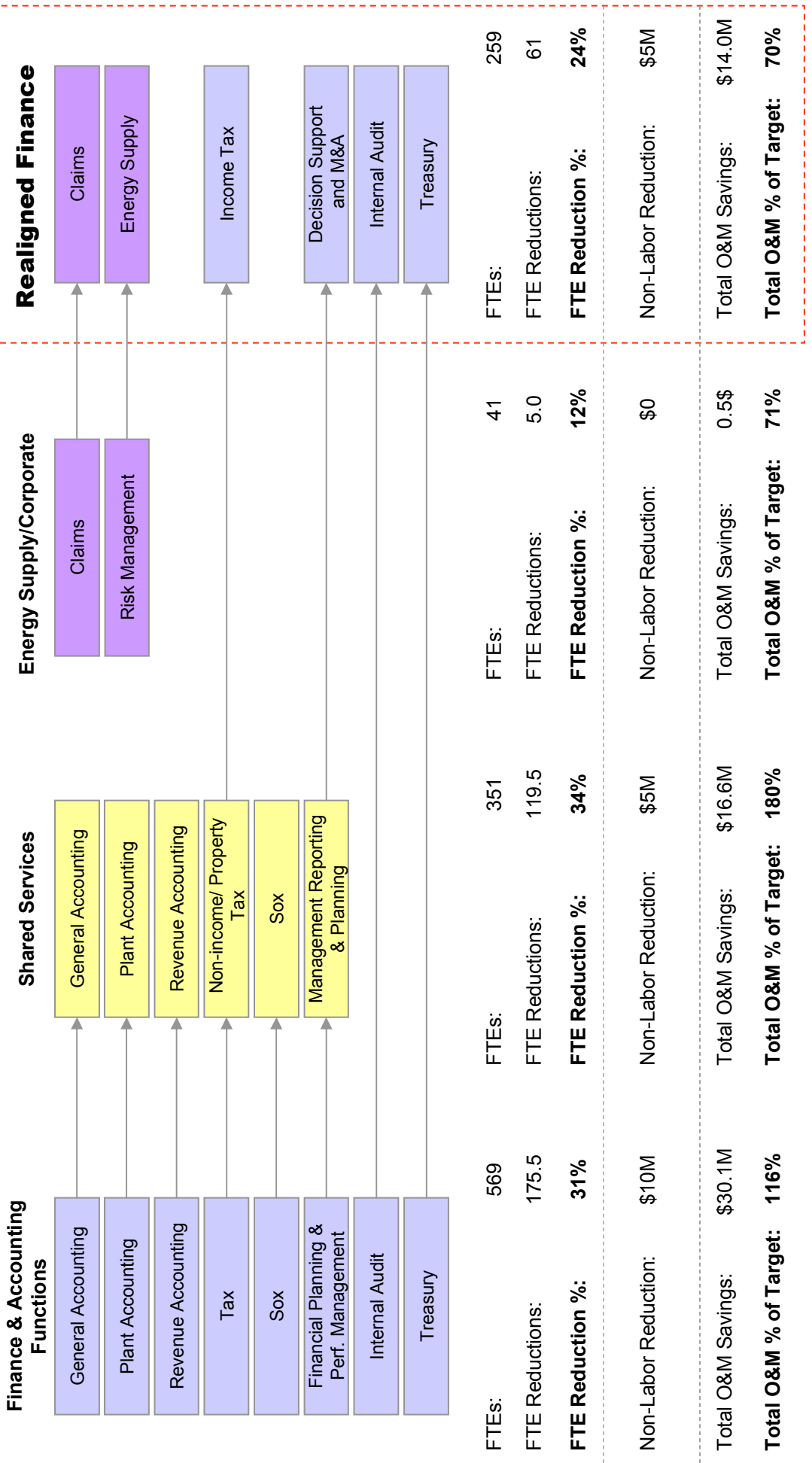
Guiding Principles and Operating Philosophy

- ◆ Operate in a global environment and align key functions with the lines of business
- ◆ Consolidate and centralize wherever possible to ensure efficient operations (i.e. align volume driven functions with Shared Services)
- ◆ Implement a common set of processes and capabilities, which will enable reductions in staff and lower financial risks
- ◆ Use a common IS platform to enable synergies as well as platform for future growth

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Finance & Accounting Functions

Finance has identified \$30M in total O&M Savings; aligning the savings with the new operational model has shifted \$17M to Shared Services



O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Savings Identified

Savings Levels

Overall identified opportunities will yield approximately \$14 M of O&M savings.

	KeySpan	National Grid	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing – Synergies	98	78	176	57.5	118.5	33%
Staffing - Limited Synergies ¹	62	16	78	3.5	74.5	4%
Staffing (FTEs)	160	94	254	61	193	24%
O&M Labor Costs (unloaded)	\$16.9	\$10.0	\$26.8	\$5.6	\$21.2	21%
Labor Loader	\$9.1	\$5.4	\$14.5	\$3.3	\$11.2	23%
O&M Non-Labor Costs	\$34.4	\$17.1	\$51.6	\$5.1	\$46.4	10%
Total ² (\$M)	\$60.5	\$32.4	\$92.9	\$14.0	\$78.9	15%

Key Initiatives

- ◆ Move towards a global operating model and consolidate overlapping positions and duplicative activities
 - Treasury & Tax, Decision Support, M&A, Internal Audit
- ◆ Align specific US based activities with the UK
 - Investor Relations, Strategic Planning, Strategic Execution
- ◆ Consolidate insurance spend between the two companies
- ◆ Establish effective commodity and market risk organization
- ◆ Establish decision support groups to support business unit reporting

Open Issues/Next Steps

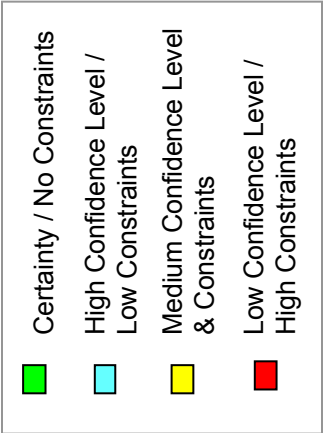
- ◆ Continue to ensure Day 1 initiatives are on schedule
- ◆ Implement new operating model and name remaining positions
- ◆ Open issues:
 - Resolve claims/OCIP and its placement within the organization
 - Load forecasting
 - Accounting for Income Tax

Note: 1. Areas with limited synergies include Gas, Transmission, LIPA, Generation, KSI, Marketing Decision Support and Risk Management
 2. O&M budget dollars are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 1.54 loader on labor.

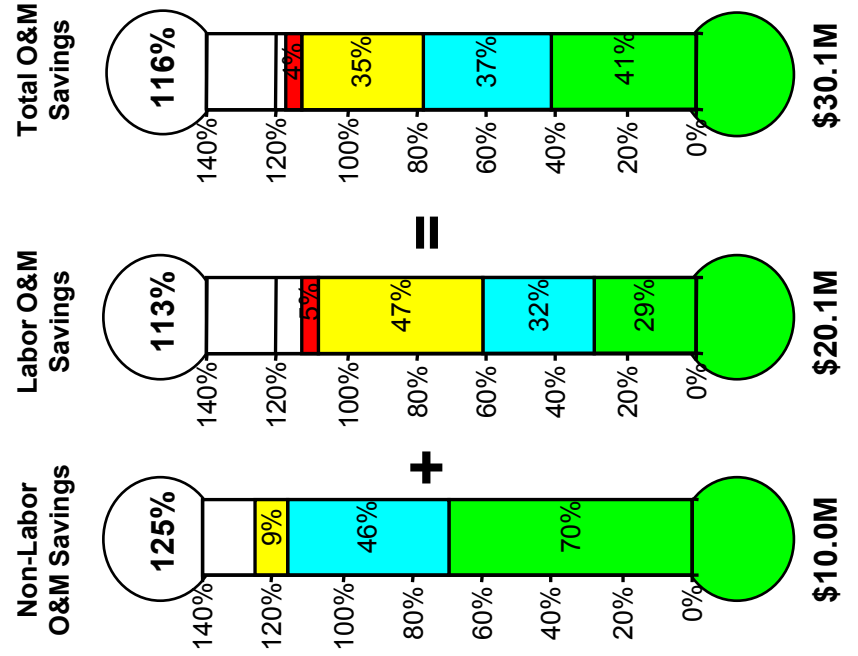
O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Targets

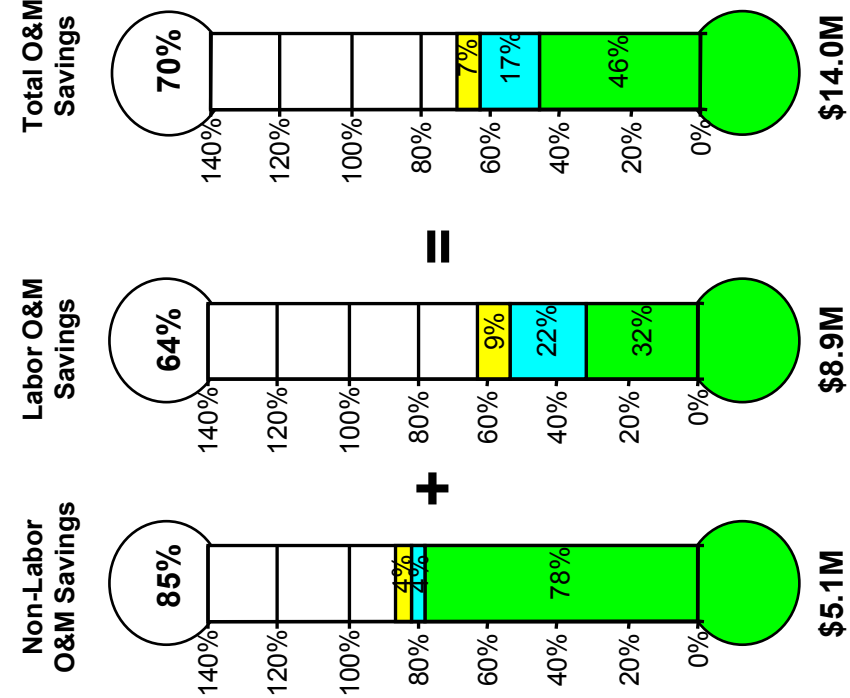
The identified O&M savings for Finance are 70% of the Integration target; although as a whole, total savings identified are 116% of the integration target



Finance & Accounting Functions



Re-aligned Finance Team

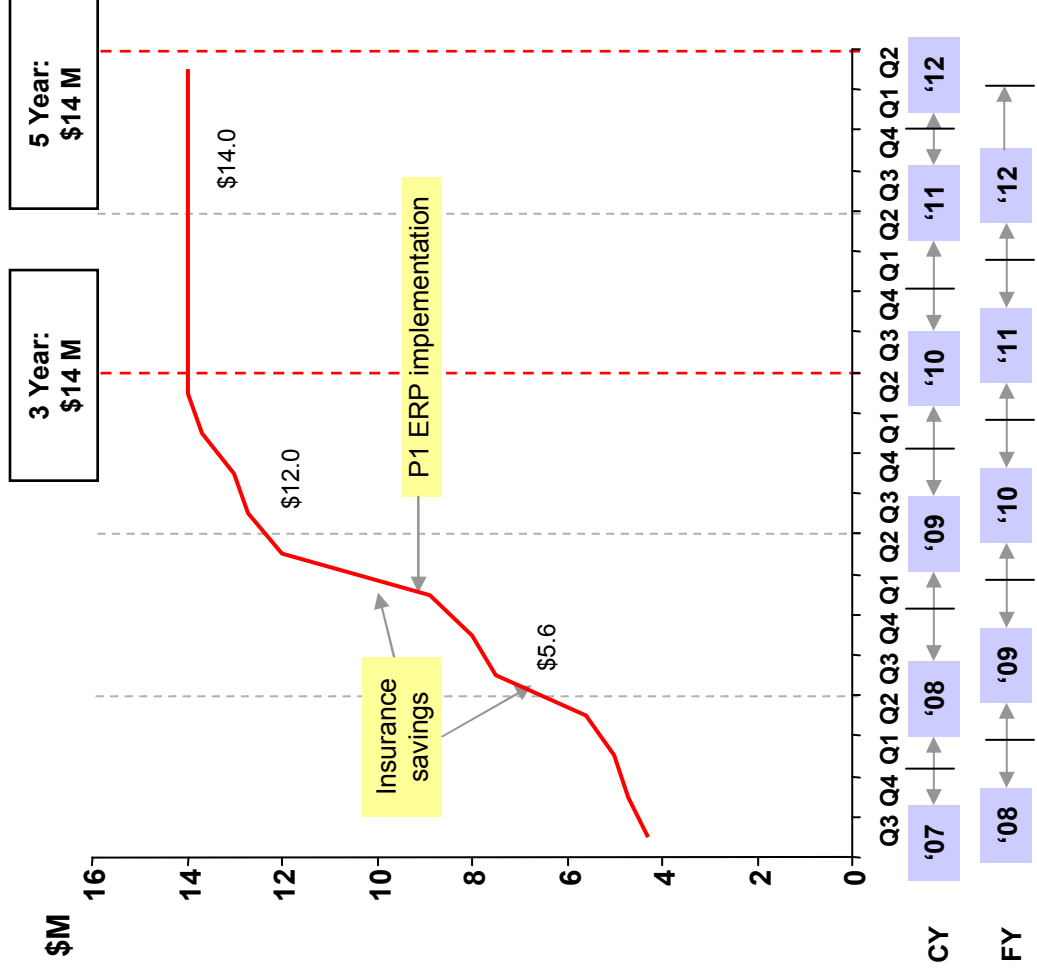


354 accounting related positions have moved to Shared Services; the majority of these positions are volume driven and thus have greater redundancies

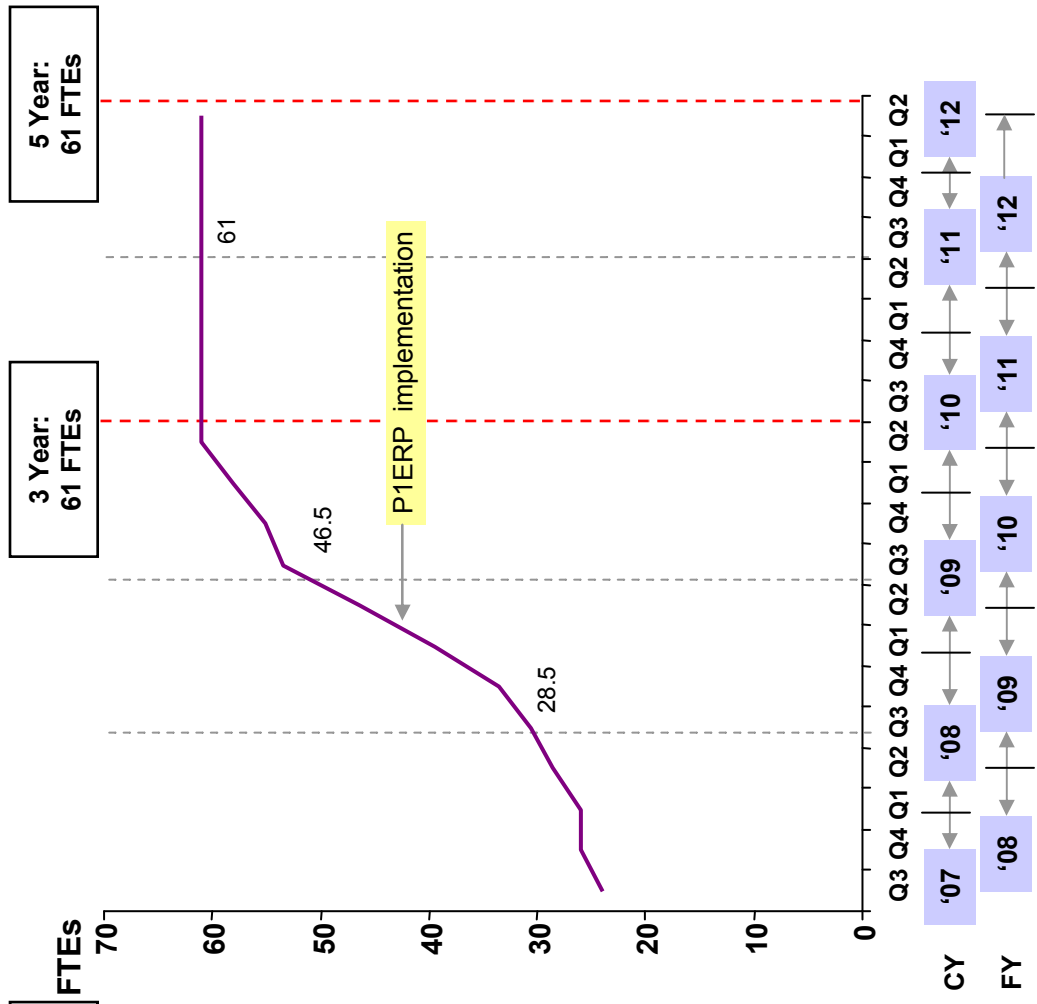
Executive Summary: Total Savings and FTE Reductions Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings (Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:

All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor Savings (\$000s)	Non-Labor Savings (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ Consolidate insurance policies	\$158	\$2,600	N/A ¹	
◆ Short term Tax activities related to the transaction (e.g. Short period returns, reserve analysis, tax basis balance accounting, etc.)	\$112	\$0	\$2,500	
◆ Other Treasury related activities (Share termination, transfer agent)	\$0	\$570	\$230	✓
Subtotal	\$158	\$3,170	\$2,730	
◆ Standardize Tax applications	\$0	\$0	\$175 ²	
◆ Implement budgeting/forecasting systems (Hyperion)	\$500	\$0	Part of P1, reported by IS	
◆ Consolidate onto one Treasury Workstation	\$0	\$40	\$237 ²	
◆ Migrate KeySpan to PAWS audit software	\$0	\$0	\$180 ²	
Subtotal – IS related CTA	\$500	\$40	\$592²	
Total CTA	\$658	\$3,210	\$3,322	

Note: 1. Insurance run-off costs will be embedded within Purchase Accounting's Fair Value Adjustment. Could be circa \$10m.
2. IS Related CTA is also reported by IS

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structures
- ◆ Next Steps

Group Treasury: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Day N FTEs	% Reductions	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Total O&M Savings (\$000s)
Treasury	29.5	17.5	12.0	59%	\$ 2,330	\$ 910	\$ 3,240
Claims	29	2.0	27.0	7%	\$ 205	\$ -	\$ 205
Insurance	6.5	1.0	5.5	15%	\$ 158	\$ 2,669	\$ 2,827
Risk Management	10	3.0	7.0	30%	\$ 270	\$ -	\$ 270
Tax	21	3.0	18.0	14%	\$ 444	\$ -	\$ 444
Total	96	26.5	69.5	28%	\$ 3,407	\$ 3,579	\$ 6,986

Key Initiatives / Major Recommendations

- ◆ Move towards a consolidated global insurance, investment management and treasury operation
- ◆ Adopt and use KeySpan's Captive insurance program
- ◆ Consolidate pension trusts to provide additional efficiencies
- ◆ Eliminate one set of transfer agent fees
- ◆ Consolidate the number of bank accounts used by both companies
- ◆ Uphold a high level of risk management for trading activities
- ◆ Standardize usage of PowerTax software across the organization

Decision Support and M&A: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Transfers	Integration Reductions	Day N FTEs	% Reductions	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Total O&M Savings (\$000s)
Gas Decision Support	30	8 ¹	0	38	0%	\$0	\$0	0.00
Electric Decision Support	50.5	0	7.5	43	15%	\$769	\$0	\$769
Transmission Decision Support	14	0	0	14	0%	\$0	\$0	\$ -
IS Decision Support	8	0	3	5	38%	\$322	\$0	\$322
Mergers & Acquisition	8	1 ³	0 ²	9	0%	\$0	\$0	\$ -
Strategic Planning/Execution and Investor Relations	14	0	13	1	93%	\$2,064	\$1,037	\$3,101
CFOs and Integration Resources	4	0	4	0	100%	\$1,177	\$495	\$1,672
Total	128.5⁴	9	27.5	110	20%	\$4,333	\$1,532	\$5,865

Key Initiatives / Major Recommendations

- ◆ Reduce certain KSE holding company activities (e.g. strategic planning, strategic execution, etc.)
- ◆ Move KeySpan to the Hyperion Planning model of National Grid, which meets UK & US requirements
- ◆ Develop long term financial targets and strategy for each of the business units in conjunction with financial and corporate strategy
- ◆ Formalize capital budgeting process consistent with current KSE and UK standards
- ◆ Design a decision support unit within each of the lines of business

Note: 1. Transfers of 8 FTEs (3 from Shared Services – General Accounting; 4 from Corporate – Load Forecasting; 1 from Shared Services- Executive
 2. Additional reductions will be achieved in the UK M&A team, not shown here
 3. Transferred 1 FTE from Corporate
 4. Includes 2 NEG FTEs (1 in Gas DS and 1 in M&A support)

Internal Audit: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions	Day N FTEs	% Reductions	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Total O&M Savings (\$000s)
Internal Audit	31.5	7 ¹	24.5	22%	\$ 1,154	\$ -	\$ 1,154
Total	31.5	7	24.5	22%	\$ 1,154	\$ -	\$ 1,154




Key Initiatives / Major Recommendations


- ◆ Formalize that the Audit group leads fraud investigations and maintain appropriate communications with other groups as needed (i.e. Compliance & Ethics, Security, etc.)
- ◆ Implement PAWS planning software

Note: 1. Additional reductions of 4FTEs will be achieved in the UK Internal Audit team, which are not shown here; in addition 9 FTEs will be reduced as part of the Day N SOX group, currently these groups work in tandem and share resources at KSE

Day 1 initiatives

Finance Day 1 initiatives include the following:


Project name	Overall Progress	Comments/status	Key milestones (Passed or upcoming)
FY08 budgets in place		<ul style="list-style-type: none"> Will initiate process shortly 	<ul style="list-style-type: none"> TBD
Amend Treasury related activities		<ul style="list-style-type: none"> Will start project closer to closing date <ul style="list-style-type: none"> Banking relationship changes, insurance changes, counter party credit limits 	<ul style="list-style-type: none"> TBD
KSE Share termination		<ul style="list-style-type: none"> Will start closer to closing date 	<ul style="list-style-type: none"> TBD

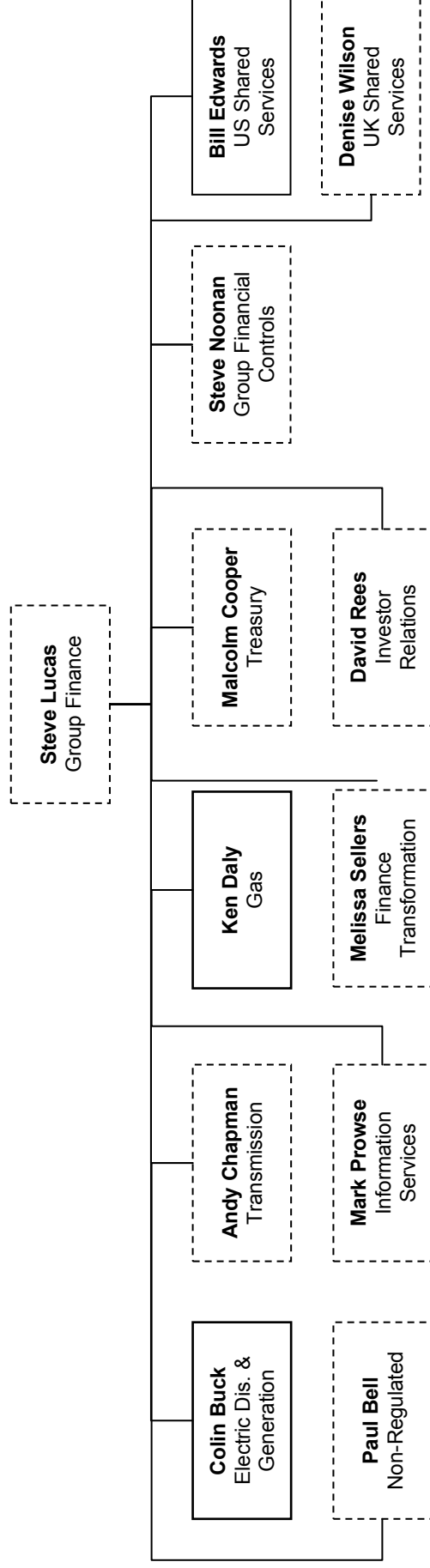
Legend:				
	On target	At risk	Behind	Not started

