FORM U-1

Application or declaration under the act 1935

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Mailing Address
NATIONAL GRID HOUSE
KIRBY CORNER ROAD
COVENTRY

Business Address
NATIONAL GRID HOUSE
KIRBY CORNER ROAD
COVENTRY

File No. 70-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

APPLICATION-DECLARATION

UNDER

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

The National Grid Group plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY
United Kingdom

New England Electric System
25 Research Drive
Westborough, Massachusetts 01582

(Name of companies filing this statement
and addresses of principal executive offices)

The National Grid Group plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY
United Kingdom

(Name of top registered holding company parent)

Jonathan M. G. Carlton
The National Grid Group plc
National Grid House
Kirby Corner Road

Douglas W. Hawes
Joanne C. Rutkowski
Sheri E. Bloomberg
LeBoeuf, Lamb, Greene & MacRae, L.L.P.

Coventry CV4 8JY
United Kingdom
Telephone: 011-44-1203-423-006
Facsimile: 011-44-1203-423-026

New York, NY 10019
Telephone: 212-424-8000
Facsimile: 212-424-8500

National Grid (USA) Inc.
10th Floor
Oliver Building
2 Oliver Street
Boston, MA 02109

Michael E. Jesanis
Kirk L. Ramsauer
New England Electric System
25 Research Drive
Westborough, Massachusetts 01582

Clifford M. Naeve
Judith A. Center
Skadden, Arps, Slate, Meagher & Flom L.L.P.
1440 New York Avenue, N.W.
Washington, D.C. 20005

(Names and addresses of agents for service)

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ITEM 1. DESCRIPTION OF THE PROPOSED MERGER

A. Introduction

This Application/Declaration seeks approvals relating to the proposed acquisition of New England Electric System ("NEES"), a Massachusetts business trust, by The National Grid Group plc ("National Grid"), a public limited company incorporated under the laws of England and Wales, pursuant to which NEES and its subsidiaries will become subsidiaries of National Grid (the "Merger"). Following consummation of the Merger, National Grid will register with the Securities and Exchange Commission (the "Commission") as a holding company under Section 5 of the Public Utility Holding Company Act of 1935, as amended (the "Act"). NEES is currently a holding company registered under Section 5 of the Act and will remain as such following consummation of the Merger.(1) On February 1, 1999, NEES announced that it had entered into an agreement to acquire all of the outstanding common stock of Eastern Utilities Associates ("EUA"), a holding company registered under the Act. Consummation of the merger between NEES and EUA is not conditional on, and is proceeding independently from, the closing of the Merger. Authorization under the Act for

NEES' acquisition of EUA will be the subject of a separate application to the Commission by NEES.

1. General Request

Pursuant to Sections 9(a)(2) and 10 of the Act, the Applicants hereby request authorization and approval of the Commission to acquire, by means of the Merger, the issued and outstanding common stock of the subsidiaries of NEES that are public utility companies within the meaning of the Act, namely New England Power Company ("NEP"), Massachusetts Electric Company ("Mass. Electric"), The Narragansett Electric Company ("Narragansett"), Granite State Electric Company ("Granite State"), Nantucket Electric Company ("Nantucket"), New England Electric Transmission Corporation ("NEET"), New

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(1) As explained more fully herein, the Merger structure will involve the use of a number of intermediate companies which have not yet been formed. The application will be amended to reflect these entities as they are formed. The intermediate companies, together with National Grid and NEES, are referred to as the "Applicants."

England Hydro-Transmission Corporation ("N.H. Hydro"), New England Hydro-Transmission Electric Company, Inc. ("Mass. Hydro") and Vermont Yankee Nuclear Power Corporation. The Applicants also hereby request that the Commission approve (i) the acquisition by the Applicants of the non-utility activities, businesses and investments of NEES and the retention of National Grid's existing non-utility activities, businesses and investments; (ii) certain acquisition-related financing matters, and (iii) certain amendments to the NEES standard form of service company agreement.

2. Overview of the Merger

Pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), dated as of December 11, 1998 by and among National Grid, NGG Holdings LLC, a Massachusetts limited liability company and a wholly owned subsidiary of National Grid, and NEES, NGG Holdings LLC will be merged with and into NEES with NEES as the surviving entity. As a result of the Merger, NEES will become an indirect, wholly owned subsidiary of National Grid. The proposed corporate structure of National Grid after the Merger is discussed in more detail in Item 1.E below.

