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Memorandum

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Linda Doering and Pam Viapiano, National Grid

FROM: William Booth, on behalf of NYMPA and MEUA
Michael Mager, on behalf of MI
David Strauss, on behalf of City of Cleveland

DATE: September 9, 2009

RE: List of Potential Preliminary Issues, Docket Nos. ER08-552-000 & ER09-1291-000

Consistent with Section 9.4(b) of Attachment H of the NYISO Open Access Transmission Tariff as modified in the Settlement Agreement filed April 6, 2009, this letter constitutes the non-binding list of potential Preliminary Challenges by the New York Municipal Power Agency ("NYMPA"), Municipal Electric Utilities Association ("MEUA"), Multiple Interveners ("MI")and City of Cleveland ("Cleveland") (collectively, the "Transmission Customers") in response to the 2009 Formula Rate Update filed by Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara"). The potential Preliminary Challenges are set forth below.

Preliminary Challenge 1: Forecasted Transmission Plant In-Service

The 2009 Formula Rate Update filing Work Paper 8 includes a transmission plant credit of $44.6 million to the "Other" category located at line 31. Niagara described these "Other" plant items at page I-6 of its response to Information Request MI 1-3 as expenditures that do not fit into other categories and that generally require further development. Niagara has characterized the credits for calendar year 2008 and fiscal year 2009/2010 as "negative Transmission Reserves." Beginning fiscal year 2010/2011, Niagara has projected these values to be debits in the range of $70.4 million in 2010/2011 to $330.5 million in 2013/2014.

Niagara should clearly identify in its Formula Rate Update filings each of these "Other" projects and should provide the necessary cost support. Once identified, the Transmission Customers will be able to assess whether these values are properly included in the formula.

Preliminary Challenge 2: Keyspan Salaries & Wages

Keyspan salaries and wages allocated to transmission service increased from an annualized $400,000 for 2007 to $1.9 million for 2008 - - a factor of four increase. In response to Information Request NYMPA 1-6, Niagara stated that the increase was due to a full year of costs in 2008 compared to a partial year in 2007.

Contingent on Niagara's response to outstanding Information Requests, the Transmission Customers may challenge the increase in these costs and/or their allocation to transmission customers.

<u>Preliminary Challenge 3</u>: <u>Office Supply Costs and Merger-Related Costs</u>

Office supplies for 2008 reported in A/C 921 were $8.5 million greater than the office supplies expense included in the 2007 cost of service (see Niagara response to Information Request Cleveland Request No. 1-1 (b)). According to Niagara, the primary drivers of the increase were:

- Increases in employee expenses due to increased travel;
- Increases in costs to achieve merger-related synergy savings and inflation.

Contingent on Niagara's responses to outstanding Information Requests, the Transmission Customers may object to the inclusion in Niagara's TSC of any costs associated with the National Grid/Keyspan merger, including costs incurred to develop synergies between the two affiliates. The Transmission Customers also may object to the magnitude of increased travel costs and of office costs.

<u>Preliminary Challenge 4</u>: <u>Long Term Debt Costs</u>

Niagara's 2009 Formula Rate Update filing includes $34.9 million of debt cost that Niagara is not projected to incur is 2009. During the settlement period, Niagara had $1.250 billion dollars of debt to retire and $1.450 billion in NYPSC-approved capital projects. In 2007, NIMO had a $600 million debt issue with an amortization period ending September 1, 2008. The outstanding balance and annual interest of $46.5 million associated with this $600 million issue was reported on line 28 at page 257 of the 2007 FERC Form 1. The 2008 Form 1 included an associated interest expense of $34.9 million. Niagara's use of the line 33 data from the 2008 Form 1 to calculate the long-term debt cost as a percent of debt, resulted in a 7.44% (see Workpaper 8, line 15) over-statement; it does not reflect a match between outstanding debt and associated interest for 2009.

The Transmission Customers object to the over-collection of debt cost. The Formula Rate Update filings should accurately reflect the debt cost that Niagara will actually incur.

Since discovery is continuing and the Transmission Customers are awaiting Niagara's responses to certain requests, we may modify this list.

The Transmission Customers are prepared to make good faith efforts to resolve these issues through settlement negotiations with Niagara, and recommend that a conference call be scheduled to discuss next steps.