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Charts**
- ◆ Next Steps

Group Finance: High Level Organization

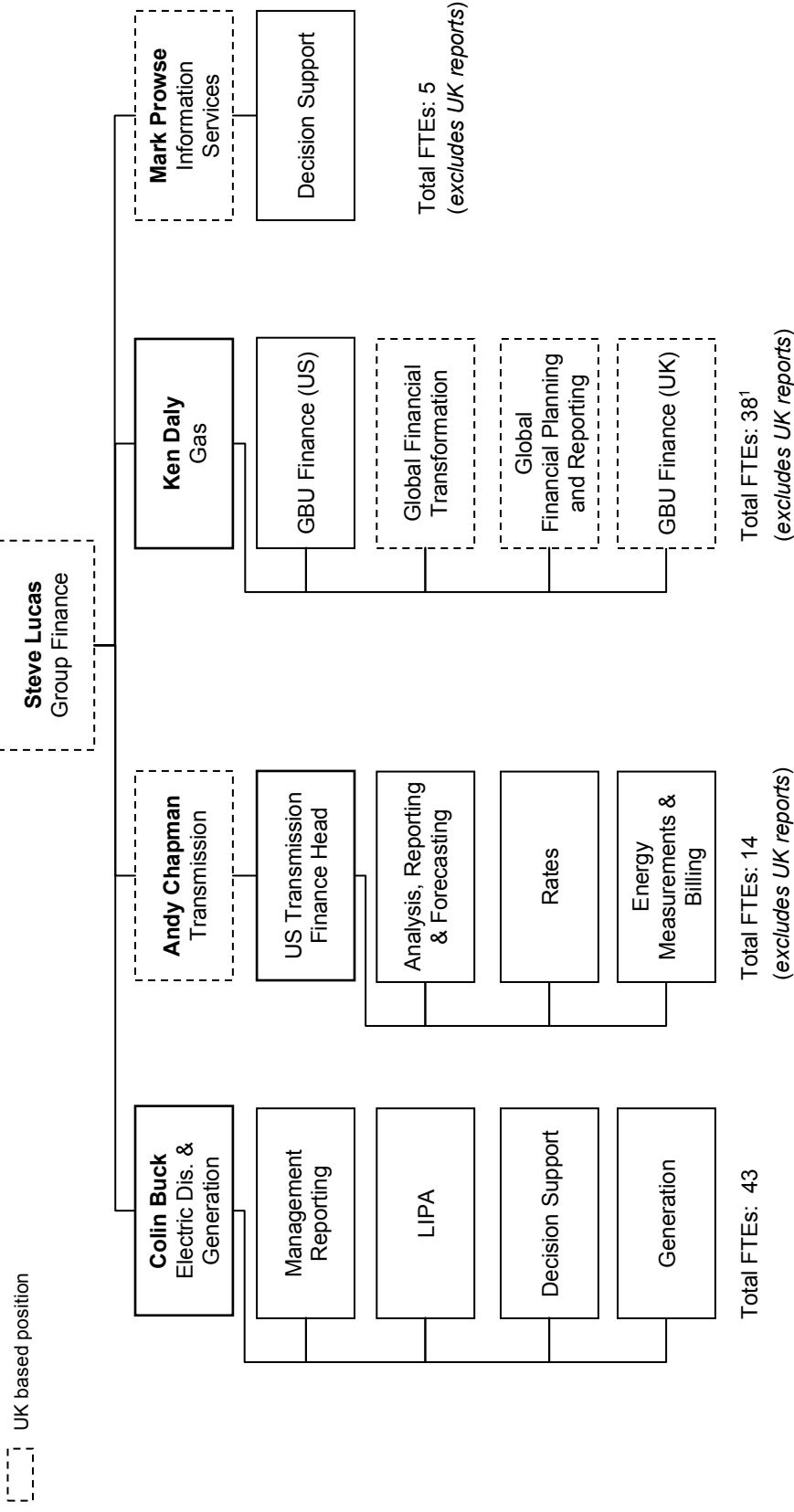
 UK based position²



Department	Management	Union	Total
Electric Distribution & Generation	41	2	43
Transmission	14	0	14
Gas	37	1	38
Treasury	69.5	0	69.5
Information Services	4	1	5
Strategic Planning (not shown)	1	0	1
Total	166.5¹	4	170.5

Note: 1. Includes 2 NEG FTEs (1 in Gas DS and 1 in M&A support)
 2. Some of the UK based positions do not have US based employees

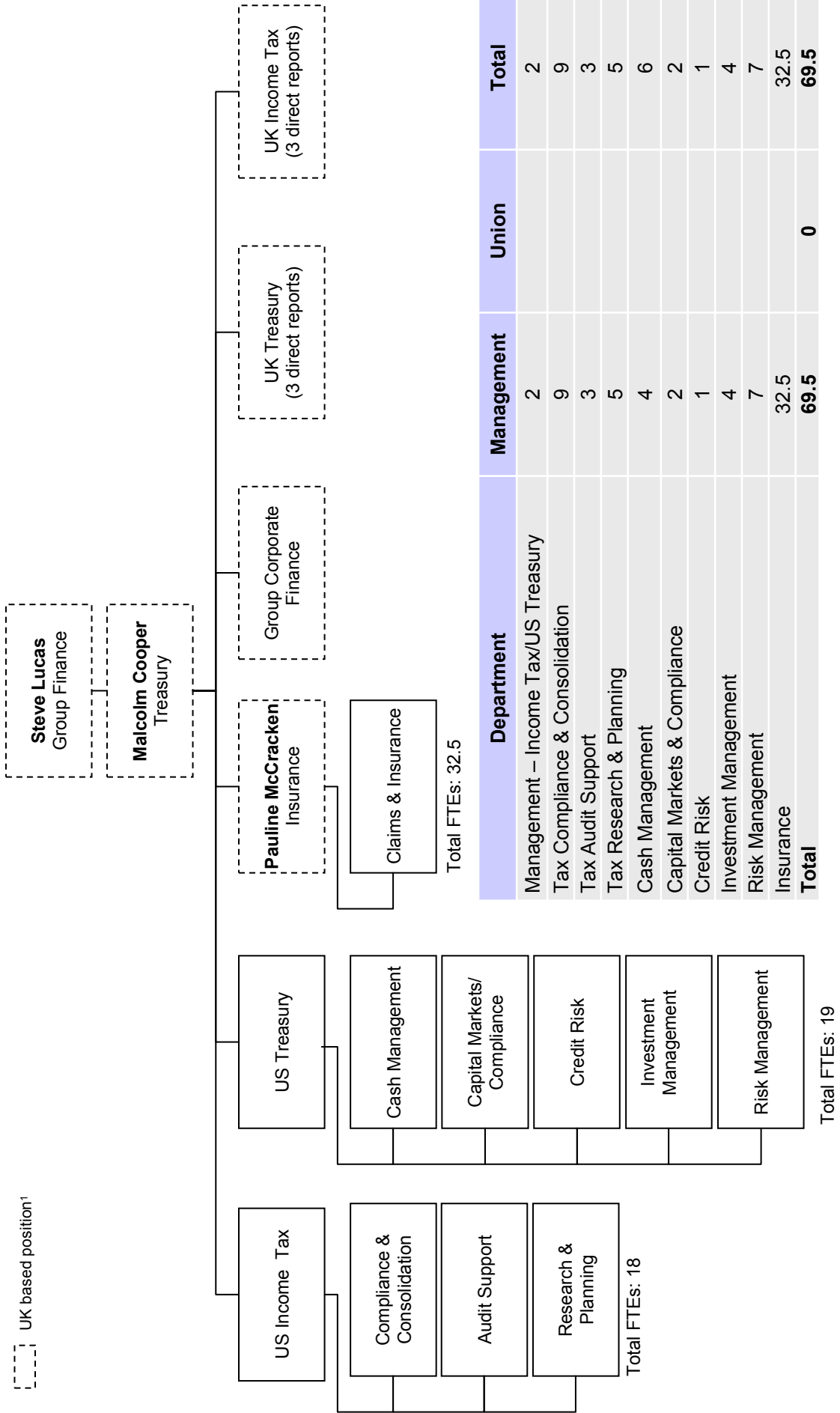
Group Finance: CFO Organization Structure



Department	Management	Union	Total
Electric Distribution & Generation	41	2	43
Transmission	14	0	14
Gas	37	1	38
Information Services	4	1	5
Total	96	4	100

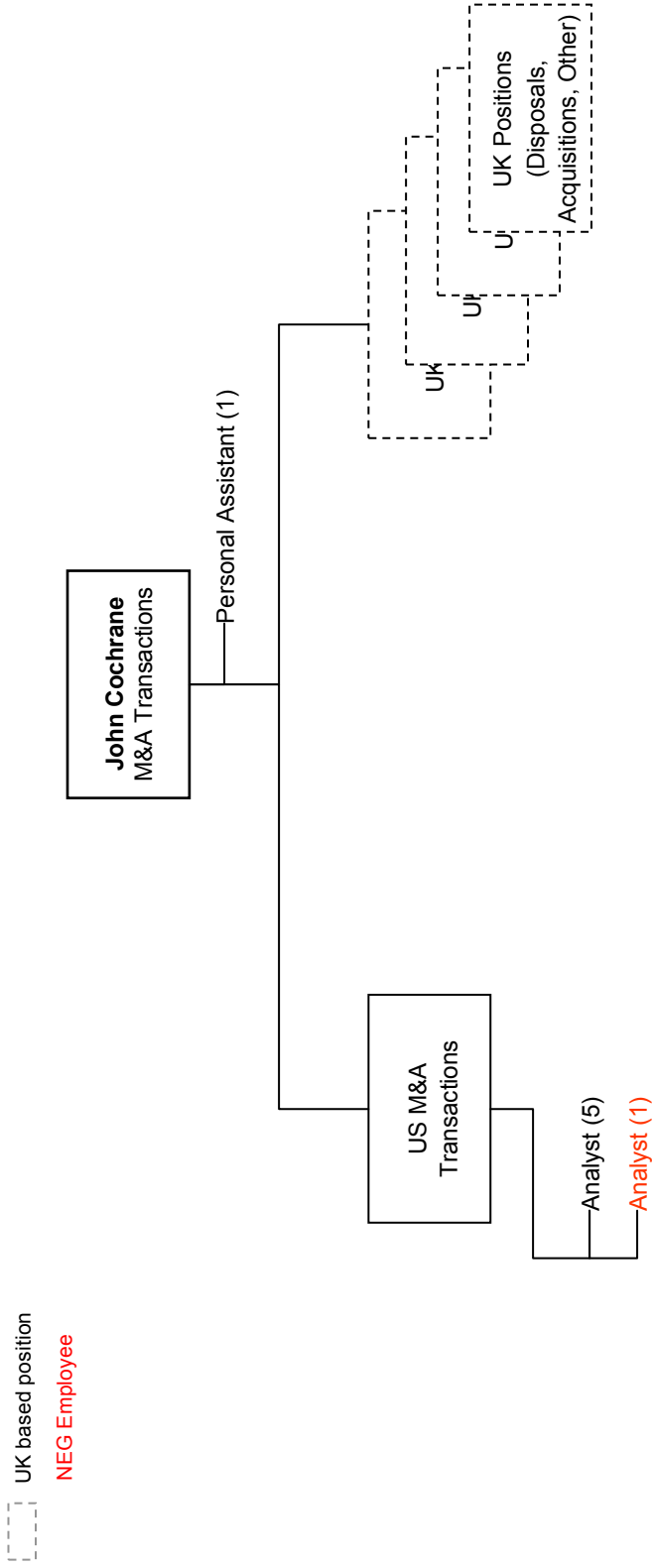
Note: 1. Includes 1 NEG employee

Group Finance: Treasury Organization Structure



Note: 1. Excludes UK based employees

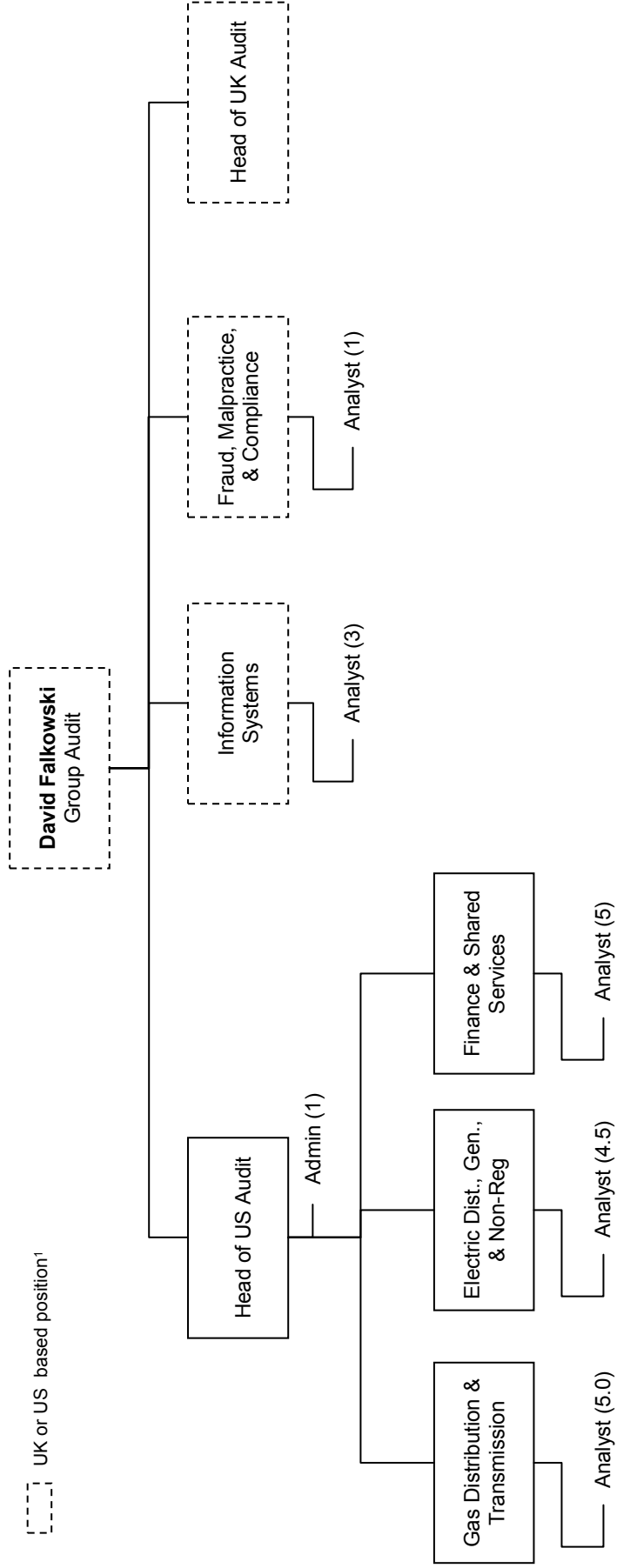
M&A Transactions Group Organization Structure



Department	Management	Union	Total
Management (includes Admin)	2	0	2
US Based Support & Analysis	7	0	7
Total	9	0	9

Internal Audit

In the US there will be 24.5FTEs completing Internal Audit activities 1



Department	Management	Union	Total
Head of US Audit & Admin	2		2
Gas Distribution & Transmission	6		6
Electric Distribution, Generation & Non-Reg	5.5		5.5
Finance & Shared Services	6		6
Fraud, Malpractice, & Compliance	1		1
Information Systems	4		4
Total	24.5		24.5

Note: 1. Excludes UK based employees in counts

Contents

- ◆ Executive Summary
- ◆ Major Initiatives & Initial Timing
- ◆ High Level Organization Charts
- ◆ **Next Steps**

Implementation challenges and mitigation

Implementation challenges	Mitigation plans
<ul style="list-style-type: none"> ◆ Consolidate Financial System (e.g. PeopleSoft, PowerPlant, Hyperion, etc.) <ul style="list-style-type: none"> – Delaying consolidation may negatively impact savings, limit effective SOX compliance, and prevent analysis for regulatory filings 	<ul style="list-style-type: none"> ◆ Develop alternative plans (i.e. bridge, interfaces, etc.) if a global work management solution is pursued, thus delaying the current direction
<ul style="list-style-type: none"> ◆ Implement new Finance/Business operating model 	<ul style="list-style-type: none"> ◆ Communicate operational strategy to all employees ◆ Ensure new processes are implemented that enforce the new strategy and are well documented to enable an easier transition
<ul style="list-style-type: none"> ◆ Retain key staff members 	<ul style="list-style-type: none"> ◆ Communicate with valued employees and ensure that they understand what their future role is with the company
<ul style="list-style-type: none"> ◆ Development of a combined fiscal budget 	<ul style="list-style-type: none"> ◆ Ensure that integration plans and savings are well documented and can be transitioned into new budgets

Next steps & Open Issues

- ◆ Continue to ensure Day 1 initiatives are on schedule
- ◆ Implement new operating model and name remaining positions
- ◆ Open issues:
 - Resolve claims/OCIP and its placement within the organization
 - Load forecasting
 - Accounting for Income Tax

Building the New Company: Shared Services

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan

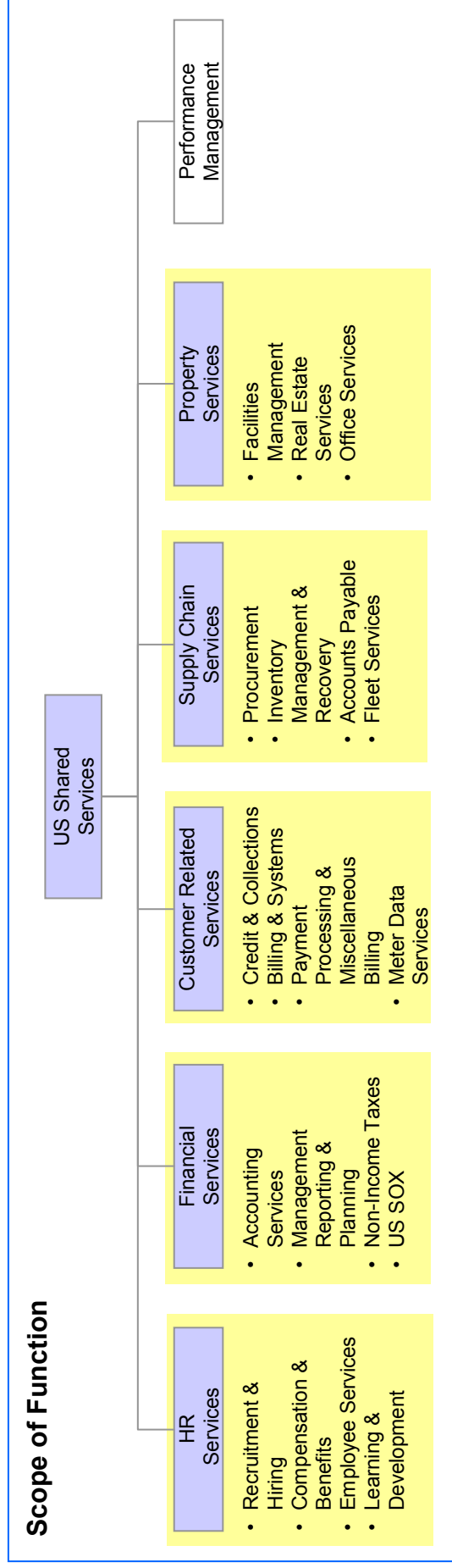


Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: US Shared Services

The new US Shared Services is organized around five major service areas and is designed in accordance with a unified set of guiding principles



Guiding Principles and Operating Philosophy

- ◆ Group like functions to leverage scale and maximize efficiency
- ◆ Standardize process across and within functions
- ◆ Design around end-to-end processes
- ◆ Ensure close coordination with and accountability to clients

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Shared Services

The areas within the new Shared Services identified \$38M in O&M savings, an additional \$13.5M of savings in the shared areas of facilities and fleet, plus \$38M in Bad Debt reduction

Identified Savings:

Shared Services Functions	National Grid	KeySpan	Combined	Reduction	Post-Merger	Reduction (%)
Staffing (FTEs)	1,073	877	1,950	376.5	1,573.5	19%
O&M Labor Costs (unloaded) (\$000s)	\$38,000	\$36,893	\$74,893	\$20,812	\$54,081	28%
Labor Loader (\$000s)	\$19,000	\$18,446	\$37,446	\$10,682	\$26,764	29%
O&M Non-Labor (\$000s)	\$64,538	\$53,000	\$117,538	\$6,490	\$111,048	6%
Total ⁽¹⁾ (\$000s)	\$121,538	\$108,339	\$229,877	\$37,984	\$191,893	17%
Bad Debt (2006 actual) (\$000s)	\$ 78,500	\$ 73,200	\$ 151,700	\$ 38,300	\$ 113,600	25%

Shared Savings (non-Labor O&M)	Facilities	Fleet
Savings (\$000s)	\$ 10,600	\$ 2,800

Key Initiatives

- ◆ Consolidate offices and operating facilities
- ◆ Perform strategic sourcing of materials & services
- ◆ Reduce bad debt within Credit & Collections
- ◆ Consolidate and standardize enabling IS applications
- ◆ Optimize and standardize business processes
- ◆ Consolidate functional organizations

Open Issues/Next Steps

- ◆ Develop detailed facilities consolidation plan
(Requires executive decision)
 - New England offices
 - Brooklyn office & Long Island operating sites
- ◆ Complete initiative implementation plans
- ◆ Prioritize and sequence initiatives
- ◆ Ensure Day 1 initiatives are on-track

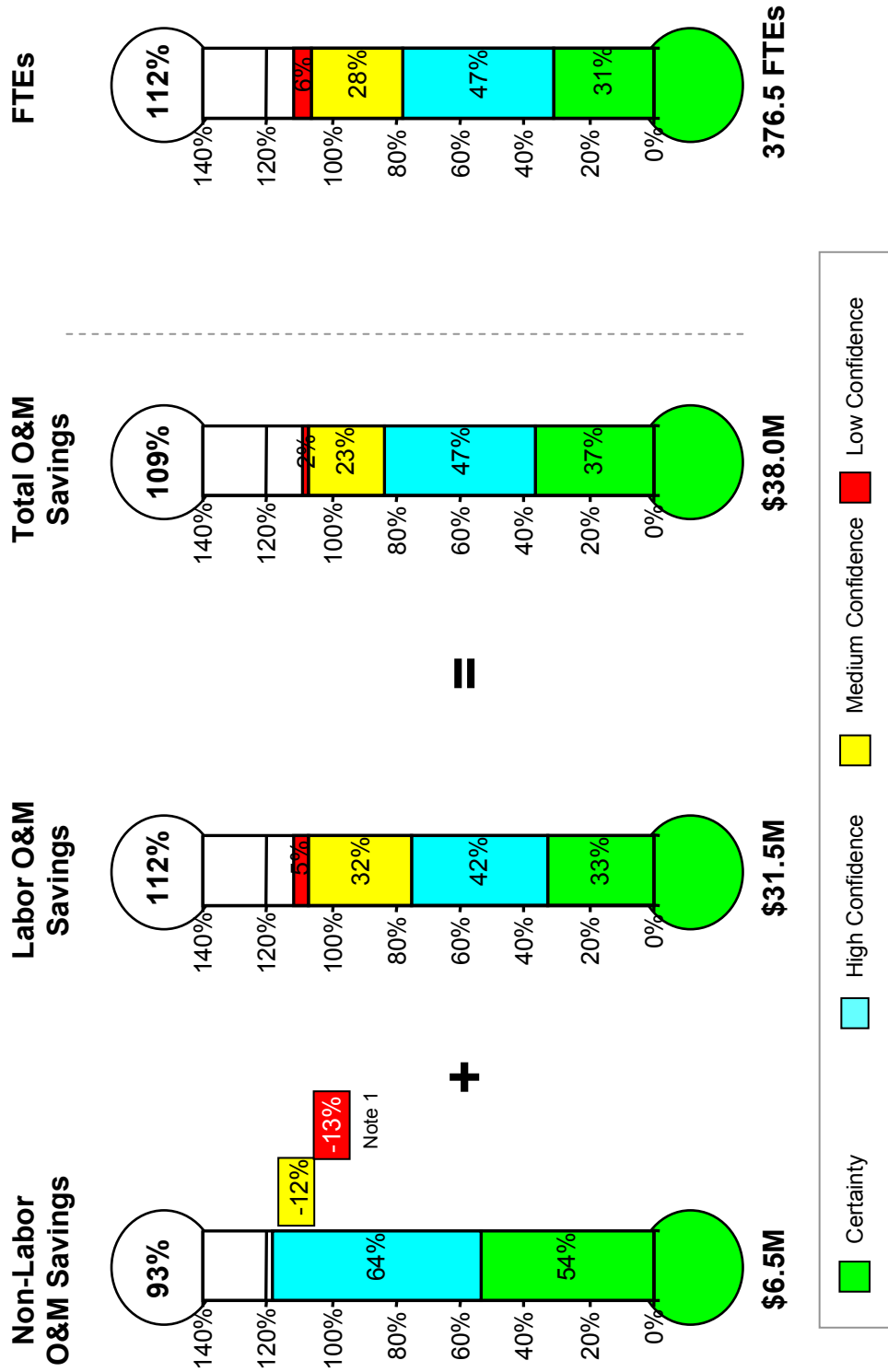
Note: (1) O&M budget dollars are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 1.5 loader on labor.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Targets

The total O&M savings identified within Shared Services are 109% of the Integration target