As consideration for each common share of NEES outstanding at the time of the Merger, the NEES shareholders will receive $53.75 per share in cash, plus up to an additional $0.60 in cash per share if the Merger is not consummated within six months after the NEES shareholders approve the Merger, calculated at a rate of $0.003288 for each day that the Merger closing is

delayed past the end of the six month period. The NEES shareholders will not obtain any stock consideration from National Grid in the Merger.

As discussed in more detail in Item 3.A. below, in addition to providing substantial value to NEES shareholders as described above, the Merger will produce substantial benefits to the public interest and to consumers in New England, as well as the shareholders of National Grid, by combining a company with demonstrated expertise in operating in a competitive environment with a company that having divested the bulk of its generation assets and operating in states where deregulation initiatives are advanced is well positioned to compete.

The Merger must be approved by the shareholders of NEES and National Grid, as well as by the Federal Energy Regulatory Commission (the "FERC"), the Nuclear Regulatory Commission (the "NRC"), the Vermont Public Service Board (the "VPSB") and the Connecticut Department of Public Utility Control (the "CDPUC"). While the express approval of the Massachusetts Department of Telecommunications and Energy (the "MDTE") and the Rhode Island Public Utility Commission (the "RIPUC") are not required, the parties to the Merger actively will seek support from those agencies in connection with the 1935 Act authorizations sought herein. In addition, Granite State and NEP have made representations to the New Hampshire Public Utilities Commission ("NHPUC") that the Merger will not adversely affect their rates, terms, service or operations. Finally, the Merger is subject to review by the Antitrust Division of the Justice Department and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and by the Committee on Foreign Investments in the United States under the Exon-Florio Provisions of the Omnibus Trade and Competitiveness Act of 1988.

B. Description of the Parties to the Merger

1. National Grid

National Grid is a holding company formed in 1989. Its principal subsidiary, The National Grid Company plc, a public limited company formed under the laws of England and Wales ("National Grid Company") was created as a result of the privatization and restructuring of the British electric system. National Grid's ordinary shares are listed on the London Stock Exchange (the "LSE") and National Grid has an unsponsored American Depositary Receipt ("ADR") program pursuant to which a relatively small amount of its shares trade in the United States as ADRs. National Grid is preparing the necessary documentation which will enable it to become listed on the New York Stock Exchange through a full ADR program sometime prior to the closing of this transaction.

National Grid has the following direct subsidiary companies:(2)

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2 Attached as Exhibit J-1 is a description of the direct and indirect

subsidiary companies of National Grid and the basis for retention of each.

National Grid intends to put in place a subholding company over its interests (other than the NEES companies). The particulars of the new entity will be filed by amendment.

a. National Grid Company -- As part of the U.K. government's privatization efforts, the Central Electricity Generating Board, which owned and operated the vast majority of electric generation and transmission facilities in England and Wales, was split into three competing generation companies, and an independent transmission company, National Grid Company. As a result, National Grid Company is the only transmission company in England and Wales and now owns 4,300 miles of overhead transmission lines and 400 miles of underground cables, all in England and Wales, as well as interconnections with Scotland and France. The principal functions of National Grid Company in the competitive British power supply market are to provide transmission services on a for-profit, non-discriminatory basis, and to maintain and make all needed improvements to optimize access to that system; to procure ancillary services on the transmission system; to match demand and supply; to manage the daily system of half-hourly bids for competing generators; and to calculate market prices and make the payments due from each day's energy trading. National Grid Company is subject to regulatory controls overseen by the Director General of Electricity Supply with regard to the prices it may charge for transmission services in England and Wales. The current transmission price control arrangements for National Grid Company are expected to remain in force until March 31, 2001.

b. National Grid Insurance Limited, is an insurance subsidiary formed in connection with the self-insured retention of National Grid Company's transmission assets. National Grid owns all of the outstanding ordinary shares of National Grid Insurance Limited, with preference shares held by Barclays Bank.

c. National Grid International Limited, is an intermediate holding company for certain of the overseas operations of National Grid.

d. The National Grid Group Quest Trustees Limited is the trustee company for National Grid's qualifying employee share ownership trust.

e. NGG Telecoms Limited holds National Grid's interest (currently at 48.3%) in Energis plc ("Energis"), a telecommunications company focusing on the business marketplace in the United Kingdom.

f. Natgrid Finance Limited provides financial management services to National Grid.

A chart of National Grid and its subsidiaries is attached hereto as Exhibit E-3.

2. NEES

NEES is organized and exists as a voluntary association created under the laws of the Commonwealth of Massachusetts on January 2, 1926. NEES's principal executive office is located at 25 Research Drive, Westborough, Massachusetts 01582.