Progress Against Targets



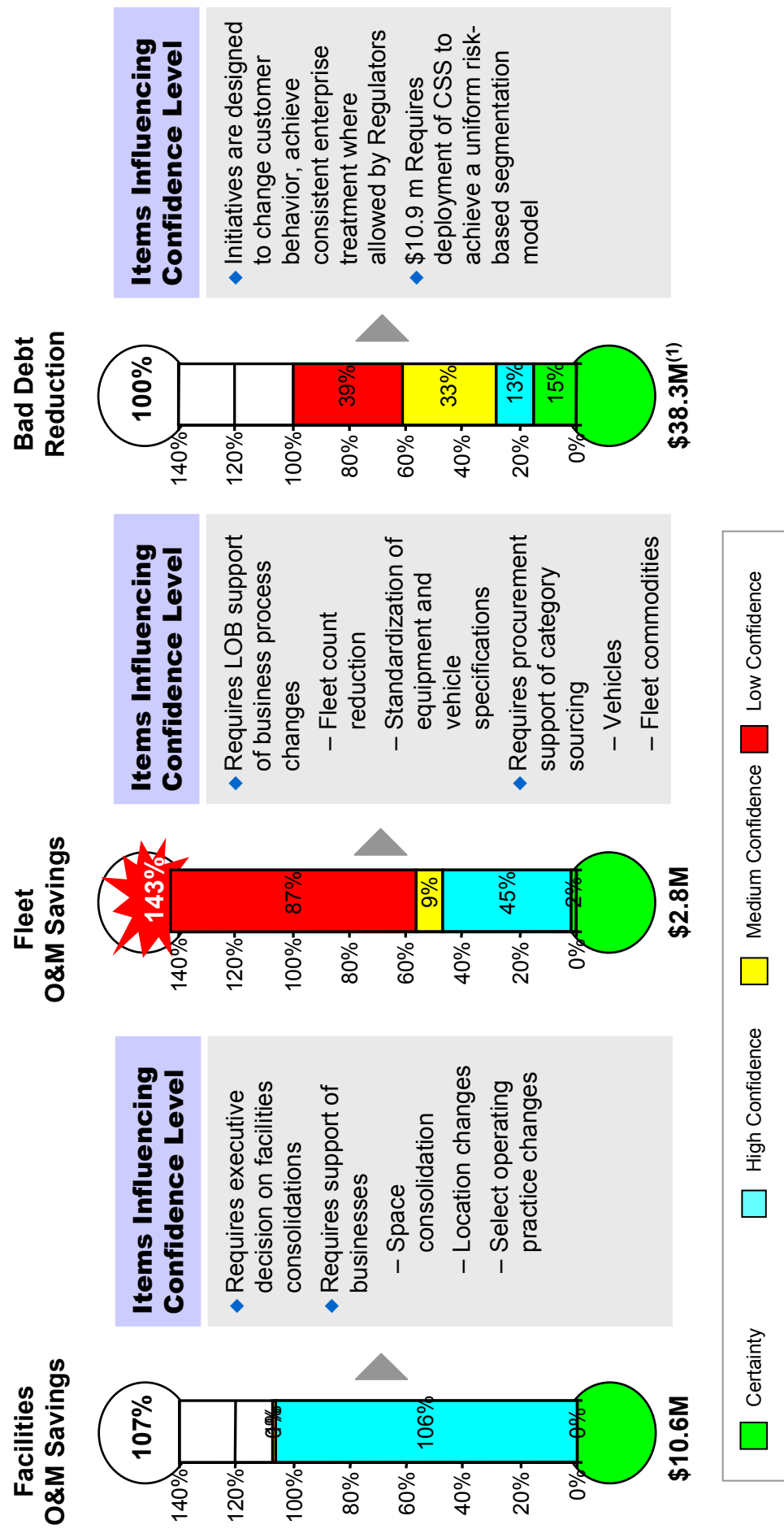
Note: (1) Negative non-labor O&M savings represent investments in initiatives that drive savings in other benefit categories. Within "Low" confidence area, CUST_CNC_10 ("Adopt system-wide policy of collecting 100% on field visits") represents \$0.9M in costs and drives bad debt reduction. Multiple Credit & Collections initiatives with "Medium" confidence have investments that drive non-O&M benefits.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Shared Targets

Savings identified within Facilities, Fleet, and Credit & Collections are all beyond or near their targets, but confidence levels are reflective of identified dependencies

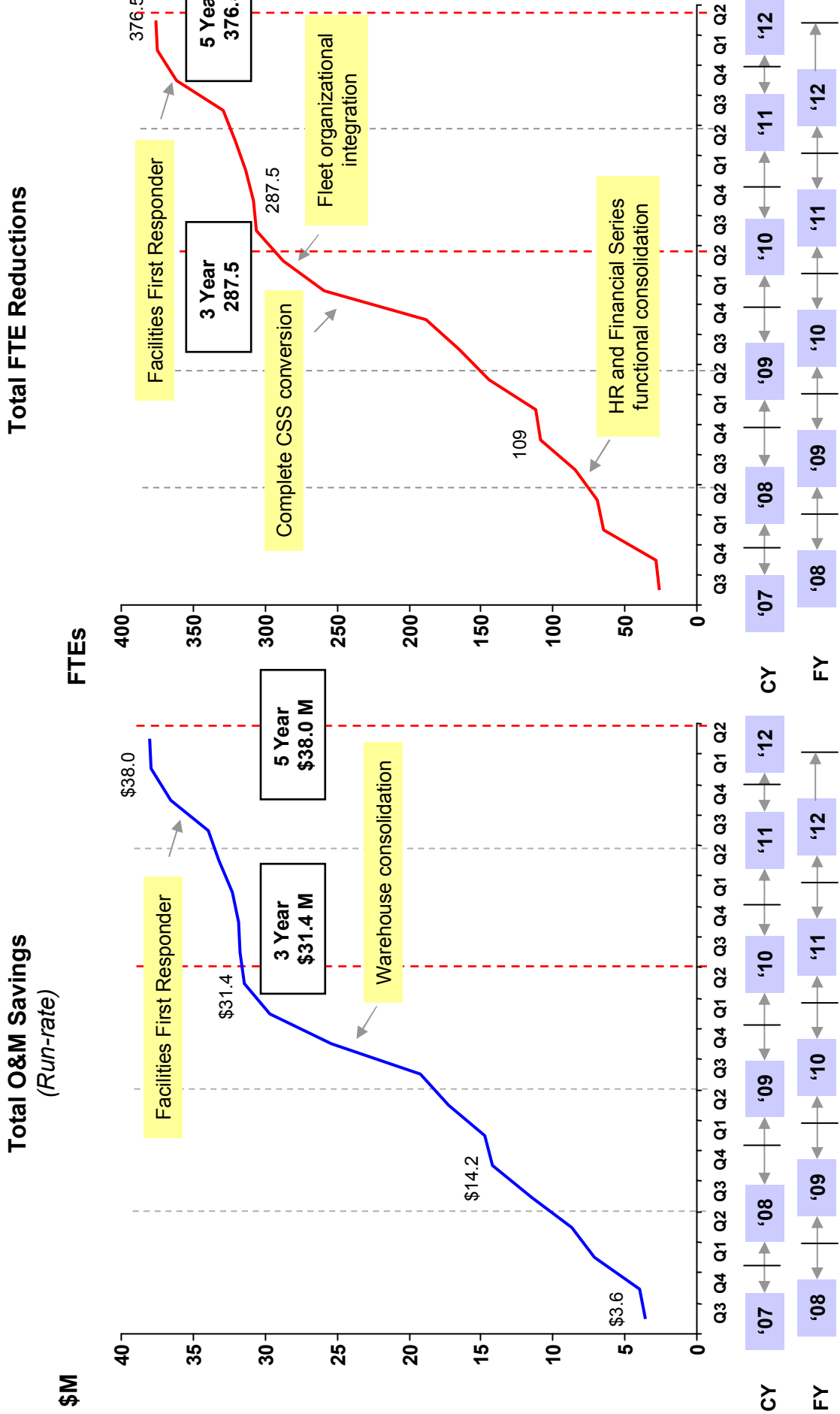
Progress Against Targets



Note: (1) There are an additional \$2.1 M in revenue and an incremental \$0.2 M in bad debt associated with the implementation of collection fees.

Executive Summary: Total savings and FTE reductions over time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

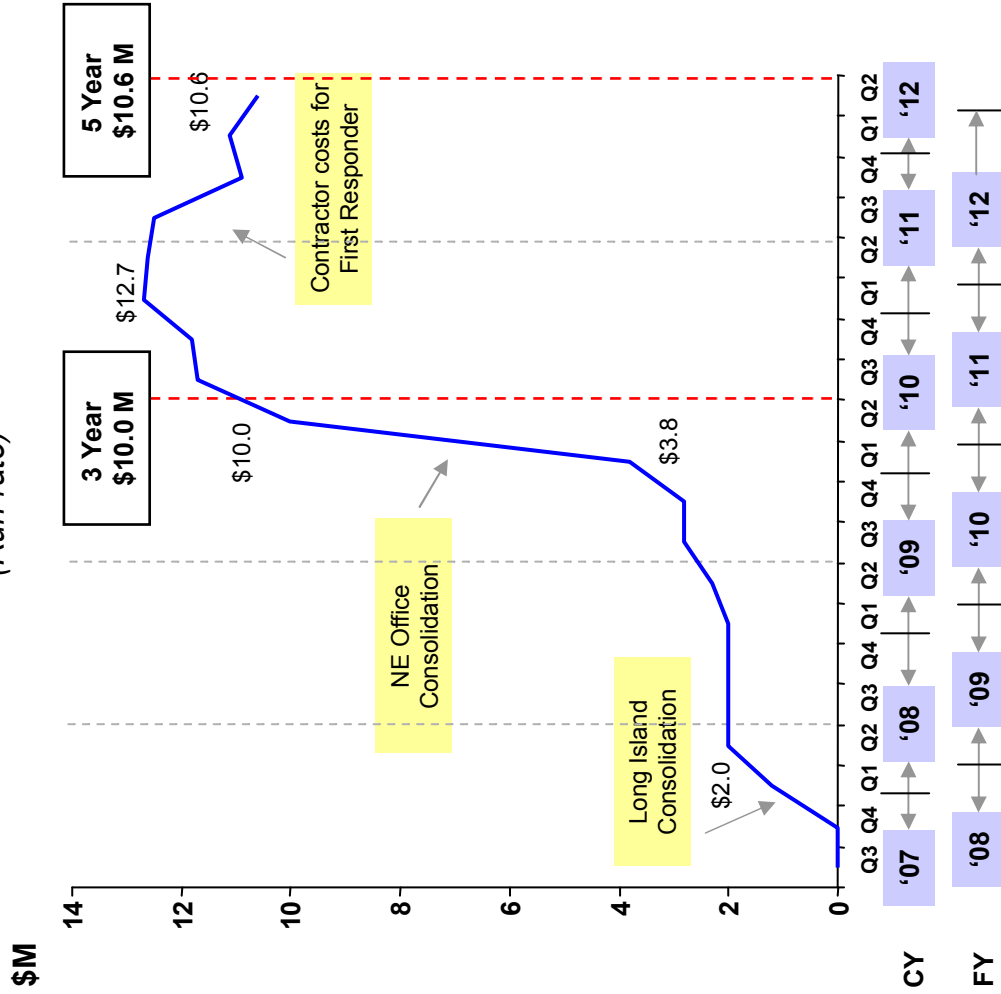


O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Savings over time – Facilities non-labor O&M

Driven primarily through consolidation of office space and warehouses, the Facilities team has identified nearly \$10.6 Million in recurring O&M savings

Non-Labor O&M Savings (Run-rate)



Key Assumptions

- ◆ Client organizations will be prepared to integrate their facility requirements
 - Office-based Staff
 - Call Centers
 - Data Centers
 - Operating Sites
- ◆ New England offices will be consolidated from 4 existing locations into 2
- ◆ Existing Long Island consolidation plan will be expedited and completed

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Recommended Future Approach: Supply Chain Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings (\$000)
Accounts Payable	45	13.5	30%	(\$155)	\$1,147	\$992
Fleet	401	56	14%	note 1	\$3,438	\$3,438
Inventory & Materials Management	28	4.5	16%	-	\$109	\$109
Investment Recovery	16	(2)	(13%)	-	(\$36)	(\$36)
Procurement	76	16	21%	\$1,156	\$1,693	\$2,849
Warehousing & Material Logistics	226.5	25.5	11%	\$24	\$452	\$476
Total	747.5	100	13%	\$ 1,180	\$ 5,656	\$ 6,836

Key Initiatives / Major Recommendations

- ◆ Perform strategic sourcing on major materials & service categories
- ◆ Consolidate warehouses on Long Island and in New England
- ◆ Optimize inventory, warehousing & logistics processes and systems
- ◆ Perform joint procurement of fleet vehicles and equipment
- ◆ Standardize fleet vehicle and equipment specifications
- ◆ Standardize Accounts Payable processes & systems
- ◆ Consolidate functions across each combined organization

Note: (1) O&M non-labor savings within Fleet accrue to a separate area. These are counted against the “shared savings” area referenced in the Executive summary.

Costs To Achieve: Supply Chain Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve – Supply Chain Services

Initiative Description	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Capital Savings (\$000s)	Other Non-Labor (\$000s)	Cost to Achieve (\$000s)	Related IS Initiative
◆ NE Warehouse Consolidation	\$232	\$450	\$928	-	\$6,025	
◆ NYC / LI Warehouse Operations (PAR/MMT) ⁽¹⁾	\$144	-	\$576	\$233 ⁽²⁾	\$6,000 ⁽³⁾	
◆ Procurement Joint Buy / Leveraged Spend	-	\$12,144	\$15,688	-	\$3,062	
◆ Re-Branding of KSE Vehicles	-	-	-	-	\$1,800	
SUB TOTAL	\$376	\$12,594	\$17,192	\$233	\$16,887	
IS-related CTA⁽⁴⁾						
◆ Optimize use of e-Commerce Technology	\$248	-	-	-	TDB	P1
◆ Implement Common Fleet Focus Application	-	-	-	-	\$200	P12
◆ Procurement Technology Transition	-	\$926	-	-	\$98	P1
TOTAL	\$624	\$13,520	\$17,192	\$233	\$17,185 +	

Note: (1) NYC / LI Warehouse Operations (PAR/MMT) includes warehouse consolidation and inventory reduction.

(2) Other non-labor benefits driven predominately by carrying costs associated with one-time inventory reduction of \$2.3M.

(3) Cost to achieve NYC / LI warehouse consolidation will be dependent upon availability of space for expansion.

(4) Cost to achieve IS related initiatives (IS enabled initiatives) are counted within the overall IS CTA. Numbers are provided here for reference.

Recommended Future Approach: Property Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings (\$000)
Facilities ⁽¹⁾	303.5	40.5	13 %	Note 1	\$ 3,328	\$ 4,348
Real Estate Services	53	3	5 %	\$ 560	\$ 267	\$ 827
Real Property Taxes	10.5	1	10%	-	\$ 109	\$ 109
Office Services ⁽²⁾	11	3	40%	\$ 170	\$ 280	\$ 450
Total	387	47.5	12 %	\$ 730	\$ 3,984	\$ 5,734

Key Initiatives / Major Recommendations

- ◆ Consolidate office facilities and operating facilities (e.g. warehouses)
- ◆ Sell *non-regulated*, non-operating surplus land (*one-time cash benefit*)
- ◆ Lease *regulated*, non-operating surplus land
- ◆ Standardize facilities maintenance and operating processes
- ◆ Consolidate Implement Information and Records Management for National Grid
- ◆ Outsource storage of KeySpan records
- ◆ Consolidate functions across each combined organization

Note: (1) O&M non-labor savings within Fleet accrue to a separate area. These are counted against the “shared savings” area referenced in the Executive summary.

(2) Office Services includes Records Management, Mail Services, Printing & Reproduction, and Bill & Print Services (currently in Customer Related Services). The inclusion of Bill and Print involves savings for “Consolidation of Bill, Print & Mail” (\$364,000 O&M).

Costs To Achieve: Property Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Draft:					
All Costs to Achieve to be reviewed and confirmed by leadership					
Initiative Description	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Proceeds from Sales (\$000s)	Cost to Achieve (\$000s)	Related IS Initiative
◆ Facilities Consolidation – Long Island — Bellmore & Greenlawn Operations Centers	\$230	\$3,555	\$26,000	\$9,100	
◆ Facilities Consolidation – NYC	\$306	\$1,439 ⁽¹⁾		\$5,100 ⁽²⁾	
◆ Facilities Consolidation – NE Offices	\$345	\$6,244	TBD	TBD	
◆ Facilities Consolidation – NE Operating Centers —Waltham Ops, Rivermoor, Commercial Pt.	\$1,500	\$740		\$10,800 ⁽³⁾	
◆ Change KSE Signage to National Grid on all Facilities	-	-		\$1,500	
◆ Outsource KSE Records Management	-	-		\$50	
◆ Standardize Real Estate Systems	-	\$10		\$100	
◆ Standardize Survey Organization & Systems	-	-		\$90	
◆ Outsource Bill, Print, Mail function	\$ 1,289	(\$ 925)		TBD	
TOTAL	\$3,670	\$11,063	\$26,000	\$26,740	
IS-related CTA⁽⁴⁾					
◆ Implement Info. & Records Management for NG				\$120	
TOTAL	\$3,670	\$11,063	\$26,000	\$26,860	

Note: (1) Realized savings will depend on final outcome of location decisions. This number assumes 2 floors at MetroTech can be vacated.
 (2) Cost includes a tenant work letter of approximately \$1.9M.
 (3) New Downtown Boston facility avoids approximately \$8.6M of incremental expenses.
 (4) Cost to achieve IS related initiatives (IS enabled initiatives) are counted within the overall IS CTA. Numbers are provided here for reference.

Recommended Future Approach: Financial Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	USBR Reductions	Day N	Total % Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings (\$000)
General Accounting	109	19.5	18%	0	89.5	18%	\$3,500	\$2,725	\$6,225
Revenue Related Accounting	15.5	12.5	81%	0	3	81%	\$0	\$1,184	\$1,184
Plant Accounting	59.5	15.5	26%	15	29	51%	\$9	\$272	\$281
Non-Income Tax	8	1	13%	0	7	13%	\$0	\$158	\$158
SOX	17	9	53%	0	8	53%	\$97	\$1,228	\$1,325
Management Reporting & Planning	48.5	29.5	61%	0	19	61%	\$0	\$3,161	\$3,161
Total	257.5	87	34%	15	155.5	40%	\$3,606	\$8,728	\$12,334

Key Initiatives / Major Recommendations

- ◆ Prepare consolidated financial statements meeting IFRS and US GAAP requirements
 - Consolidation of general ledger systems (i.e. PeopleSoft)
 - Adopting global chart of accounts
- ◆ Align monthly closing schedule to 2 days to align with US processes
- ◆ Align fiscal year end with Grid schedule (i.e. April-March)
- ◆ Consolidate to one Service company using the three point formula
- ◆ Implement segment reporting across the lines of business
- ◆ Adopt PowerPlant version that is currently used by National Grid
- ◆ Standardize usage of PowerTax software across the organization
- ◆ Reduce the number of SOX key controls
- ◆ Assure compliance with SOX controls

Note: 1. Majority of labor savings are capital and are not displayed

Costs To Achieve: Financial Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve – Financial Services

Initiative Description	Labor Savings (\$000s)	Non-Labor Savings (\$000s)	Incremental Margin (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ Implementing a 2 day close process to ensure data/requirements match UK system needs	\$0	\$0	\$0	\$800	✓
◆ True-up KSE depreciation rates to align with IFRS accounting	\$0	\$0	\$0	\$100	
Subtotal	\$0	\$0	\$0	\$900	
◆ Implementation of PeopleSoft financial package	\$2,400	\$0	\$0		
◆ Implementation of a single PowerPlant financial package	\$140	\$0	\$0	Will be reported by Information Services as part of P1	
◆ Consolidate US chart of accounts	\$0	\$0	\$0		✓
◆ Centralization of Revenue Reporting/Payment Processing contingent on a single customer system	\$1,706	\$0	\$0	Part of Customer's estimates	
◆ Sales and Use tax	\$0	\$0	\$0	\$862	
◆ Miscellaneous tax applications (PowerTax, STS, etc.) ¹	\$0	\$0	\$0	\$175	
◆ Migration of KSE SOX to Risk Navigator ¹	\$0	\$0	\$0	\$180	
Subtotal – IS Related CTA	\$4,246	\$0	\$0	\$1,217	
Total CTA	\$4,246	\$0	\$0	\$2,117	

Recommended Future Approach: Customer Related Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings (\$000s)	Bad Debt Savings / Incremental Revenue (\$M)
Credit & Collections ⁽¹⁾	143	7	5 %	(\$ 2,030)	\$ 639	(\$ 1,391)	\$40.2
Billing & Systems	44.5	16	36 %	\$ 160	\$ 500	\$ 660	N/A
Meter Data Services	38	0	0 %	\$ 0	\$ 0	\$ 0	N/A
Payment Processing & Miscellaneous Billing	82.5 ⁽²⁾	31	38 %	\$ 1,285	\$ 2,647	\$ 3,923	N/A
Total	308	54	79 %	(\$ 585)	\$ 3,786	\$ 3,192	\$40.2

Key Initiatives / Major Recommendations

- ◆ Implement CSS
- ◆ Implement consistent business processes
- ◆ Improve final bill performance
- ◆ Convert KeySpan heating customers to monthly billing
- ◆ Consolidate and centralize, where possible, payment processing locations
- ◆ Renegotiate existing lock box contracts and reduce to one lock box
- ◆ Explore competitive pricing opportunities for in-house payment processing
- ◆ Convert manual billing of KeySpan's CIAC and property damage to automated Grid approach

Note: (1) Labor savings associated with call center outsourcing are reflected in Contact Center numbers

(2) Represents Revenue Accounting less 15.5 FTEs remaining within Financial Services (Revenue Related Accounting); there are also 8 USBR FTE reductions not included.

Costs To Achieve: Customer Related Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve – Customer Related Services

Initiative Description (2)	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Bad Debt Savings (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ CSS system conversion	\$1,300 (3)		\$10,900	\$51,300 (1)	
◆ Account Initiation: Automate Non Res Deposits	\$0	\$0	\$1,200	\$637	
◆ Account Management: Non Res Portfolio management; Increase delinquent deposits; Improve payment performance on payment agreements			\$1,500	\$383	
◆ Savings from Netback invoicing (KSE only)	\$300	\$0	\$0	\$431	
◆ Litigation of active accounts			\$400	\$8	
◆ Field Collection Initiatives: Adopt system-wide policy of collecting 100% on field visits; Improve replevin process	\$50		\$3,200	\$307	
◆ Final bills Migrate to fewer and more effective collection agencies/vendors	\$407	-\$900	\$2,600	\$20	
◆ Sell bad debt			\$900	\$159	
◆ Adopt consistent enterprise-wide outbound calling model/strategy			\$4,400	\$96	
◆ Increase utilization of EBPP		\$700		\$50	
Total	\$2,057	(\$200)	\$25,100	\$53,391	

Note: (1) Need to do a gap analysis to determine a more accurate estimate. This estimate IT derived using a cost per customer for both system conversions
 (2) All initiatives involve an IS component and will be reflected in the IS presentation as well
 (3) Total savings from CSS reflected in Customer and IS. Total savings are \$13.7M

Recommended Future Approach: HR Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings
Recruitment and Hiring	22.5	0	0 %	-	-	-
Compensation & Benefits	26.5	12.5	46 %	\$ 1,400	\$ 1,916	\$ 3,316
Employee Services	41.5	19	46 %	\$ 100	\$ 1,987	\$ 2,087
Learning & Development	77	16	21 %	(\$300)	\$ 1,924	\$ 1,611
Total	167.5	47.5	28%	\$ 1,200	\$ 5,827	\$ 7,027

Key Initiatives / Major Recommendations

- ◆ Establish a Compensation & Benefits Center of Expertise
- ◆ Establish a Recruiting Center of Expertise
 - Design sourcing end to end process
 - Deliver services locally
- ◆ Consolidate Benefits consultants and contractors, employee service centers, Compensation & Benefits, Learning & Development, and 401(k) plans
- ◆ Implement mandatory direct deposit and electronic payroll
- ◆ Optimize trainer model (in-house / out-source)
- ◆ Optimize and standardize training offering and delivery

Costs To Achieve: HR Services

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve – HR Services

Initiative Description	O&M Labor Savings (\$000s)	O&M Non-Labor Savings (\$000s)	Incremental Margin (\$000s)	Cost to Achieve (\$000s)	Day 1 Requirement
◆ Implement employee self-service	\$300	0	0	\$50	
◆ Implement management self-service	\$1,200	0	0	\$50	
◆ Simplify benefit delivery design	0	0	0	\$200	
◆ Simplify compensation delivery design	0	0	0	\$200	
Total	\$1,500	0	0	\$500	

Day 1 Initiatives and Early Starts

On target
 At risk
 Behind
 Not started

Day One Initiatives

Initiative	Progress	Comments/ Status	Key milestones (Passed or upcoming)
Consolidation of financial statements		<ul style="list-style-type: none"> ◆ Progressing well on the new mapping application and associated interfaces ◆ Mapping of chart-field values are now under review for consistency and level of detail to support consolidation and analysis 	<ul style="list-style-type: none"> ◆ Steering committee meetings held regularly
KSE closing process to 2 days		<ul style="list-style-type: none"> ◆ Have assessed KSE/NGRID processes ◆ Has completed first run through 	<ul style="list-style-type: none"> ◆ Steering committee meetings held regularly
SOX compliance on Day 1		<ul style="list-style-type: none"> ◆ Ongoing; advising teams on SOX compliance 	<ul style="list-style-type: none"> ◆ Development of Day 1 organizational structure
Bill / Correspondence print stock replacement correspondence stock		<ul style="list-style-type: none"> ◆ Requires decision regarding logo / name before we can get started. ◆ Three months lead time required. 	<ul style="list-style-type: none"> ◆ Decision on Logo
Integrate billing-related financial reporting activities		<ul style="list-style-type: none"> ◆ On target based on last update from Finance Team. 	
Records Retention Policy		<ul style="list-style-type: none"> ◆ Record retention policies of Grid US, Grid UK, KSE and General Counsel Roundtable reviewed to develop a consolidated policy. ◆ Policy to be completed by 2/28/07 provided new Grid UK Policy is available as a model. 	

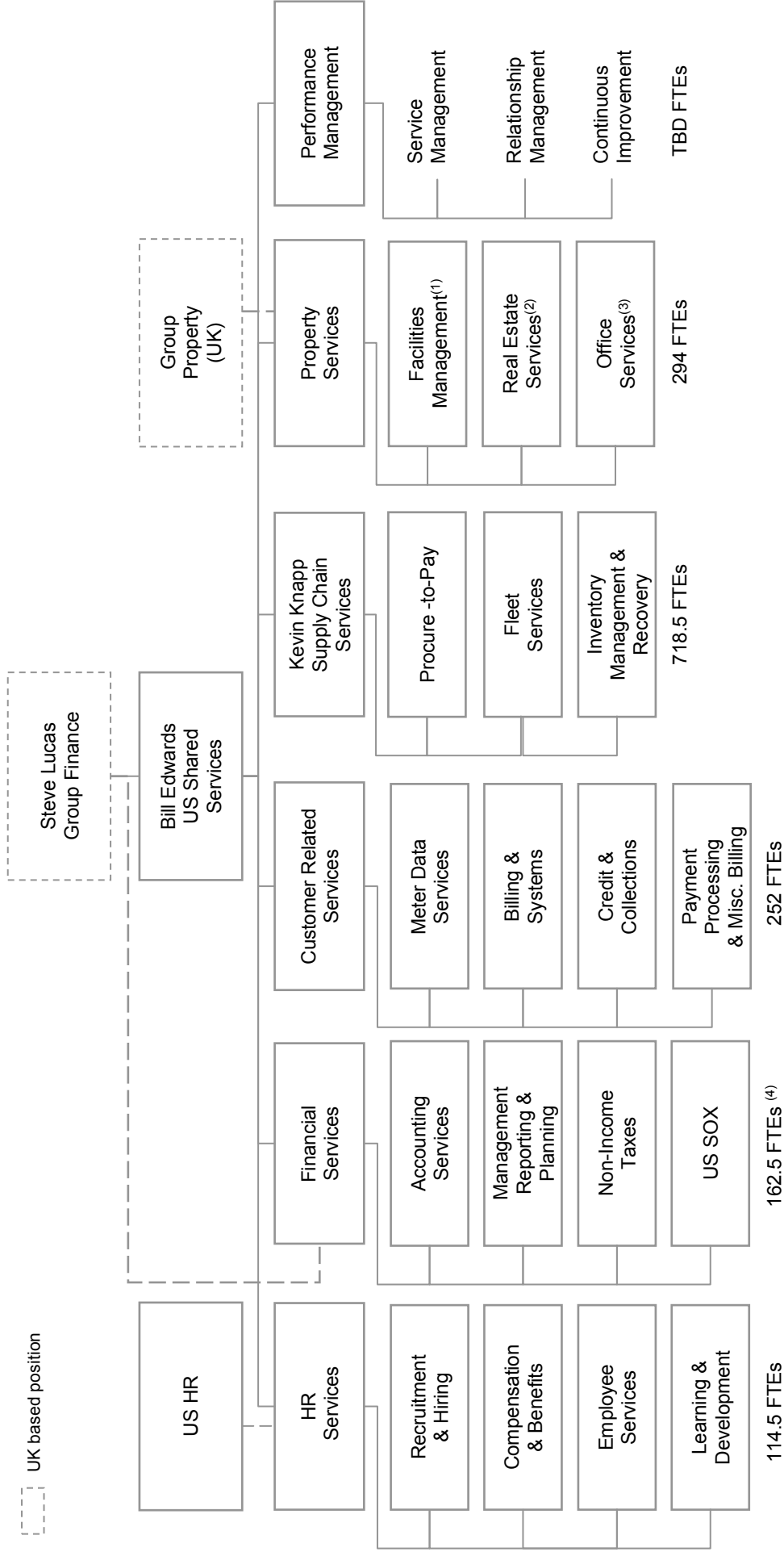
Early Start Initiatives

Initiative	Responsible Functional Area	Start Date	Total Benefit (\$000s)
<ul style="list-style-type: none"> ◆ Facilities Consolidation – Long Island 	<ul style="list-style-type: none"> ◆ Facilities 	<ul style="list-style-type: none"> ◆ ASAP 	<ul style="list-style-type: none"> ◆ \$3,750 (O&M savings)
<ul style="list-style-type: none"> ◆ Bad Debt Reduction Initiatives – (Risk-based segmentation, Outbound calling, Positive ID validation in CRIS, Replevin process for 100% field collection, Final bill recovery performance improvement, Fee revenue generation, Increase non-residential deposits, Non-residential portfolio management, and others) 	<ul style="list-style-type: none"> ◆ Credit & Collections 	<ul style="list-style-type: none"> ◆ March '07 – April '08 	<ul style="list-style-type: none"> ◆ \$25,000 + (Bad Debt Reduction)

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

High-Level Organization Structure: US Shared Services



UK based position

- Notes:
- (1) Facilities Management includes responsibility for Emergency Logistics Support.
 - (2) Real Estate Services includes Real Property Tax and Easement Acquisition in upstate New York and New England.
 - (3) Office Services includes Print Shop Services, Mail Services, and Records Management
 - (4) Includes 5 NEG FTEs and 1 UK FTE

FTE counts are post integration and are inclusive of New England Gas.

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Implementation Challenges / Mitigation

Implementation challenges	Mitigation plans
<ul style="list-style-type: none"> ◆ Business support of expanded scope of Shared Services and associated changes 	<ul style="list-style-type: none"> ◆ Develop service level agreements in cooperation with businesses. ◆ Communicate benefits of shared services operating model / shared services “branding”
<ul style="list-style-type: none"> ◆ Business support of and readiness for facilities consolidations 	<ul style="list-style-type: none"> ◆ Create early-start initiatives around long-lead client consolidations (e.g. special purpose facilities) ◆ Link facility changes to overall strategy and integration of companies and cultures. ◆ Highlight positive benefits of cost and working environment
<ul style="list-style-type: none"> ◆ Labor dependencies 	<ul style="list-style-type: none"> ◆ Incorporate key initiatives as part of a portfolio of changes to bring to the union
<ul style="list-style-type: none"> ◆ Regulatory challenges 	<ul style="list-style-type: none"> ◆ Communicate with regulators that changes are within current regulatory guidelines <ul style="list-style-type: none"> – no change is required
<ul style="list-style-type: none"> ◆ IT and business resources to support concurrent conversions 	<ul style="list-style-type: none"> ◆ Optimize use of resources across multiple projects and minimize non-conversion related initiatives as much as possible

Next Steps

Supply Chain Services:

- ◆ Conduct client workshops to refine sourcing strategies, confirm savings forecast, and identify quick wins
- ◆ Conduct client workshop to validate inventory and materials handling process decisions for New England and Long Island. (e.g. MMT/PAR)

Property Services:

- ◆ Select go-to option for New England office consolidation – number, size, and locations of buildings (*Requires executive decision.*)
- ◆ Identify early-start opportunities for property disposition (sale / sub-lease)
- ◆ Finalize reporting lines for Survey function on Long Island

HR Services:

- ◆ Establish framework for global HR model and link to Shared Services
- ◆ Determine in/outsourcing strategy for Employee Services function
- ◆ Complete location analysis within context of resolved organization design

Financial Services:

- ◆ Continue to develop implementation plans
- ◆ Ensure that Day 1 initiative remain on schedule

Customer Related Services:

- ◆ Complete gap analysis for CSS conversion
- ◆ Continue LIPA conversations
- ◆ Begin identified early start initiatives

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Building the New Company: SHES Organization

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan

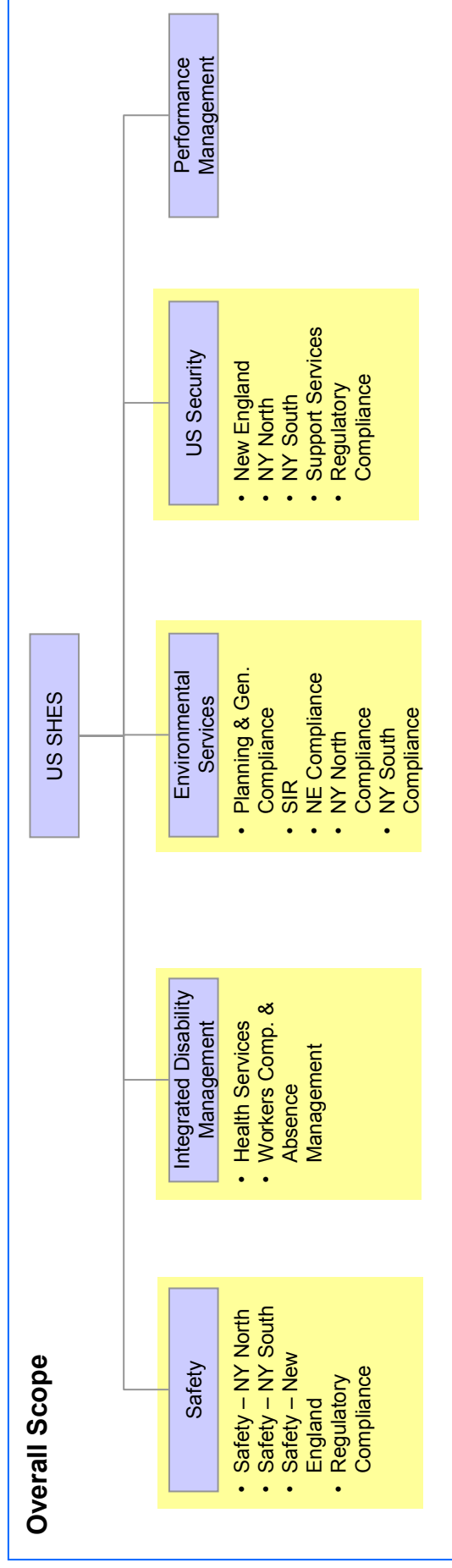


Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: US SHES

The new US SHES organization is designed to maximize operational efficiency while ensuring responsiveness to diverse client groups



Guiding Principles and Operating Philosophy

- ◆ Leverage functional alignment to maximize efficiencies
- ◆ Organize to align with regional external clients
- ◆ Ensure close coordination with and accountability to internal clients
- ◆ Standardize process across regions
- ◆ Design around end-to-end processes

Executive Summary: SHES

The functional areas within SHES identified \$5 Million in recurring O&M savings

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Identified Savings:

SHES	National Grid	KeySpan	Combined	Reduction	Post-Merger	Reduction (%)
Staffing (FTEs)	121.5	125.5	247	32.5	214.5	13%
O&M Labor Costs (unloaded) (\$000s)	\$ 9,129	\$ 7,447	\$16,576	\$2,318	\$1,4258	14%
Labor Loader (\$000s)	\$ 4,564	\$ 3,723	\$8,287	\$1,279	\$7,008	15%
O&M Non-Labor Costs ⁽²⁾ (\$000s)	\$ 22,716	\$ 7,553	\$30,269	\$1,391	\$2,8878	5%
Total ⁽¹⁾ (\$000s)	\$36,409	\$18,723	\$55,132	\$4,988	\$50,144	9%

Key Initiatives

- ◆ Consolidate functions and organizations
- ◆ Reduce contract guard staffing where applicable
- ◆ Optimize spill response process
- ◆ Optimize mix of in-source / out-source of analytical services
- ◆ Consolidate medical services

Open Issues/Next Steps

- ◆ Determine integration impacts of staffing and budget increases for LNG facilities within Security
- ◆ Resolve open organizational scope issues within Safety & Health

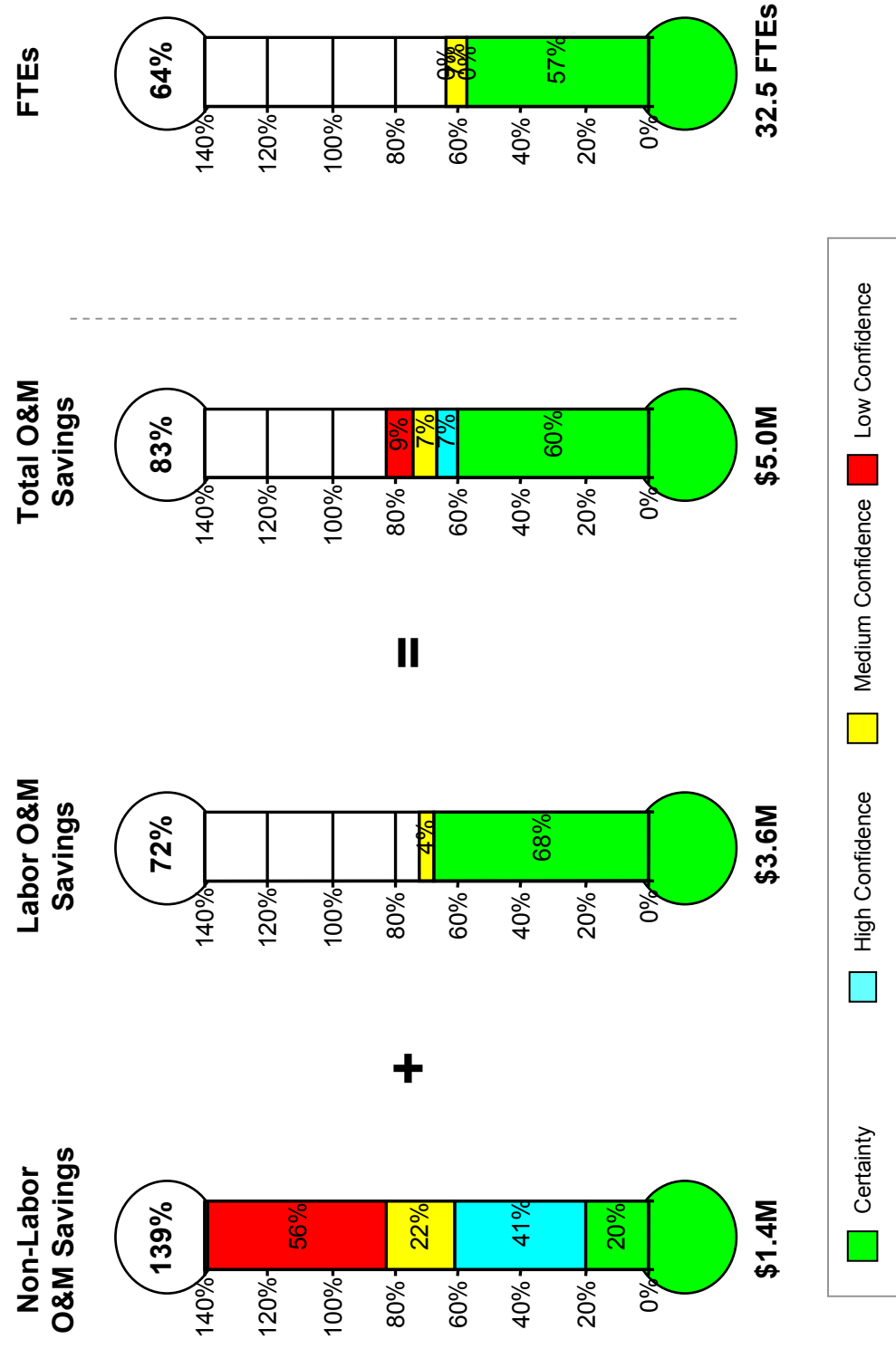
Note: (1) O&M budget dollars (\$) are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 1.5 loader on labor.
 (2) Higher O&M non-labor budget for National Grid is due to charged departments 38360 - SIR (\$11.9M) and 38300 Environmental Management (\$6.9M).

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Progress Against Targets

The total O&M savings identified within SHES are 83% of the Integration target

Progress Against Targets

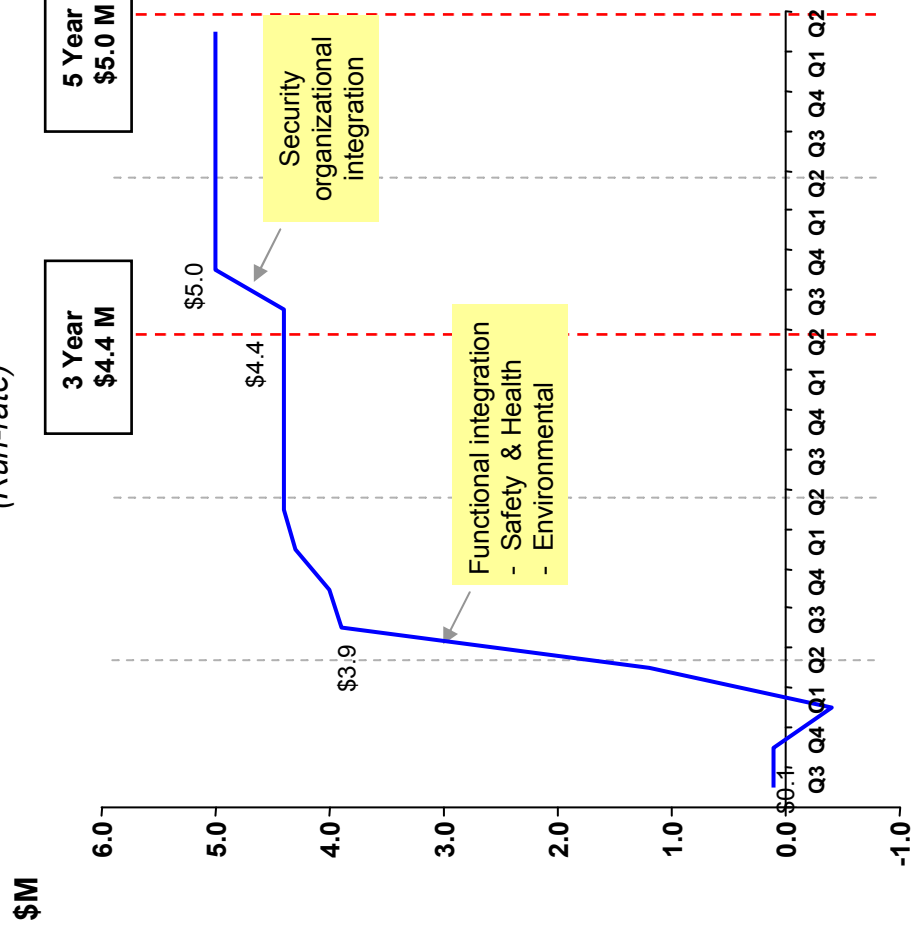


Note: Labor O&M cost savings are the actual savings modeled in Template E&F

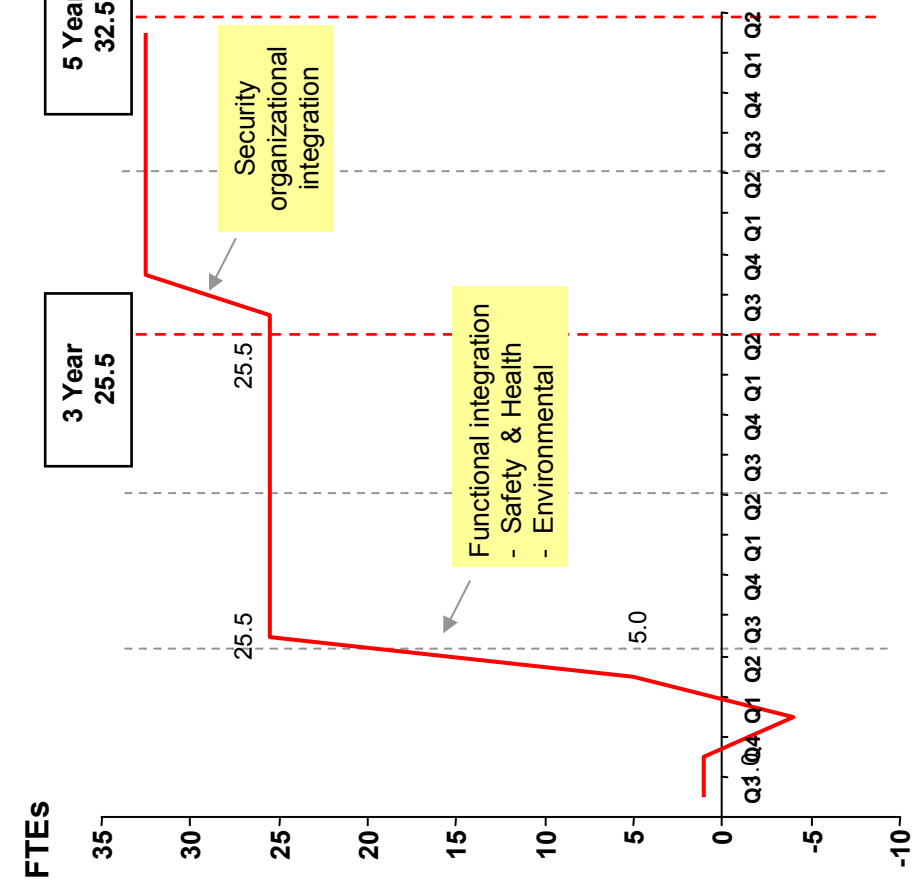
Executive Summary: Savings over time – SHES

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Total O&M Savings (Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve - SHES

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor Savings (\$000s)	Non-Labor Savings (\$000s)	Incremental Margin (\$000s)	Cost to Achieve (\$000s)	Related IS Initiative
◆ Optimize mix of in-sourcing / out-sourcing of environmental analytical services	\$ 145	\$ 100	-	\$ 230	
◆ Re-Badging of All Employees and Approved Contractors	-	-	-	\$ 215	
SUB TOTAL	\$ 145	\$ 200	-	\$ 445	
<i>IS-Related CTA</i>					
◆ Standardize Health & Safety Incident Manager	-	-	-	-	P15
TOTAL	\$ 145	\$ 200	-	\$ 445	

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Recommended Future Approach: SHES


O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Functional Area	Baseline FTEs	Integration Reductions (FTEs)	Integration % FTE Reductions	O&M Non-labor Savings (\$000s)	O&M Labor Savings (\$000s)	Total O&M Savings
Corporate Security	84.5	7	8 %	\$ 921	\$ 585	\$1,506
Environmental	90.5	13.5	15 %	\$ 140	\$ 1,644	\$1,784
Safety & Health	72.0	12	17 %	\$ 330	\$ 1,369	\$1,699
Total	247.0	32.5	13 %	\$ 1,391	\$ 3,598	\$4,989

Key Initiatives / Major Recommendations

- ◆ Consolidate functional organizations
 - Environmental
 - Safety & Health
 - Security
- ◆ Optimize and standardize key processes
 - Spill response
 - Analytical services
- ◆ Optimize contract guard staffing
- ◆ Consolidate medical services

Day 1 Initiatives

Initiative	Progress	Comments/ Status	Key milestones (Passed or upcoming)
Re-Badging of All Employees and Approved Contractors		<ul style="list-style-type: none"> ◆ Card options being presented to leadership in February ◆ Card creation and distribution will take 4-6 weeks 	<ul style="list-style-type: none"> ◆ Card design approval ◆ Access list finalized

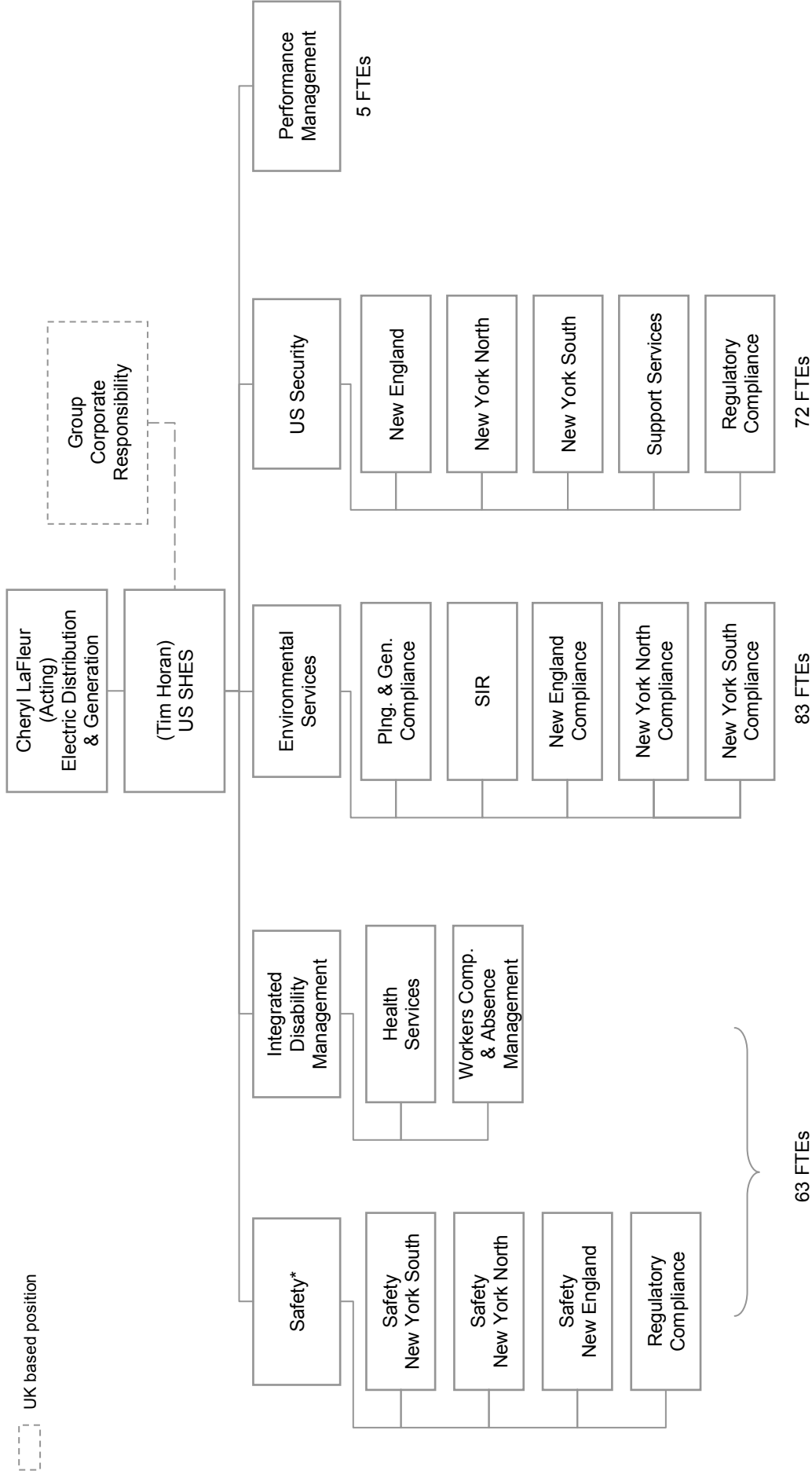
No Early Start Initiatives were identified for SHES.