NEES is a holding company registered under Section 5 of the 1935 Act, and it and its subsidiaries are subject to the broad regulatory provisions of the Act. Various NEES subsidiaries are also subject to regulation by (i) the FERC under the Federal Power Act ("FPA") with respect to wholesale sales and transmission of electric power, construction and operation of hydroelectric project, and accounting and other matters, and (ii) various state regulatory commissions, as discussed below. In addition, the activities of nuclear facilities in which NEES and its subsidiaries have ownership interests are regulated by the NRC.

The common stock, par value of $1.00 per share, of NEES is listed on the New York Stock Exchange and the Boston Stock Exchange. As of December 31, 1998, there were 59,171,015 shares of NEES common stock outstanding. On a consolidated basis at the end of 1998, NEES had total assets of $5.07 billion, net utility assets of $2.5 billion, total operating revenues of $2.42 billion, utility operating revenues of $2.24 billion, and net income of $190 million.

NEES owns all of the voting securities of the following four distribution subsidiaries, Mass. Electric, Narragansett, Granite State and Nantuckett, and 99.71 percent of the outstanding voting securities of its principal transmission subsidiary, NEP. The NEES system covers more than 4,500 square miles with a population of approximately 3,000,000. At December 31, 1998, NEES and its subsidiaries had approximately 3,540 employees.

a. Mass. Electric is a public utility company engaged in the delivery of electric energy to approximately 980,000 customers in an area comprising approximately 43 percent of Massachusetts. Mass. Electric's service area consists of 146 cities and towns, including the highly diversified commercial and industrial cities of Worcester, Lowell and Quincy. The population of the service area is approximately 2,160,000, or 36 percent of the total population of the state. During 1997, 40 percent of Mass. Electric's revenues from the sale of electricity was derived from residential customers, 38 percent from commercial customers, 21 percent from industrial customers and 1 percent

from others. In 1997, the utility's 20 largest customers accounted for approximately 7 percent of its electric revenues. At the end of 1997, Mass. Electric had total assets of $1.41 billion, operating revenues of $1.6 billion and net income of $65.8 million. Mass. Electric is subject to regulation by the FERC and the MDTE.

b. Narragansett is a public utility company engaged in the delivery of electric energy to approximately 330,000 customers in Rhode Island. Its service area covers about 839 square miles, or 80 percent of the area of the state, and encompasses 27 cities and towns, including Providence, East Providence, Cranston and Warwick. The population of the service area is approximately 725,000 or 72 percent of the total population of the state. During 1997, 43 percent of Narragansett's revenues from the sale of electricity was derived from residential customers, 41 percent from commercial customers, 14 percent from industrial customers, and 2 percent from others. In 1997, the 20 largest customers of Narragansett accounted for approximately 9 percent of its electric revenues. At the end of 1997, Narragansett had total assets of $712.9 million, operating revenues of $520 million and net income of $27.9 million. Narragansett is subject to regulation by the FERC, the RIPUC and the Rhode Island Division of Public Utilities and Carriers ("RIDIV").

c. Granite State is a public utility company engaged in the delivery of electric energy to approximately 36,000 customers in 21 New Hampshire communities. The Granite State service territory has a population of approximately 73,000 and includes the Salem area of southern New Hampshire and several communities along the Connecticut River. During 1997, 48 percent of Granite State's revenues from the sale of electricity was derived from commercial customers, 38 percent from residential customers, 13 percent from industrial customers, and 1 percent from others. In 1997, the 10 largest customers of Granite State accounted for approximately 19 percent of its electric revenue. At the end of 1997, Granite State had total assets of $58.3 million, operating revenues of $68.8 million, and net income of $2.2 million. Granite State is subject to regulation by the FERC and the NHPUC.

d. Nantucket provides electric utility service to approximately 10,000 customers on Nantucket Island in Massachusetts. Nantucket's year-round population is approximately 6,000, with a summer peak of approximately 40,000. Nantucket's service area covers the entire island. During 1997, 61 percent of Nantucket's revenues from the sale of electricity was derived from residential customers, 37 percent from commercial customers and 2 percent from others. At the end of 1997, Nantucket had total assets of $42.1 million, operating revenues of $14.6 million, and net income of $503,000. Nantucket is subject to regulation by the FERC and the MDTE.

e. NEP is principally engaged in purchasing, transmitting and selling electric energy at wholesale. In 1997, 91 percent of NEP's electric

sales revenues was derived from sales for resale to affiliated companies and 9 percent from sales for resale to municipal and other utilities. NEP has recently completed the sale of substantially all of its non-nuclear generating business and currently is attempting to sell its minority interests in three operating nuclear power plants and one fossil-fueled generating station in Maine.(3)

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3 NEP is also a holding company because it owns more than 10 percent of the outstanding voting securities of Vermont Yankee Nuclear Power Corporation, the licensed operator of the Vermont Yankee nuclear facility. NEP also has minority interests in Yankee Atomic Electric Company, Maine Yankee Atomic Power Company and Connecticut Yankee Atomic Power Company, all of which have permanently ceased operations. NEP is an exempt holding company under the Act. Yankee Atomic Electric Company, Holding Co. Act Release No. 13048 (Nov. 25, 1955); Connecticut Yankee Atomic Power Company, Holding Co. Act Release No. 14768 (Nov.
15, 1963).