Legend:	 On target  At risk  Behind  Not started
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Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

High Level Organization Chart - US SHES



Note: (1) FTE counts are post integration and are inclusive of New England Gas.

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Implementation Challenges / Mitigation

Implementation challenges	Mitigation plans
◆ Labor dependencies	◆ Incorporate key initiatives as part of a portfolio of changes to bring to the union
◆ Regulatory challenges	◆ Communicate with regulators that changes are within current regulatory guidelines – no change is required

Next steps & Open Issues

Corporate Security:

- ◆ Complete opportunity assessment for further consolidation
- ◆ Establish plan for unified operating policies and practices for the combined asset base

Safety & Health:

- ◆ Develop implementation plans for savings and integration initiatives

Environmental Services:

- ◆ Establish plan for integration of policies
- ◆ Develop details of operating model with respect to business interfaces
- ◆ Support Procurement effort at category-level sourcing of Environmental services

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Building the New Company: Human Resources

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



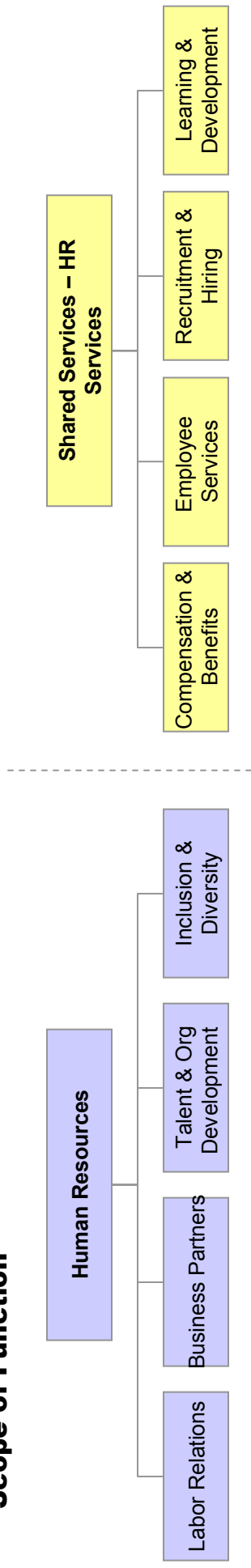
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: Human Resources Overview

The new Human Resources organization will be client-driven and focused on providing support to the business units.

Scope of Function



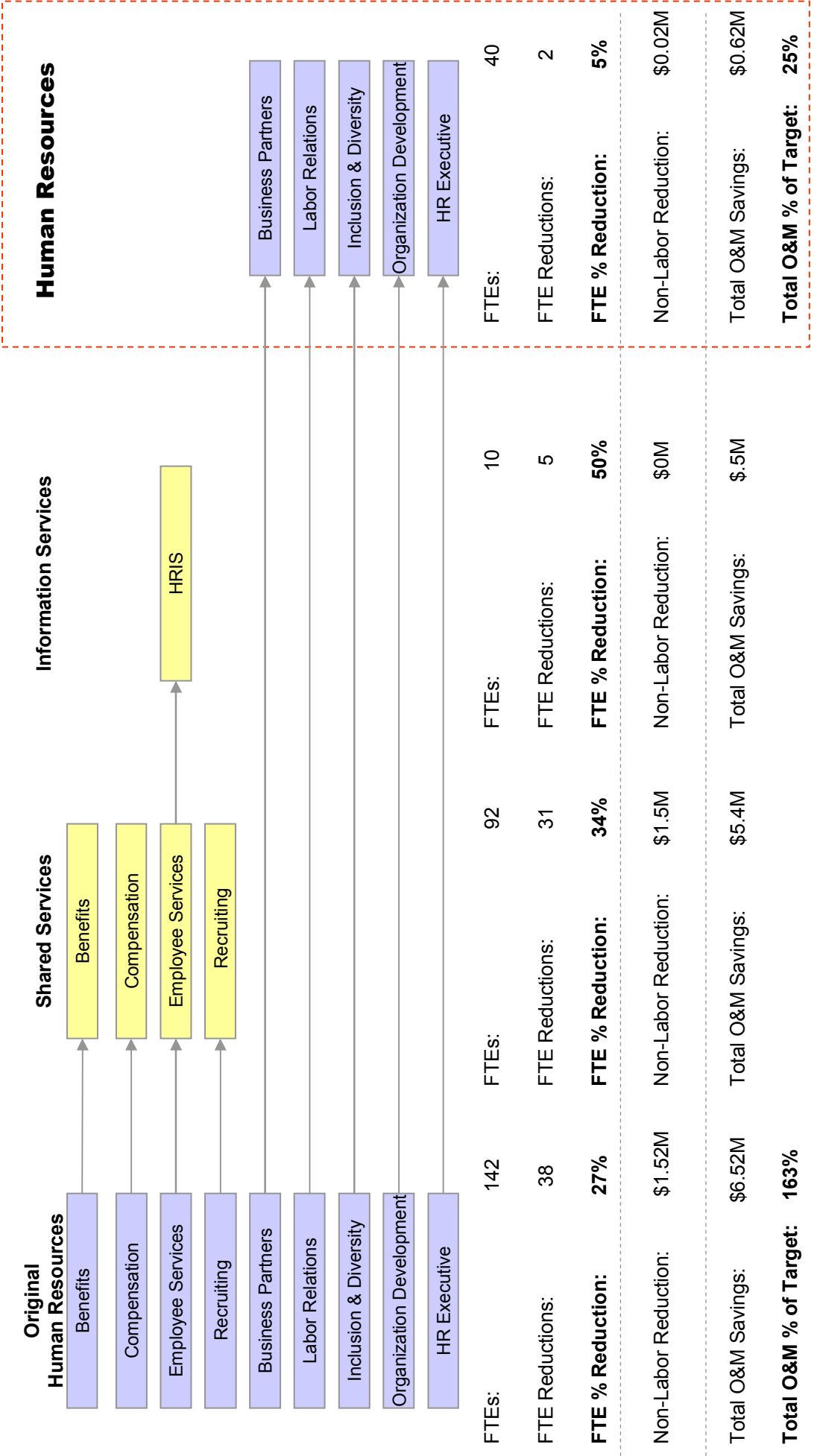
Guiding Principles & Operating Philosophy

- ◆ Client-driven, meeting the needs of the business through talented people
- ◆ Leadership in managing and promoting change
- ◆ High performance workforce
- ◆ Influential in defining and developing leadership at all levels
- ◆ Visible in defining and driving a high performance culture
- ◆ Effective in shaping labor strategies that keep the enterprise competitive
- ◆ More diverse and inclusive than we are today

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Human Resources

Human Resources has shifted the majority of its reductions to Shared Services and has retained a few groups that do not have merger synergies.



Executive Summary: Human Resources

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Savings Levels

Overall identified opportunities will yield approximately \$620K of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing (FTEs)	20	20	40	2	38	5.0%
O&M Labor Costs (unloaded) (\$000s)	\$2,500	\$3,600	\$6,100	\$300	\$5,800	0.3%
Labor Loader (\$000s)	\$1,300	\$1,800	\$3,100	\$300	\$2,800	0.5%
O&M Non-Labor Costs (\$000s)	\$2,300	\$6,700	\$9,000	\$0	\$8,900	0.1%
Total (\$000s) *	\$6,100	\$12,100	\$18,100	\$620	\$17,500	0.3%

Key Initiatives

- ◆ Consolidate and centralization wherever possible
- ◆ Standardize to a consistent set of processes and capabilities

Next Steps

- ◆ Monitor and ensure Day 1 projects are on track and are properly staffed
- ◆ Collaborate with Shared Services on the separation of departments/staffing and the clarification of roles and interfaces

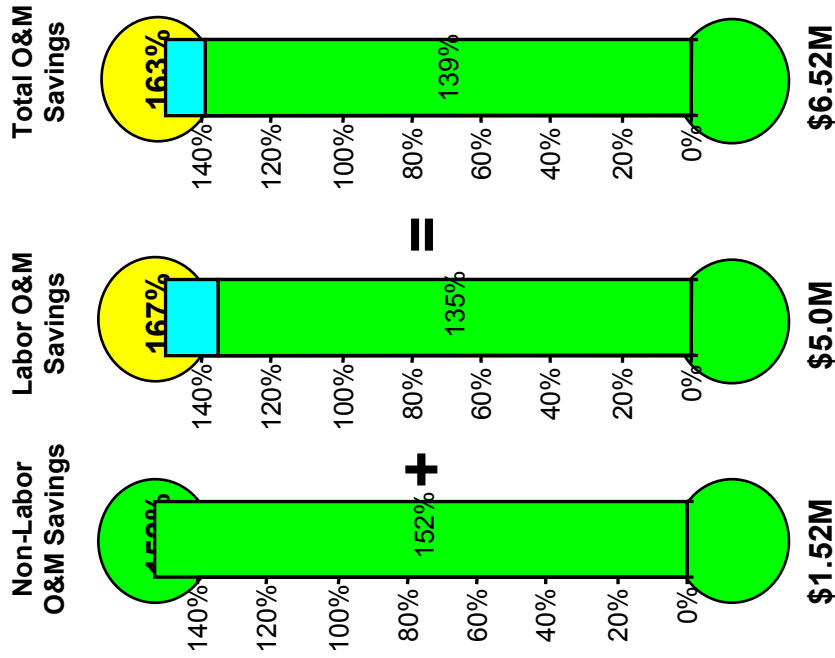
* O&M budget \$ are approximate, exclude fleet and facilities allocations, and benefits/bonus are calculated using a 50% loader on labor.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

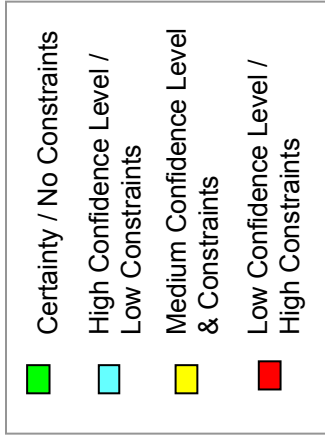
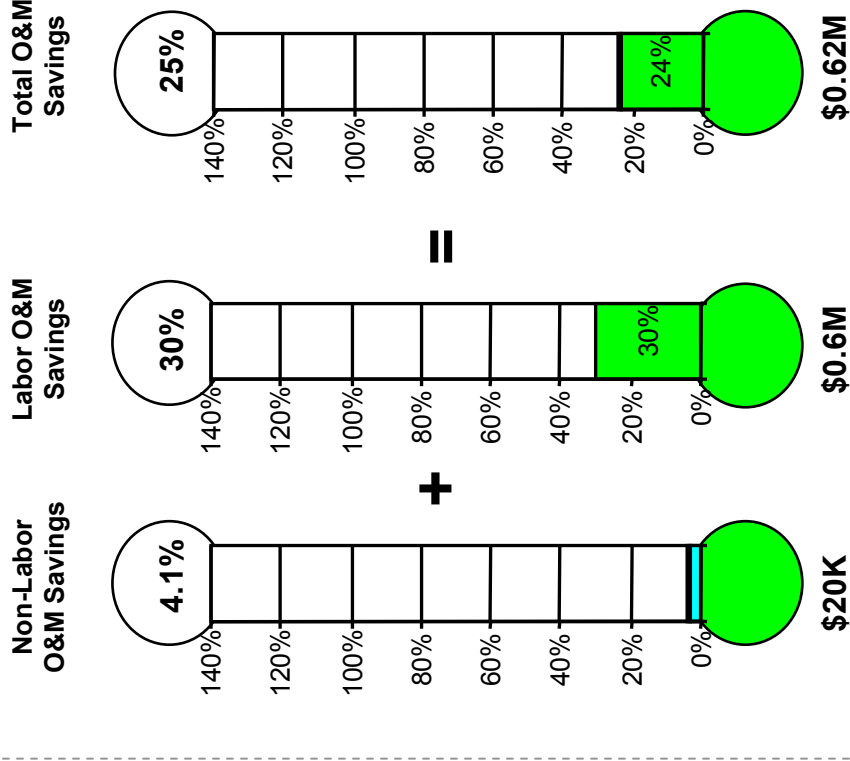
Executive Summary: Progress Against Targets

The identified O&M savings for HR are 25% of the integration target; although as a whole, total savings identified are 162% of the integration target.

Human Resources Functions



Re-aligned HR Team

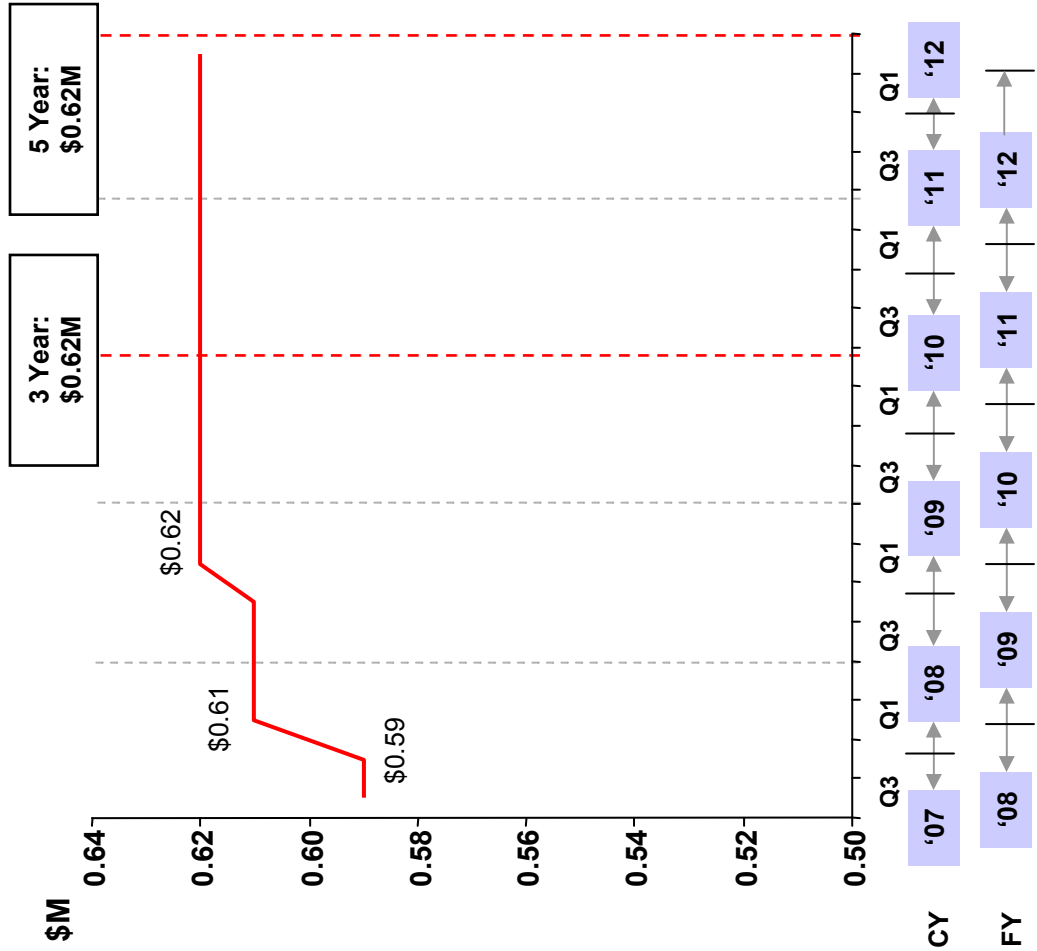


▲ 102 HR-related positions have moved to Shared Services and IS; the majority of these positions are in overlap functions with high potential for synergies and thus have the majority of the reductions

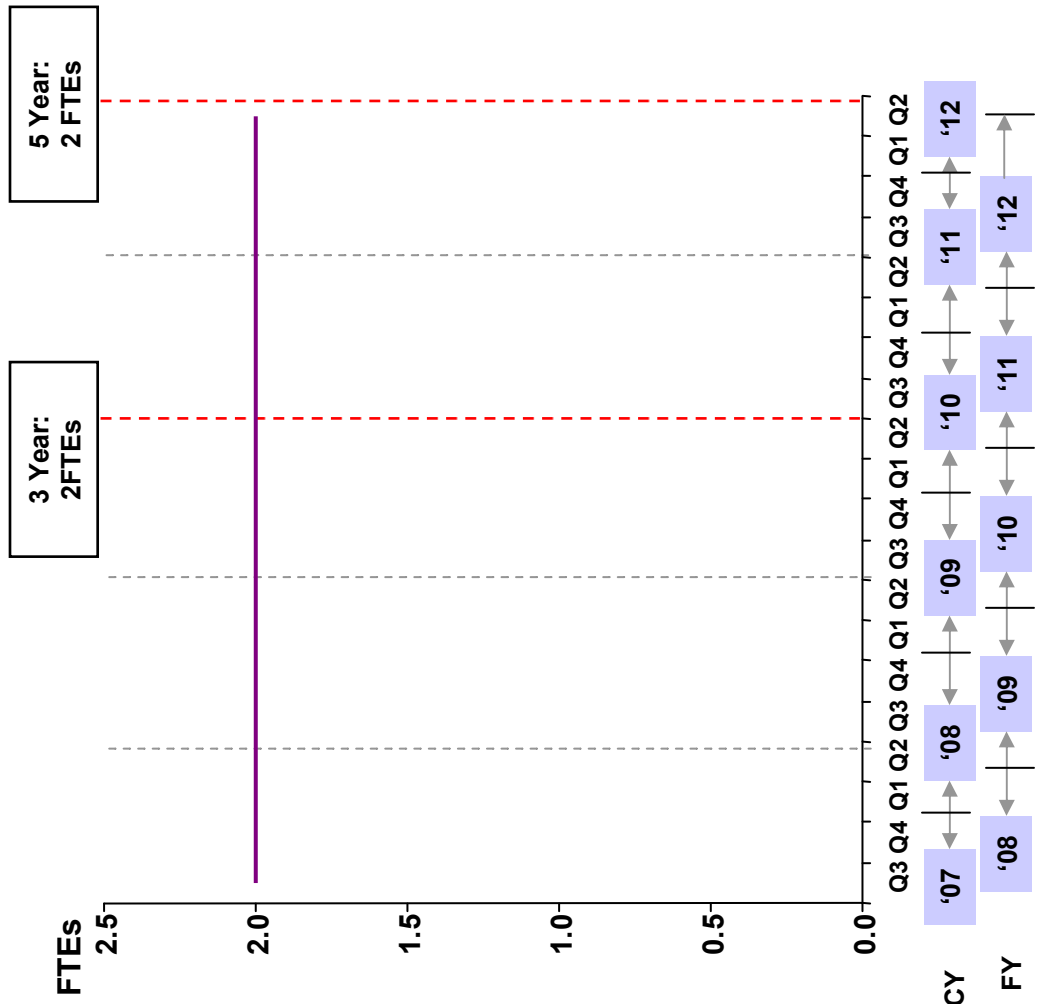
Executive Summary: Savings Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Total O&M Savings
(Run-rate)



Total FTE Reductions



Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Human Resources: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Reductions (FTEs)	FTE % Reductions	Non-Labor Savings (\$000s)	Total O&M Savings (\$000s)
Business Partners	12	0	0%	\$0	\$0
Labor Relations	19	0	0%	\$0	\$0
Organization Development	3	0	0%	\$0	\$0
Inclusion & Diversity	2	0	0%	\$0	\$0
HR Executive	4	2	50%	\$0	\$600
Procurement Identified Savings				\$20	\$20
Total	40	2	5%	\$20	\$620

Key Initiatives / Major Recommendations

- ◆ Allocate teams of Business Partners by business unit and geography
- ◆ Establish a Labor Relations Center of Expertise
 - Consolidate two New England LR groups into one
 - Adopt a comprehensive and unified labor union strategy
- ◆ Consolidate to one Organization Development function
 - Follow an integrated approach to talent management with a dotted line reporting to a governing body of senior execs focused on Talent Management
 - Develop a leadership model for each level of management
 - Drive a change management and culture model that fully supports execution of company strategy
- ◆ Establish an Inclusion & Diversity Center of Expertise model
 - Outsource all AA plans

Day 1 Initiatives and Early Starts

Critical Day 1 Initiatives

Initiative	Progress	Comments/ Status
◆ Develop post merger non-union benefits plan		◆ Under review at Steering Committee
◆ Develop post merger non-union compensation plan		◆ Under review at Steering Committee
◆ Develop post merger HR policy guidelines		◆ HR work team progressing through policy revisions
◆ Develop workforce reduction programs		◆ Under review with Steering Committee
◆ Develop and implement cultural integration and change management		◆ Underway in both organizations
◆ Develop staffing process		◆ In use for staffing and in development for managerial/professional workforce
◆ Develop Executive staffing process		◆ Leadership staffing complete

Legend:
On target
At risk
Behind
Not started

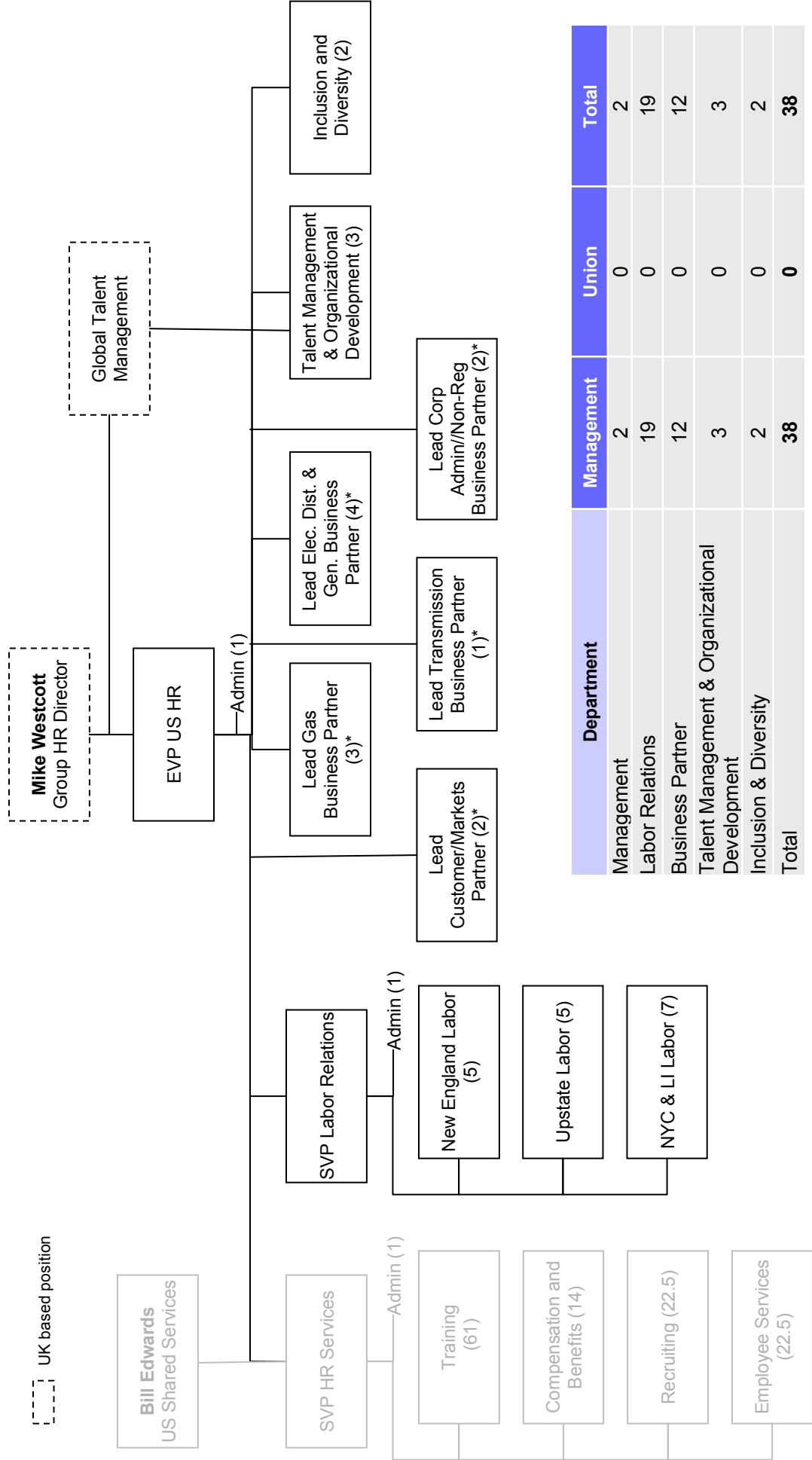
Early Start Initiatives

Initiative ID	Initiative Description	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
◆ None					

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

Human Resources High Level Organization Structure



*Dual reporting relationship to US business lead

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Next Steps

- ◆ Monitor and ensure Day 1 projects are on track and are properly staffed
- ◆ Collaborate with Shared Services on the separation of departments/staffing and the clarification of roles and interfaces

Building the New Company: Gas Operations

Integration Update
Task 3 & 4 Final Recommendations

March 21, 2007

Integration

National Grid • KeySpan



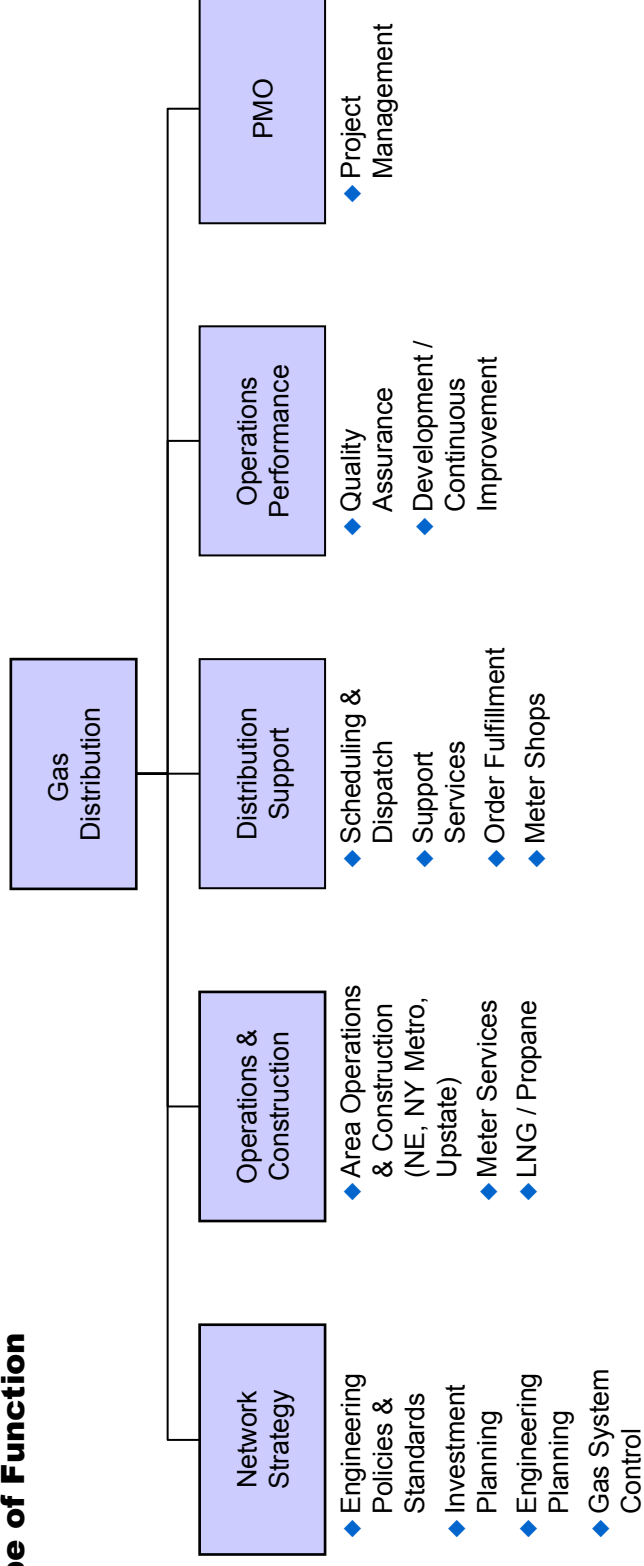
Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: Gas Operations Overview

The integration of National Grid and KeySpan Gas Operations will result in a consolidated business with standardized policies and procedures.

Scope of Function



Guiding Principles and Operating Philosophy

- ◆ Align organization across line of business
- ◆ Standardize processes and practices, leveraging best practices across line of business
- ◆ Improve field performance and customer satisfaction
- ◆ Operate under a process ownership model to drive performance

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Gas Operations

Savings Levels

Overall identified opportunities will yield approximately \$48M of O&M savings.

	National Grid	KeySpan	Combined	Identified Reductions ¹	Post-Merger Level	Percent Change
Staffing (FTEs)	1,230.0	3,409.5	4,639.5	444.5	4,196.0	(10) %
O&M Labor Costs (unloaded) (\$M)	\$69	\$157	\$225	\$21	\$205	(9) %
Labor Loader (\$M)	\$34	\$78	\$113	\$10	\$102	(9) %
O&M Non-Labor Costs (\$M)	\$12	\$59	\$70	\$17	\$53	(24) %
Total Costs (\$M) ²	\$115	\$293	\$408	\$48	\$360	(12) %

Key Initiatives

- ◆ Adopt process ownership model enterprise-wide
- ◆ Implement Automated Meter Reading
- ◆ Consolidate Network Strategy organization and standardize processes and practices
- ◆ Improve field performance through supervisor enablement, GPS/AVLS, installation of field data capture units, etc.
- ◆ Explore competitive pricing opportunities for locating, cast iron monitoring, and leak surveying
- ◆ Consolidate control centers and standardize operating procedures
- ◆ Standardize and consolidate scheduling and dispatch

Open Issues/Next Steps

- ◆ Engage next layer of leadership
- ◆ Finalize and prioritize implementation plans for key initiatives
- ◆ Review and discuss AMR on Long Island with LIPA

1. Excludes synergy savings from Rhode Island Gas integration.

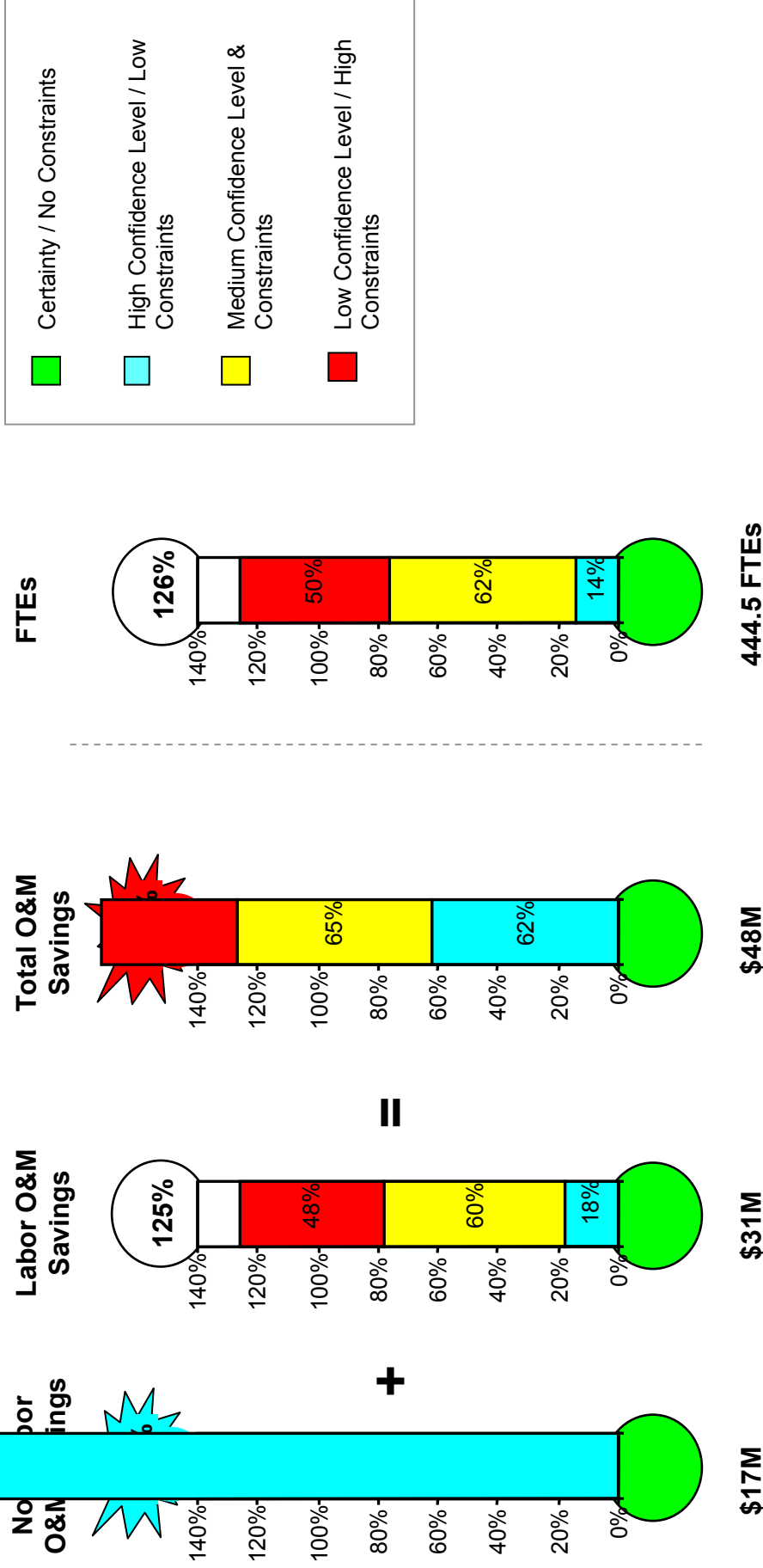
2. O&M budget dollars are approximate and exclude fleet and facilities allocations, and benefits/bonuses are calculated using a 50% labor loader.

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Executive Summary: Progress Against Targets

The identified O&M savings are 172% of the integration target.

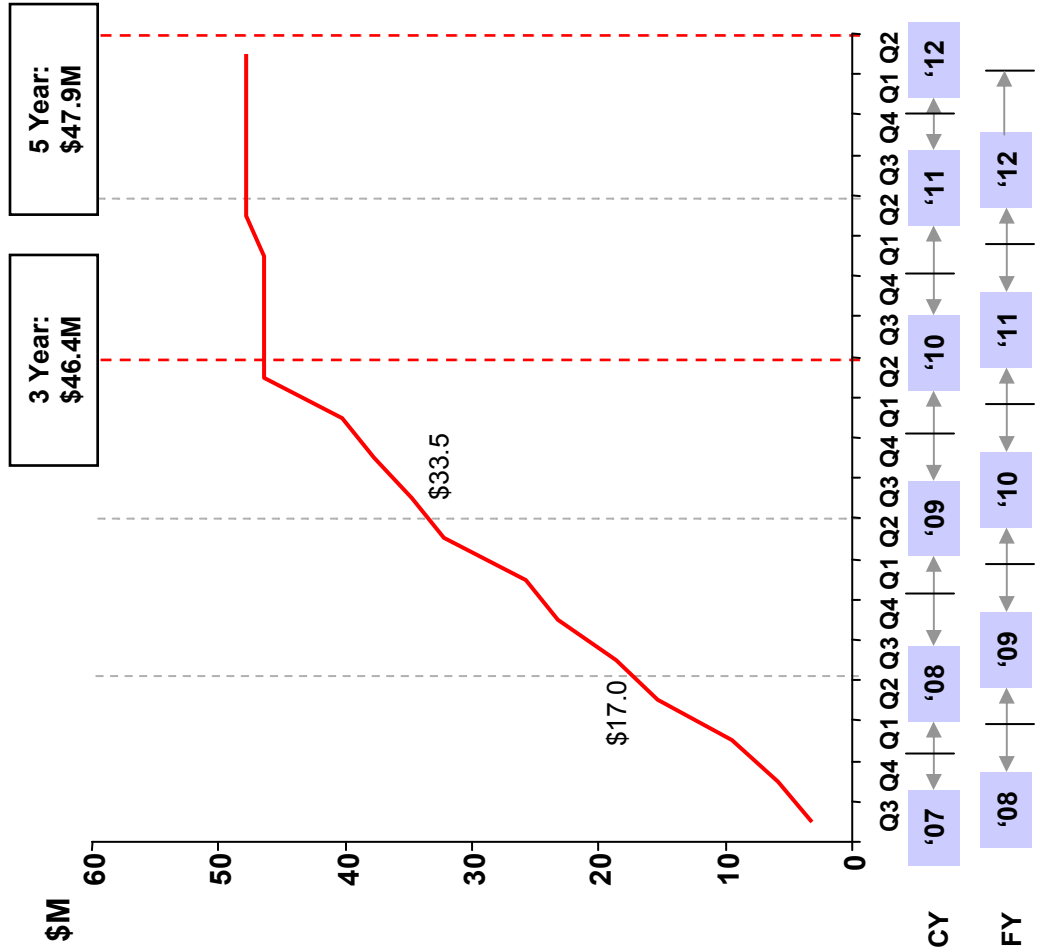
Progress Against Targets



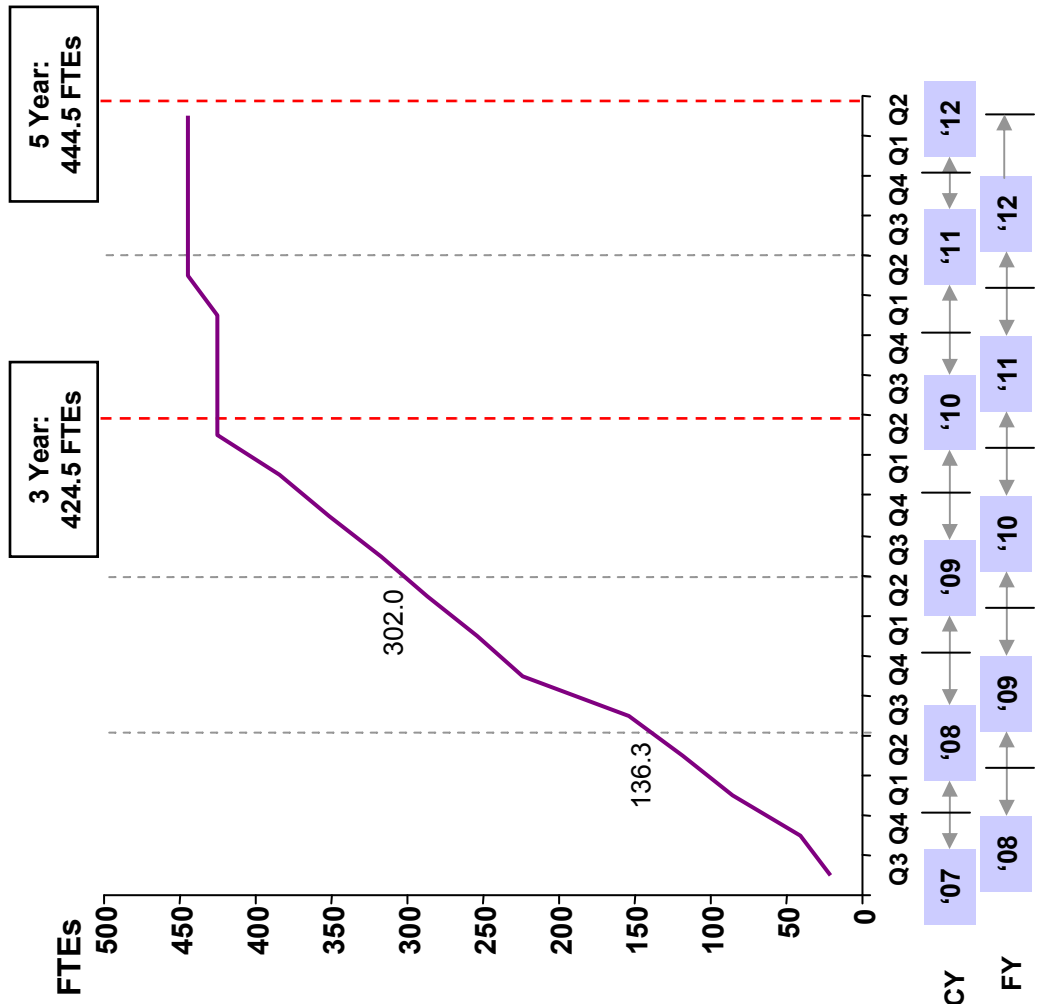
Executive Summary: Total Savings and FTE Reductions Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings
(Run-rate)



Total FTE Reductions



Executive Summary: Costs To Achieve

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Draft:

All Costs to Achieve to be reviewed and confirmed by leadership

Costs to Achieve

Initiative Description	Labor O&M Savings (\$000s)	Non-Labor O&M Savings (\$000s)	Labor Capital Savings (\$000s)	Non-Labor Capital Savings (\$000s)	Cost to Achieve (\$000s)
◆ AMR (Long Island – Electric & Gas)	\$11,963	\$1,135	\$0	\$0	\$88,094
◆ AMR (New York City)	\$6,759	\$244	\$1,250	\$81	\$50,523
◆ Standardize and consolidate Dispatch Operations	\$734	\$0	\$667	\$0	\$3,693
◆ Consolidation of control centers	\$392	\$736	\$271	\$0	\$1,700
◆ Roll out GPS / AVLS	\$599	\$0	\$481	\$0	\$684
◆ Standardize LNG / LP-Air operations	\$0	\$125	\$0	\$0	\$500
◆ Spoil recycling	(\$135)	\$659	(\$135)	\$659	\$493
◆ Installation of Field Data Capture units	\$417	\$0	\$213	\$0	\$383
◆ Work management and records in corrosion engineering	\$88	\$0	\$2	\$0	\$250
◆ Centralized tool inventory and purchase	\$0	\$0	\$0	\$114	\$110
◆ Execution of repair by first responder for leak process	\$540	\$0	\$0	\$0	\$20
◆ Excavation equipment optimization	\$54	\$251	\$36	\$181	\$16
◆ Standardize T&D in corrosion engineering	\$0	\$0	\$0	\$0	\$10
◆ Consolidate gas and electric workforce in overlap territories	\$2,297	\$213	\$178	\$16	IS CTA (FFA)
Total	\$23,708	\$3,363	\$2,963	\$1,051	\$146,476

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

Gas Operations: Recommended Future Approach

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Functional Area	Baseline FTEs	Integration Reductions ¹ (FTEs)	Total % FTE Reductions ²	Non-Labor Savings (\$M)	Total O&M Savings (\$M)
Network Strategy	361.5	40.5	11%	\$6.3	\$8.7
Operations & Construction	3,978	370	9%	\$10.7	\$38.1
Distribution Support ³	271	23	8%	\$0.0	\$1.1
Operations Performance	23	1	4%	\$0.0	\$0.0
Design & PMO	6	0	0%	\$0.0	\$0.0
Total	4,639.5	434.5	9%	\$17.0	\$47.9

Key Initiatives / Major Recommendations

- ◆ Adopt process ownership model enterprise-wide
- ◆ Implement Automated Meter Reading
- ◆ Consolidate Network Strategy organization and standardize processes and practices
- ◆ Improve field performance through supervisor enablement, GPS/AVLS, installation of field data capture units, etc.
- ◆ Explore competitive pricing opportunities for locating, cast iron monitoring, and leak surveying
- ◆ Consolidate control centers and standardize operating procedures
- ◆ Standardize and consolidate scheduling and dispatch

1. Excludes 10 FTE clerk reductions from Customer Service & Marketing.

2. Excludes all Rhode Island Gas integration FTEs and reductions.

3. Excludes 8 FTEs anticipated to transfer to Gas Operations for Order Fulfillment process.

Day 1 Initiatives and Early Starts

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Day 1 Initiatives

Initiative	Progress	Comments/ Status
◆ None		

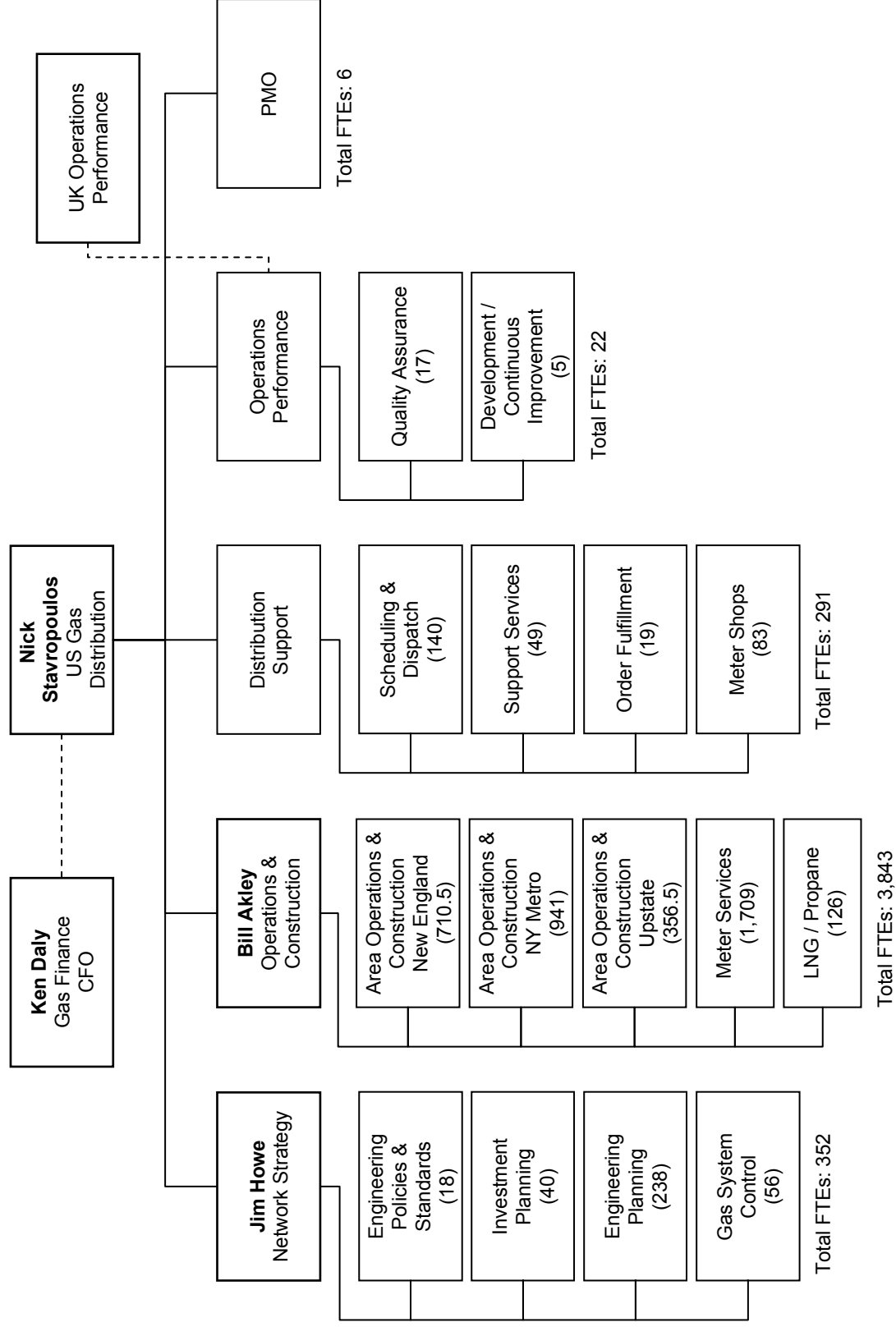
Early Start Initiatives

Initiative	Responsible Functional Area	Project Manager	Start Date	Total O&M Savings (\$000s)
◆ AMR (Long Island – Electric & Gas)	◆ Metering Services	◆ TBD	◆ ASAP	\$13,097
◆ AMR (New York City)	◆ Metering Services	◆ TBD	◆ ASAP	\$7,003
◆ Adopt Process Ownership Model	◆ Operations & Construction	◆ TBD	◆ ASAP	\$5,000
◆ Network Strategy Organizational Consolidation	◆ Network Strategy	◆ TBD	◆ ASAP	\$3,713
◆ Consolidate gas and electric metering services workforce in overlap territories (Long Island)	◆ Metering Services	◆ TBD	◆ ASAP	\$2,359
◆ GPS / AVLS	◆ Operations & Construction	◆ TBD	◆ ASAP	\$599
◆ Execution of repair by first responder for leak process	◆ Operations & Construction	◆ TBD	◆ ASAP	\$540

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

US Gas Distribution High Level Organization Structure



Note: Includes 309 FTEs from Rhode Island Gas, and takes into account all integration-related reductions; excludes 8 FTEs anticipated to transfer to Gas Operations for Order Fulfillment process.

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ **Next Steps**

Implementation Challenges and Mitigation

Implementation Challenges	Mitigation Plans
<ul style="list-style-type: none">◆ Regulatory challenges with implementing AMR in Long Island	<ul style="list-style-type: none">◆ Review business cases with Long Island Power Authority◆ Discuss potential sharing of costs and savings as a result of implementing AMR
<ul style="list-style-type: none">◆ Union contracts constraining competitive pricing initiatives	<ul style="list-style-type: none">◆ Understand degree of constraint and impact with Human Resources◆ Explore competitive pricing opportunities with in-house resources◆ Create managed competition mindset

Next Steps

- ◆ Engage next layer of leadership
- ◆ Finalize and prioritize implementation plans for key initiatives
- ◆ Review and discuss AMR on Long Island with LIPA

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Building the New Company: Information Services

Integration Update
Task 3 & 4 Recommendations

March 21, 2007

Integration

National Grid • KeySpan

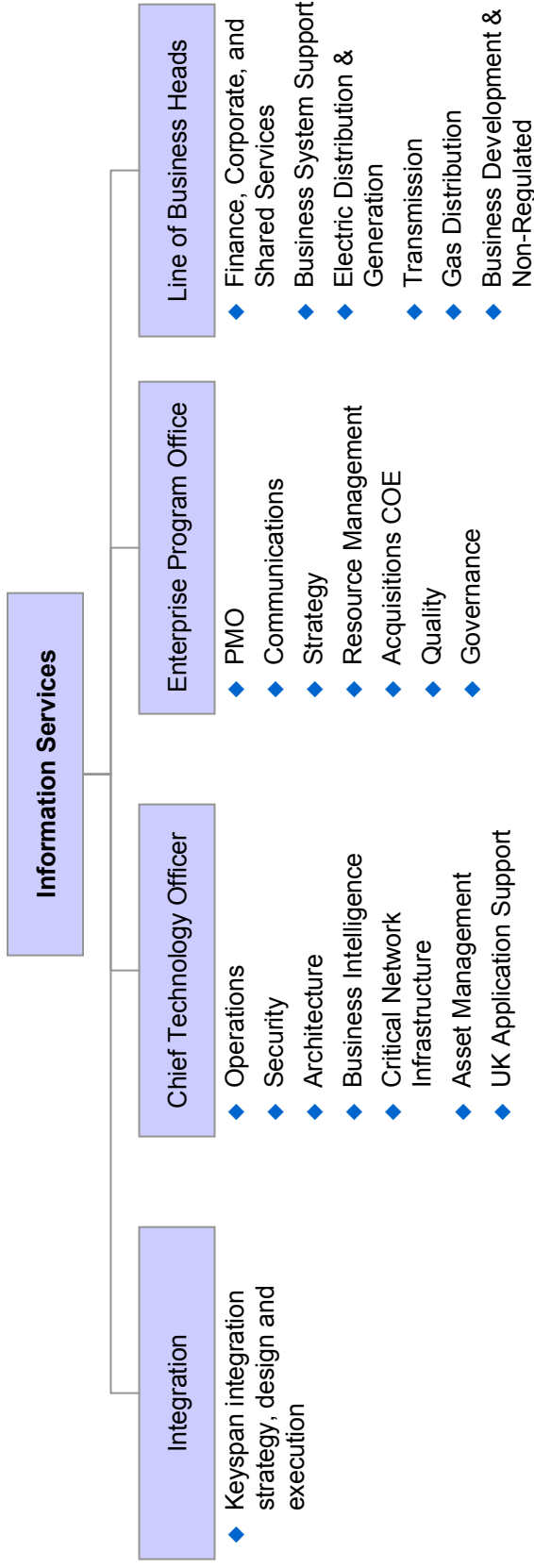


Contents

- ◆ **Executive Summary**
- ◆ Major Initiatives
- ◆ High Level Organization Structure
- ◆ Next Steps

Executive Summary: Information Services Overview

Scope of Function



Guiding Principles and Operating Philosophy

- ◆ Improve IS organizational capability across the Company
- ◆ Deliver maximum efficiencies/cost reductions from IS
- ◆ Leverage resources effectively based on global and regional business needs
- ◆ Rationalize the business system portfolio across the enterprise
- ◆ Leverage sourcing capability for 3rd party service, licenses, and maintenance across the enterprise
- ◆ Minimize risks in Business, Regulatory, Compliance, and Intellectual Property
- ◆ Develop a flexible system platform to support business change (e.g. future M&A)

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Savings Summary

Savings Levels

Overall identified opportunities will yield approximately \$44M of O&M savings.

	National Grid	KeySpan	Combined	Reduction	Post-Merger	Percentage Reduction
Staffing (FTEs)	480.5	440	920.5	268	652.5	29%
O&M Labor Costs - unloaded (\$M)	\$38	\$31	\$69	\$19	\$50	28%
Labor Loader (\$M)	\$19	\$16	\$35	\$9	\$26	26%
O&M Non-Labor Costs (\$M)	\$62	\$37	\$99	\$16	\$83	16%
Total	\$119	\$84	\$203	\$44	\$159	22%

Key Initiatives/Major Assumptions

- ◆ Applications: Assumes a single regional footprint of most mission critical business systems at Day N
 - \$42M in total O&M savings are dependent on single business system footprints (\$26M in business savings and \$16M in IS savings)
- ◆ Infrastructure: Consolidate and rationalize hardware, storage, data centers, network, telecom, etc.
- ◆ Regional focus with global input where appropriate/possible
- ◆ Contracts: Regional review with global consideration

Open Issues/Next Steps

- ◆ Develop global options and additional scenarios for comparison against this US Integration Baseline
- ◆ Transition to new leadership, update business plans as necessary, and develop implementation plans
- ◆ Design Day 1 and Day N organization structures and descriptions
- ◆ Formalize Day 1 plans with the Business
- ◆ Complete Gas & EMS SCADA analysis – IS versus business roles & responsibilities / operating model
- ◆ Complete Business System Support group analysis
 - 71.5 FTEs are mapped to IS

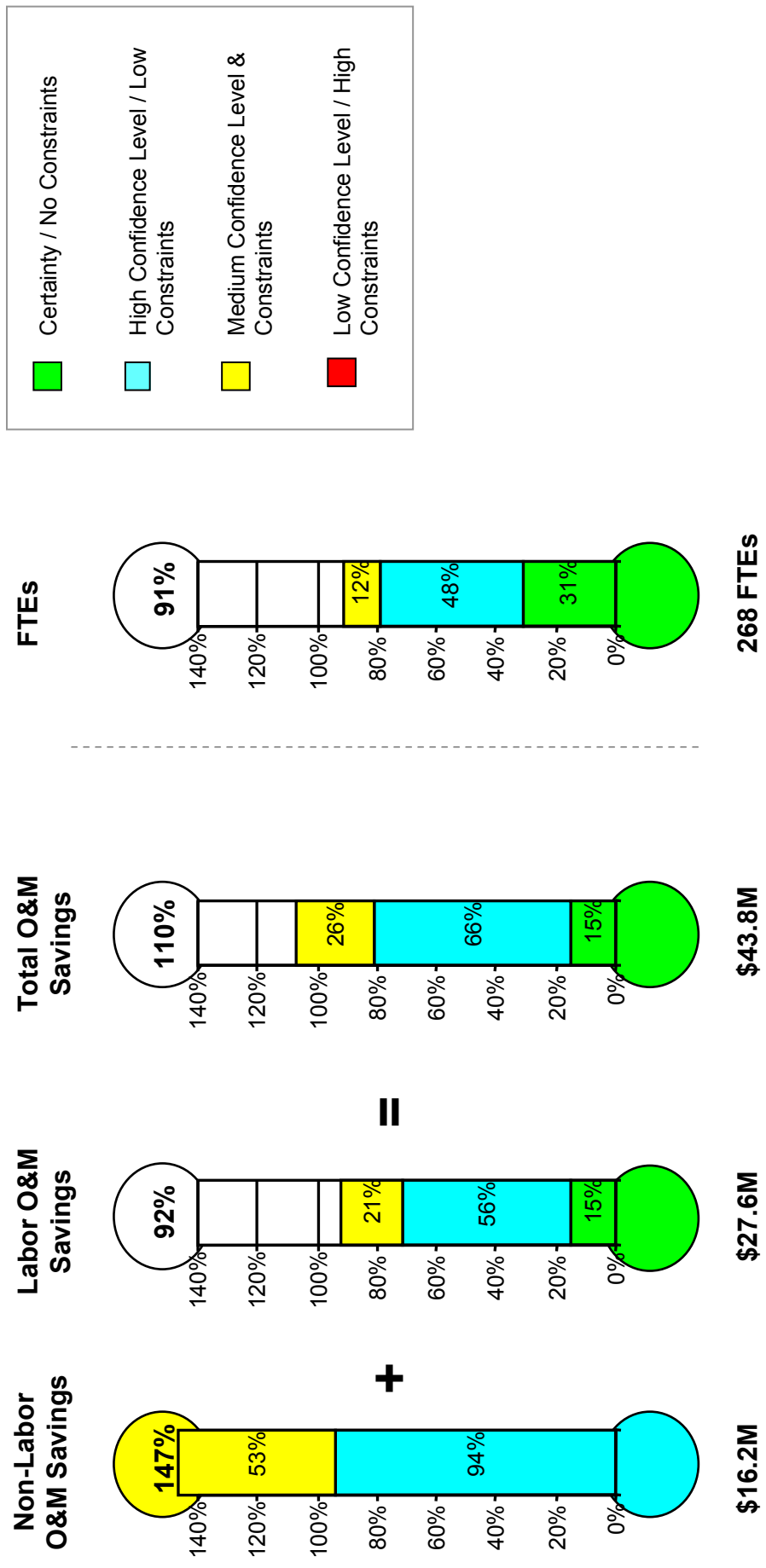
This presentation represents the “US Integration Baseline” against which other global options can be compared

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Executive Summary: Information Services Progress Against Targets

IS has identified \$44M in O&M savings, which is within the integration target range

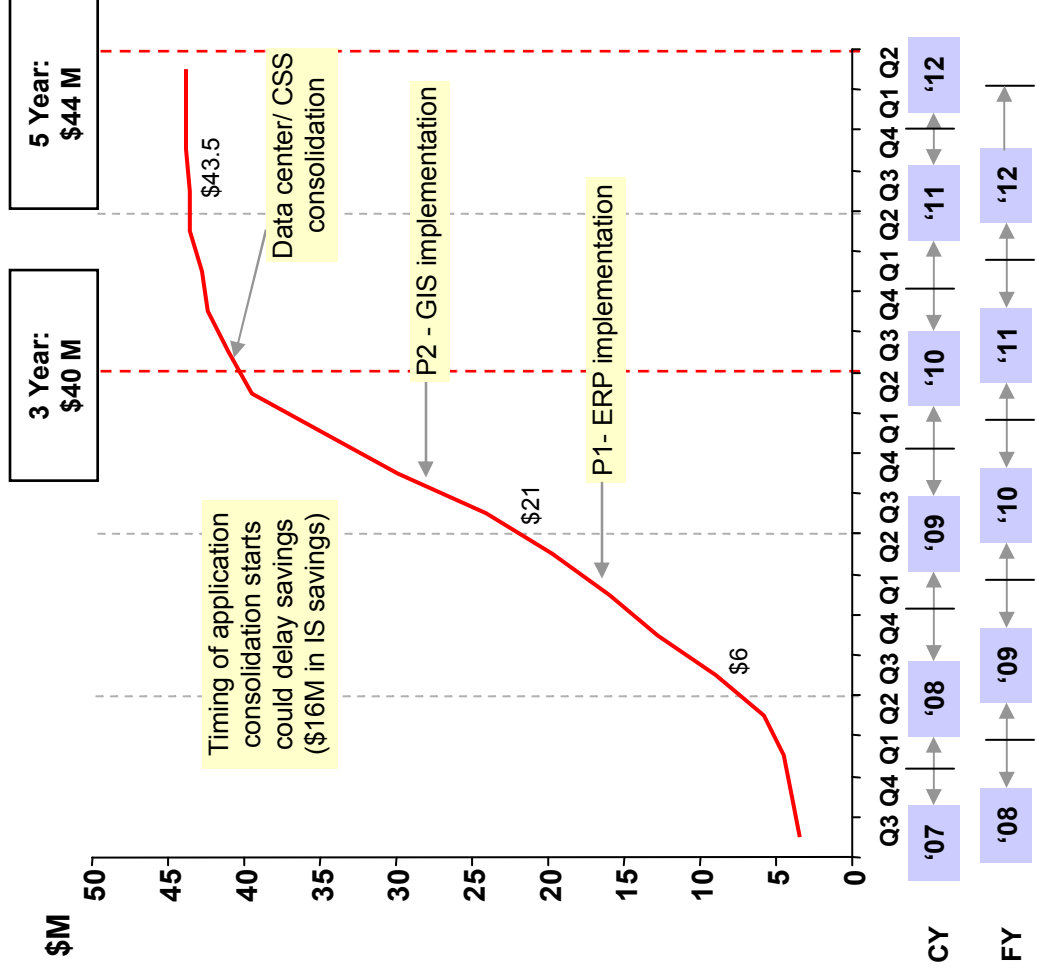
Progress Against Targets



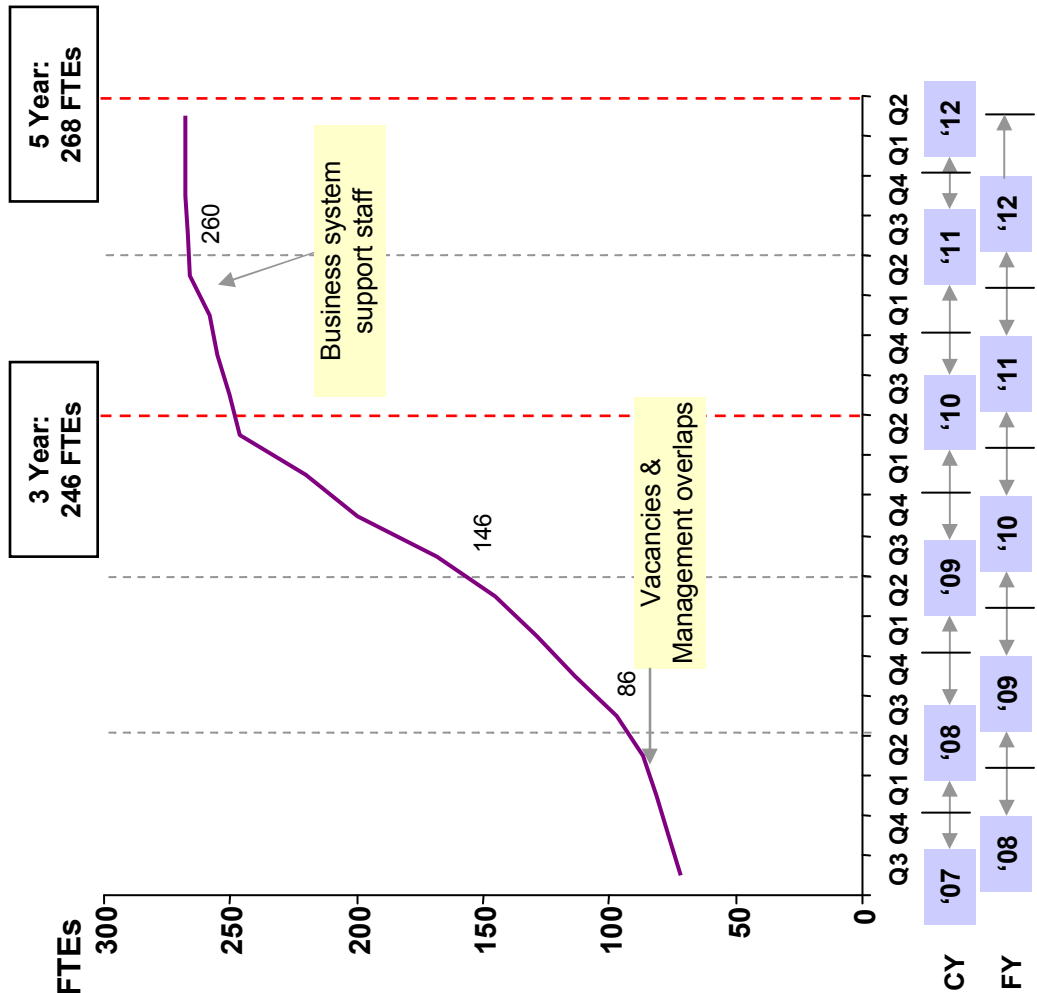
Executive Summary: Total Savings and FTE Reductions Over Time

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving.

Total O&M Savings (Run-rate)



Total FTE Reductions



O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Executive Summary: Cost To Achieve

The total Cost To Achieve is \$161M; \$120M is for Business application consolidation and \$41M is for internal IS infrastructure projects

Draft:
All Costs to Achieve to be reviewed and confirmed by leadership

Project Number / Description	Cost To Achieve (\$000s)			O&M Savings (\$000s)		Bad Debt Total (\$000s)	
	IS	Business	Total	IS O&M Savings	Business O&M Savings		Total
P1 - ERP/Work Management	\$23,607	\$0	\$23,607	\$6,012	\$10,991	\$17,002	\$0
P2 - GIS/Outage Management	\$28,815	\$0	\$28,815	\$3,627	\$1,399	\$5,025	\$0
P26 - CRIS	\$23,736	\$509	\$24,245				
P26 - CAS	\$26,552	\$509	\$27,061	\$4,883	\$8,859	\$13,742	\$9,800
P9/29 - FES/Account Initiation	\$471	\$0	\$471	\$0	\$200	\$200	\$6,000
P10 - eInvoicing	\$694	\$0	\$694	\$795	\$0	\$795	\$0
P11 - Sales and Use Tax	\$754	\$108	\$862	\$17	\$0	\$17	\$0
PTBD - Self Service (Marketing to 3rd Parties)	\$4,500	\$0	\$4,500	\$0	\$913	\$913	\$0
PTBD - Self Service (Web & IVR)	\$4,600	\$2,910	\$7,510	\$0	\$3,595	\$3,595	\$0
Other Applications 1	\$2,243	\$222	\$2,465	\$178	\$814	\$992	\$4,700
Subtotal - Application Consolidation	\$115,972	\$4,258	\$120,230	\$15,511	\$26,770	\$42,281	\$20,500
OneNet	\$8,282	\$0	\$8,282	\$1,227	\$0	\$1,227	\$0
Data Center	\$30,852	\$0	\$30,852	\$9,045	\$0	\$9,045	\$0
Network Data	\$1,070	\$0	\$1,070	\$0	\$0	\$0	\$0
Network Voice	\$105	\$0	\$105	\$1,438	\$0	\$1,438	\$0
Service Management	\$982	\$0	\$982	\$354	\$0	\$354	\$0
Subtotal - Infrastructure Projects	\$41,291	\$0	\$41,291	\$12,064	\$0	\$12,064	\$0
Total	\$157,263	\$4,258	\$161,521	\$27,575	\$26,770	\$54,345	\$20,500

Note: 1. The other applications include: Fleet Management, Security Case Management, Facilities Management, Legal Exchange, BluePrintOneWorld, Versatile, PC Docs, Claims Management, XRT Workstation, Misc. Tax Software, Field Collection, Risk Navigator, PAWS, Legal Time Management, Application for Bad Debt/LPC and Monthly Billing.

Contents

- ◆ Executive Summary
- ◆ **Major Initiatives**
- ◆ High Level Organization Structure
- ◆ Next Steps

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

IS Savings Detailed by Category

IS has identified \$44M in total O&M Savings from application consolidation, infrastructure projects, functional consolidation, and contract/license savings

Description of Savings	Application & Functional Consolidation				Infrastructure				% of Overall O&M Savings			
	FTEs	O&M Labor	Contractor FTEs	O&M Non-Labor	Total O&M Savings	FTEs	O&M Labor	Contractor FTEs		O&M Non-Labor	Total O&M Savings	Total O&M Savings (\$M)
Application Consolidation	62.5	\$7.4	46.5	\$7.0	\$14.4	21.0	\$2.5	0	-\$1.4	\$1.1	\$15.5	35%
Infrastructure Projects												
OneNet-Desktop consolidation	-	-	-	-	-	19.0	\$2.3	-	-\$1.0	\$1.2	\$1.2	3%
Data Center	-	-	-	-	-	29.0	\$3.4	-	\$5.6	\$9.0	\$9.0	21%
Network Data	-	-	-	-	-	0.0	\$0.0	-	\$0.0	\$0.0	\$0.0	0%
Network Voice	-	-	-	-	-	1.5	\$0.2	-	\$1.3	\$1.4	\$1.4	3%
Service Management	-	-	-	-	-	2.0	\$0.2	-	\$0.1	\$0.4	\$0.4	1%
Subtotal	0.0	\$0.0	0.0	\$0.0	\$0.0	51.5	\$6.1	0	\$5.9	\$12.1	\$12.1	28%
Functional Consolidation	126.5	\$10.8	12.5	\$1.2	\$12.0	6.5	\$0.8	0	\$0.0	\$0.8	\$12.8	29%
Contract Volume Discounts	0.0	\$0.0	0.0	\$0.0	\$0.0	0.0	\$0.0	0	\$3.5	\$3.5	\$3.5	8%
Total IS Savings	189.0	\$18.3	59.0	\$8.1	\$26.4	79.0	\$9.4	0	\$8.0	\$17.4	\$43.8	



Savings Summary

Category	Total
Total Employee Reductions (FTEs)	268
Total Contractor Reductions (FTEs)	59
Total Labor O&M Savings (\$M)	\$27.6
Total Non-Labor O&M Savings (\$M)	\$16.2
Total O&M Savings (\$M)	\$43.8

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

Business Savings Dependent on Application Consolidation (Day N US Baseline)

A review of the business initiatives enabled by IS integration projects identified ~\$42M in associated O&M savings, ~\$20M in Bad Debt, and ~\$7M in Capital Savings

Savings Dependent on Application Consolidation (\$000s)

Functional Area	O&M Labor	O&M Non-Labor	O&M Total Savings	Bad Debt	Capital Labor	Capital Non-Labor	Total Capital Savings
Finance	\$0	\$40	\$40	\$0	\$0	\$0	\$0
Corporate	\$12	\$273	\$285	\$0	\$0	\$0	\$0
Customer	\$6,763	\$2,190	\$8,953	\$0	\$0	\$0	\$0
Generation	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Electric T&D	\$3,213	\$1,337	\$4,550	\$0	\$1,768	\$100	\$1,868
Gas	\$323	\$138	\$460	\$0	\$663	\$0	\$663
Shared Services - Property Services	\$325	\$0	\$325	\$0	\$35	\$0	\$35
Shared Services - Supply Chain	\$1,255	\$985	\$2,240	\$0	\$2,021	\$0	\$2,021
Shared Services - HR	\$2,201	\$520	\$2,721	\$0	\$0	\$0	\$0
Shared Services - Customer Related Services	\$2,433	\$475	\$2,908	\$20,500	\$0	\$0	\$0
Shared Services - Finance	\$4,247	\$0	\$4,247	\$0	\$874	\$216	\$874
SHES	\$0	\$41	\$41	\$0	\$0	\$0	\$0
External Affairs	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal - Business savings	\$20,772	\$5,999	\$26,770	\$20,500	\$5,361	\$316	\$5,461
IS - Application (Dependent on above)	\$10,521	\$3,882	\$14,403	\$0	\$1,080	\$740	\$1,820
IS - Infrastructure (Dependent upon above)	\$2,495	-\$1,387	\$1,108	\$0	\$0	\$0	\$0
Subtotal - IS savings	\$13,016	\$2,495	\$15,511	\$0	\$1,080	\$740	\$1,820
Total	\$33,787	\$8,494	\$42,281	\$20,500	\$6,441	\$1,056	\$7,281

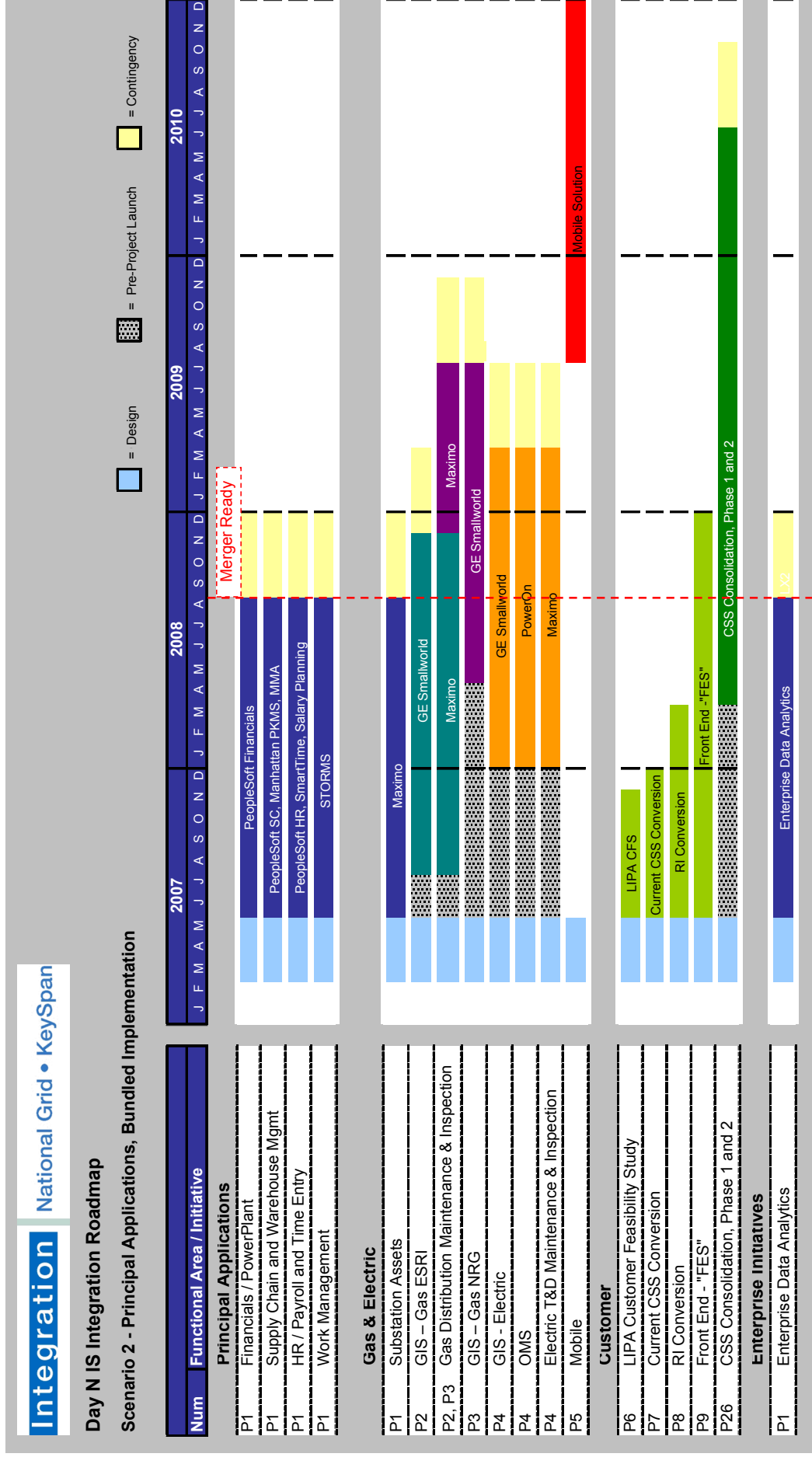
Key Day N Application Recommendations

Based on a number of business and IS workshops the following major applications were recommended:








Function	Major App Recommendations	Application Owner	Roadmap Approach
Finance & Accounting	<ul style="list-style-type: none"> PeopleSoft Financials PowerPlant Hyperion Planning Treasury Workstation 	National Grid National Grid National Grid KeySpan	Implement major applications (PS Financials, PowerPlant) concurrently to manage dependencies
Shared Services	<ul style="list-style-type: none"> PeopleSoft Supply Chain Manhattan PKMS, Materials Management FleetFocus eInvoicing software TBD STS Corporate Maximo Facilities 	National Grid National Grid National Grid TBD KeySpan TBD	Supply Chain applications will have a strong dependency on the Day N Financials conversion
HR	<ul style="list-style-type: none"> PeopleSoft HR SmartTime 	KeySpan KeySpan	Implement concurrently along with Salary Planning tool
Gas & Electric	<ul style="list-style-type: none"> STORMS (with NG Maximo) GE Smallworld MWorK vs. MDSI tbd 	National Grid National Grid TBD	Optimal approach is to implement Work Management concurrently with Financials
Customer Service & Marketing	<ul style="list-style-type: none"> CSS Front End 'FES' Avaya IVR Onyx or Siebel tbd 	National Grid KeySpan National Grid TBD	KeySpan CSS conversion to be completed in a phased approach.
Corporate Services	<ul style="list-style-type: none"> Legal eXchange Outstanding decisions required on lower priority items 	National Grid	Two-phased implementation required to interface with Day N financial system

Day N Integrated Roadmap: Principal Applications (Proxy based on US Baseline)

Based on Day N workshops an implementation timeline was developed:



Day 1 Initiatives and Early Starts

Project Name	Overall Status	Comments/status
WAN Connectivity		<ul style="list-style-type: none"> Verizon has committed to a delivery of the circuits by the end of March 2007.
Enable NG-KSE Intercompany LAN Access		<ul style="list-style-type: none"> Computer images for both National Grid and KeySpan has been successfully implemented at each respective company. All pending firewall issues resolved, additional testing and documentation underway.
Email Directory Access		<ul style="list-style-type: none"> Microsoft directory software acquired and implemented. Necessary to link KeySpan's network with National Grid
Storage		<ul style="list-style-type: none"> Day 1 storage requirements very small, no RFP for storage procurement required.
Service, Incident, Problem, & Change Management		<ul style="list-style-type: none"> Training of the respective Help Desk staff will occur as close to Day 1 as possible to keep information fresh in analysts' mind.
Intercompany Private Voice Network		<ul style="list-style-type: none"> No Day 1 private network will be utilized, normal toll services for voice communications will apply Day N Unified Telecom strategy to address long-term voice design and logistics.
Applications - General Ledger		<ul style="list-style-type: none"> 2 Day close and financial Day 1 bridge in place. Testing in progress

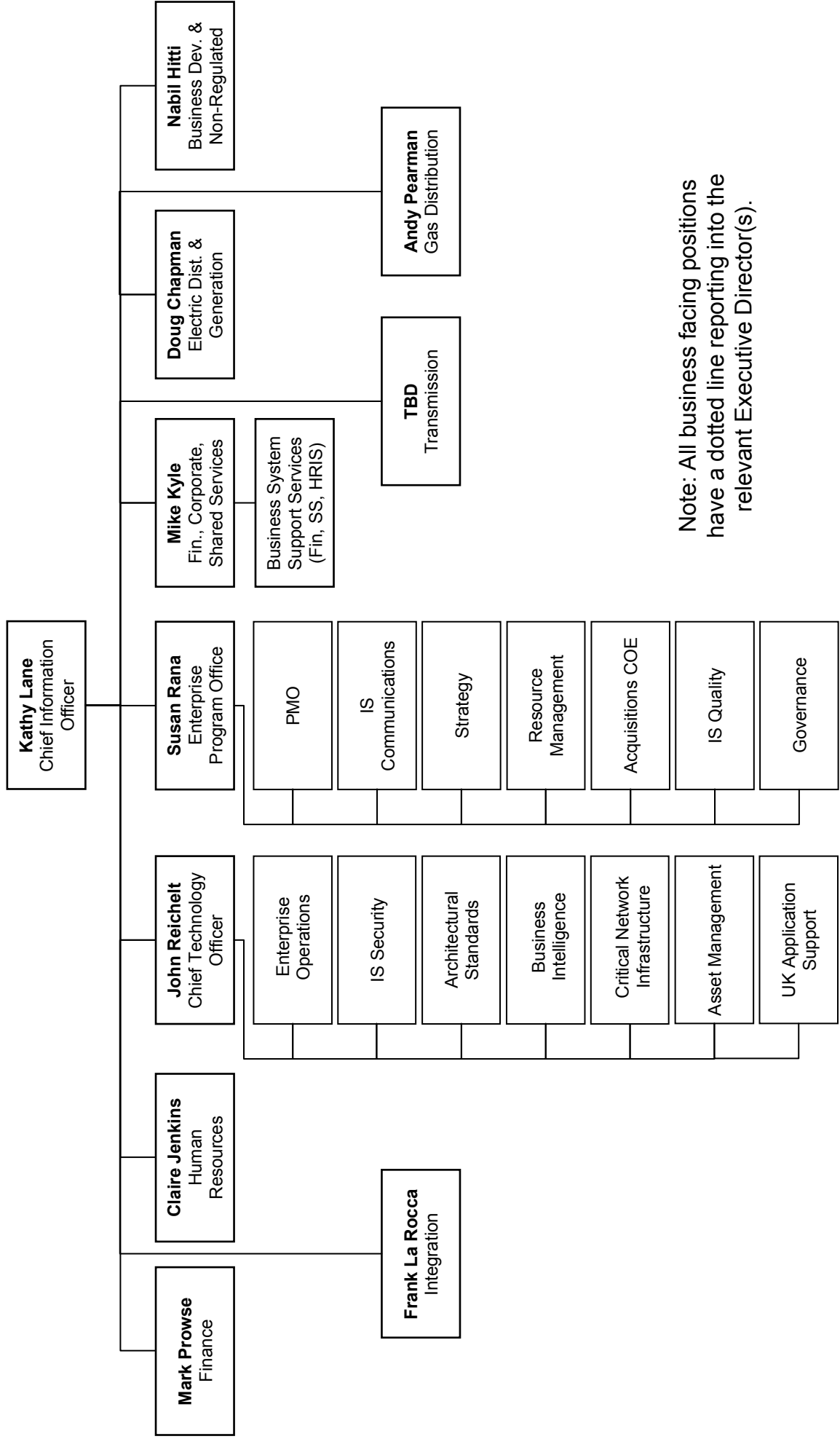
Legend:

	On target		At risk		Behind		Not started
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Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ **High Level Organization Structure**
- ◆ Next Steps

Information Services High Level Organization Structure



Note: All business facing positions have a dotted line reporting into the relevant Executive Director(s).

Contents

- ◆ Executive Summary
- ◆ Major Initiatives
- ◆ High Level Organization Charts
- ◆ **Next Steps**

Implementation Challenges and Mitigation

Implementation challenges	Mitigation plans
<ul style="list-style-type: none"> ◆ Resource Availability (IS and Business) 	<ul style="list-style-type: none"> ◆ Prioritize IS initiatives across the corporation
<ul style="list-style-type: none"> ◆ Retention of IS and Business Intellectual Capital 	<ul style="list-style-type: none"> ◆ Identify key employees and determine retention strategies
<ul style="list-style-type: none"> ◆ Achieving timely decisions regarding business operating models and strategies 	<ul style="list-style-type: none"> ◆ Early development and communication of operating models and strategies
<ul style="list-style-type: none"> ◆ High-level business case estimates – detailed analysis may uncover additional costs 	<ul style="list-style-type: none"> ◆ Ensure that appropriate Business and IS individuals are involved in the detailed analysis
<ul style="list-style-type: none"> ◆ Scale/Volume of Change 	<ul style="list-style-type: none"> ◆ Prioritize initiatives ◆ Crisp communications and timely training

Next steps & Open Issues

- ◆ Develop global options and additional scenarios for comparison against this US Integration Baseline
 - Devote client and IS resources (e.g. facilitators, business process management resources, subject matter experts) to detailing process capability, 'to be' operating model and determine associated cost/benefit analysis compared to this US baseline
 - Detail the cross line of business core system related processes to address synergies
- ◆ Transition to new leadership, update business plans as necessary, and develop implementation plans
- ◆ Design Day 1 and Day N organization charts and descriptions
- ◆ Formalize Day 1 plans with the Business
- ◆ Complete Gas & EMS SCADA analysis – IS versus business roles & responsibilities / operating model
- ◆ Complete Business System Support group analysis (71.5FTEs are aligned with IS)

Appendix

◆ Details of savings from ERP, GIS and Customer System consolidation

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

IS Enabled Savings: Principal Applications – US Baseline (Page 1 of 2)

The following depicts the savings from the consolidation of major applications

P1 - Financials/Work Management	O&M Labor	O&M Non-Labor	O&M Total Savings	Bad Debt	Capital Labor	Capital Non-Labor	Total Capital Savings
Shared Services - Finance							
P1 - Financials/PowerPlant	\$2,541	\$0	\$2,541	\$0	\$874	\$216	\$874
Electric T&D							
P1 - Work Management	\$3,213	\$0	\$3,213	\$0	\$1,768	\$0	\$1,768
Gas							
P1 - Work Management	\$273	\$0	\$273	\$0	\$4	\$0	\$4
P1 - Scheduling	\$0	\$125	\$125	\$0	\$0	\$0	\$0
Shared Services - Supply Chain							
P1 - PS SC/Materials Management	\$1,132	\$985	\$2,117	\$0	\$1,939	\$0	\$1,939
Shared Services - HR							
P1 - PeopleSoft HR/Payroll and Time Entry	\$2,201	\$520	\$2,721	\$0	\$0	\$0	\$0
Information Systems							
P1 - Financial/Work Management/HR Support	\$2,911	\$3,101	\$6,012	\$0	\$0	\$740	\$740
Total Savings	\$12,271	\$4,731	\$17,002	\$0	\$4,585	\$956	\$5,325

Cost to achieve: \$23.6M

O&M and FTE savings estimates shown are nominal values, and as such will be adjusted to reflect confidence levels of achieving

IS Enabled Savings: Principal Applications – US Baseline (Page 1 of 2)

The following depicts the savings from the consolidation of major applications

P2 - GIS	O&M Labor	O&M Non-Labor	O&M Total Savings	Bad Debt	Capital Labor	Capital Non-Labor	Total Capital Savings
Gas							
P2 - GIS	\$41	\$13	\$53	\$0	\$659	\$0	\$659
P2 - ACES & Administration	\$9	\$0	\$9	\$0	\$0	\$0	\$0
Electric T&D							
P4 - GIS/Maintenance & Inspection/GE Maps	\$0	\$400	\$400	\$0	\$0	\$0	\$0
P1 - TBD (multiple systems)	\$0	\$937	\$937	\$0	\$0	\$100	\$100
Information Systems							
P2 - GIS	\$2,911	\$716	\$3,627	\$0	\$0	\$0	\$0
Total Savings	\$2,960	\$2,066	\$5,025	\$0	\$659	\$100	\$759

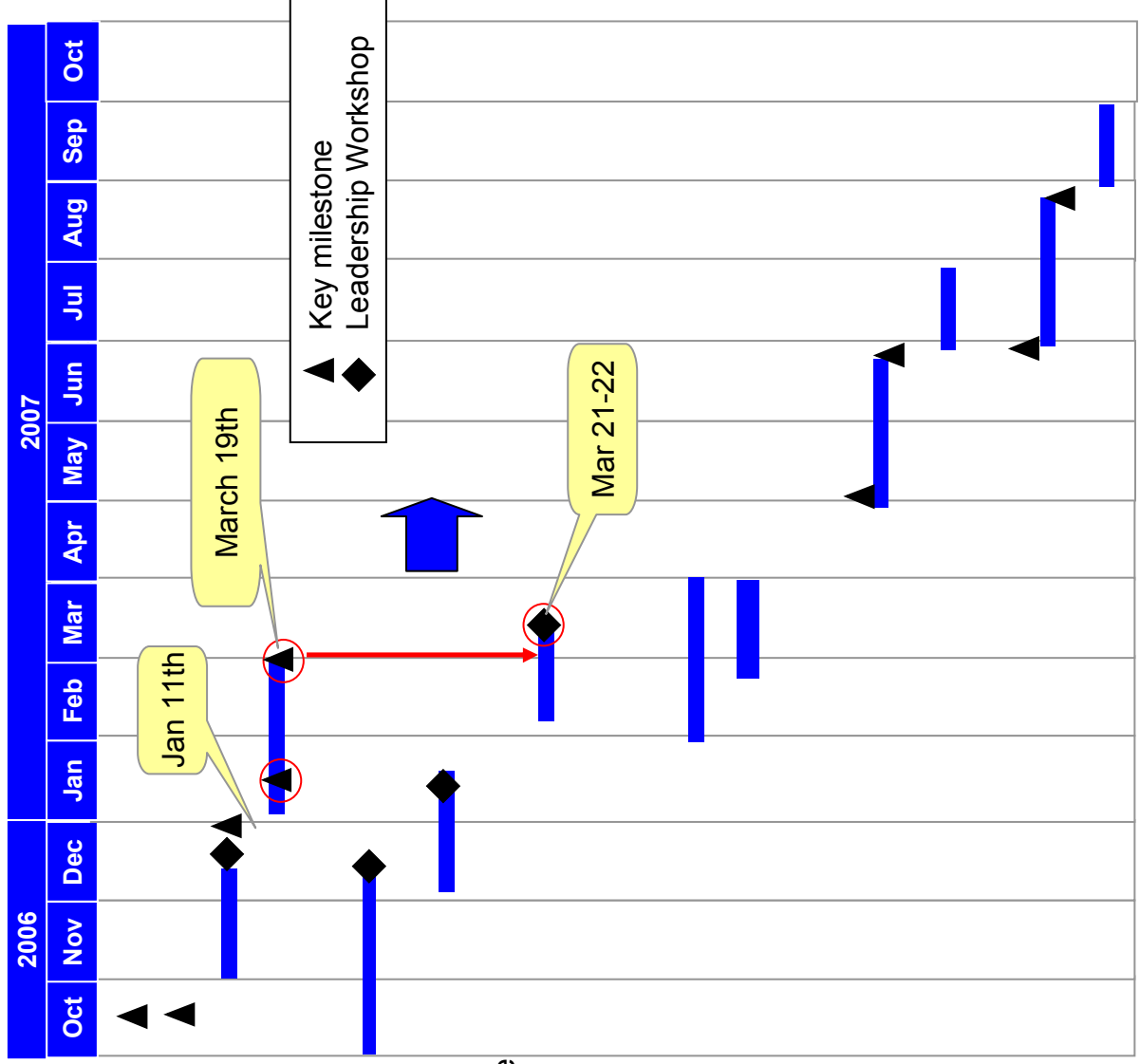
Cost to achieve: \$28.8M

P26 - CSS Consolidation	O&M Labor	O&M Non-Labor	O&M Total Savings	Bad Debt	Capital Labor	Capital Non-Labor	Total Capital Savings
Customer							
P26 - CSS Consolidation	\$4,575	\$170	\$4,745	\$0	\$0	\$0	\$0
Shared Services - Customer Related Services							
P26 - CSS Consolidation	\$2,433	-\$25	\$2,408	\$9,800	\$0	\$0	\$0
Shared Services - Finance							
P26 - CSS Consolidation	\$1,706	\$0	\$1,706	\$0	\$0	\$0	\$0
Information Services							
P26 - CSS Consolidation	\$6,635	-\$1,752	\$4,883	\$0	\$1,080	\$0	\$1,080
Total Savings	\$15,349	-\$1,607	\$13,742	\$9,800	\$1,080	\$0	\$1,080

Cost to achieve: \$27.0M (CAS) \$24.2M (CRIS)

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Overview of integration planning timeline



Top-level organization structure announced
 Leadership selected and announced
 High-level functional structure designed
 Officers selected / announced
 Task 3: Draft operational recommendations developed
 Task 4: Draft 'full' organization structures designed
 Tasks 3 & 4: Operational and full organization structure recommendations refined and finalized by officers
 Task 5-6: Implementation Planning
 Organizational and Staffing Communications
 Voluntary Early Retirement (VERO) announced
 VERO ends
 Round 1 staffing
 If needed, Voluntary Severance announced
 If needed, Voluntary Severance ends
 Remaining staffing

Next Steps: Transition Planning Between Now and Day One

The overall management objectives prior to Day One are to:

- ◆ Continue to meet all of the day-to-day operational objectives and legal requirements associated with managing National Grid and KeySpan as two distinct corporate entities prior to the transaction’s close
- ◆ Work with your leadership team to:
 - Become familiar with the integration plans that have been developed and refine, as appropriate, the plans for your functions
 - Start to get to know the people, in both companies, associated with the functions that you will lead
 - Start developing the overall strategies for your functions (building from the corporate strategy and the integration plans)
 - Appoint “project managers” and start moving forward with early initiatives to accelerate value and/or implementing future operational models

National Grid - KeySpan Integration

Change Network Roles

US Leadership Team Meeting
March 21, 2007

Integration

National Grid • KeySpan

Key Change Network Roles

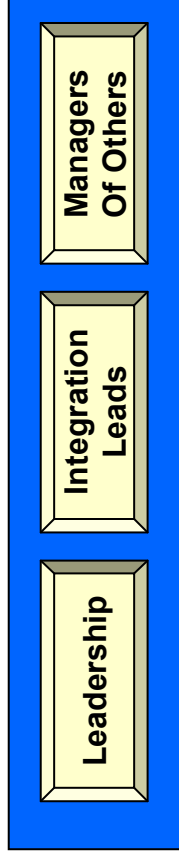
- ◆ **Sponsors:** Senior Executives who can legitimize change and are accountable for goal achievement, e.g.
 - The Leadership Team, Integration Team Leads, Managers of others

 - ◆ **Change Agents:** trust figures deeper in the organization who can bridge organizational levels and enhance the quality of two way communications between employees about change, e.g.:
 - Mid-level individual contributors and managers who are effective communicators

 - ◆ **Sponsors and Change Agents constitute a partnership:**
 - Sponsors cannot delegate their roles to Change Agents
 - Change Agents cannot be effective without the visible support of their Sponsors
-

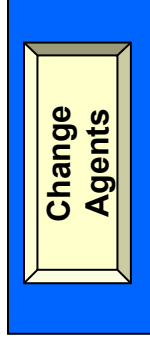
Change Management Executive Sponsors: Tim Horan and Elaine Weinstein

What Effective Sponsors Do



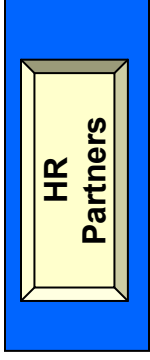
- ◆ Use positional power and influence others to achieve mission and vision
- ◆ Model behaviors consistent with the desired culture
- ◆ Are accessible to all employees and help them understand the change and support them in dealing with the transition
- ◆ Build excitement for the change
- ◆ Communicate openly and effectively to all employees
- ◆ Set and meet aggressive targets
- ◆ Hold others accountable for achieving results
- ◆ Behave without boundaries to get the job done
- ◆ Remove barriers
- ◆ Make tough decisions
- ◆ Recognize peoples' concerns regarding the merger of cultures
- ◆ Are informed about corporate strategy, integration activities, key events, etc. before they are announced to their employees

What Effective Change Agents Do



- ◆ Act as listening posts to employees
- ◆ Share feedback with Sponsors openly and honestly
- ◆ Model behaviors consistent with the desired culture
- ◆ Support two-way communications within and across organizations
- ◆ Uncover resistance and work to reframe negative perceptions
- ◆ Build commitment of supervisors by providing regular, informal updates
- ◆ Support Managers and Supervisors in framing key messages and engaging employees
- ◆ Escalate issues and concerns to the Integration team

How Human Resource Business Partners Support the Network



- ◆ Work closely with Sponsors to devise strategies for managing cultural integration
- ◆ Support and guide the Change Agents and Integration Teams
- ◆ Assist Change Agents in executing communication plans and in building consultative skills
- ◆ Assist in the development of people strategies and processes that support operational and culture change