At the end of 1998, NEP had total assets of $2.41 billion, operating revenues of $1.2 billion and net income of $122.9 million. NEP is subject, for certain purposes, to regulation by the SEC, the FERC, the NRC, the RIDIV, the MDTE, the NHPUC, the VPSB, the CDPUC, and the Maine Public Utilities Commission.

f. New England Electric Transmission ("NEET"), a wholly owned subsidiary of NEES, owns and operates a direct current/alternating current converter terminal facility for the first phase of the Hydro-Quebec and New England interconnection (the "Interconnection") and six miles of high voltage direct current transmission line in New Hampshire.

g. New England Hydro-Transmission Corporation ("N.H. Hydro"), in which NEES holds 53.97% of the common stock, operates 121 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Interconnection, extending to the Massachusetts border. At the end of 1997, N.H. Hydro had total assets of $139.16 million, operating revenues of $32.4 million, and net income of $5.2 million.

h. New England Hydro-Transmission Electric Company ("Mass. Hydro"), 53.97% of the voting stock of which is held by NEES, operates a direct current/alternating current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. At the end of 1997, Mass. Hydro had total assets of $169 million, operating revenues of $41.1 million, and net income of $8.2 million.

- New England Hydro Finance Company, Inc. ("NE Hydro

Finance") is owned in equal shares by Mass. Hydro and N.H.

Hydro and provides the debt financing required by the owners to fund the capital costs of their participation in the Interconnection.

i. NEES Communication, Inc. ("NEESCom") is an exempt telecommunications company that provides telecommunications and information-related goods and services. NEESCom holds a license issued by and is subject to regulation by the Federal Communications Commission. NEESCom plans to focus on the fiber optics, cable and infrastructure sectors of the telecommunications industry. At the end of 1997, NEESCom had total assets of $403,000 and a net loss of $643,000.

j. NEES Global, Inc. ("NEES Global") is a wholly-owned nonutility subsidiary of NEES that provides consulting services and product licenses to unaffiliated utilities in the areas of electric utility restructuring and customer choice. NEES Global also leases water heaters through its subsidiary, New England Water Heater Co. At the end of 1997, NEES Global had total assets of $5.19 million and a net loss of $3.8 million for the year.

k. NEES Energy, Inc. ("NEES Energy") is a wholly-owned marketing subsidiary of NEES.

- AllEnergy Marketing Company, L.L.C. ("AllEnergy") is an indirect, wholly-owned subsidiary of NEES. NEES Energy owns 99 percent of the voting securities of AllEnergy; NEES Global owns the remaining 1 percent. AllEnergy markets energy products and provides a wide range of energy-related services including, but not limited to, marketing, brokering and sales of energy, audits, fuel supply, repair, maintenance, construction, operation, design, engineering and consulting to customers in the competitive power markets of New England and New York.

l. Granite State Energy, Inc. ("Granite State") is a wholly-owned nonutility marketing subsidiary of NEES. Granite State provides a range of energy and energy-related services, including: sales of electric energy, audits, power quality, fuel supply,

repair, maintenance, construction, design, engineering and consulting. At the

end of 1997, Granite State had total assets of $232,000, operating revenues of $590,000 and a net loss of $128,000.

m. New England Water Heating Company is engaged in the rental, service, sale and installation of water heaters.

n. New England Power Service Company ("Service Company"), provides a variety of administrative and consulting services for the NEES system pursuant to a service agreement approved by the Commission in accordance with the requirements of Rule 90. At the end of 1997, Service Company had total assets of $91.36 million and net income of $1.8 million.

Narragansett and NEP (and AllEnergy) are members of the New England Power Pool ("NEPOOL"). Mass. Electric, Nantucket and Granite State participate in NEPOOL through NEP. The FERC recently has approved a restructuring of NEPOOL involving (i) the formation of an Independent System Operator that will control the transmission facilities owned by the NEPOOL public utility members and administer the NEPOOL open-access transmission tariff and (ii) the operation of a power exchange that will embody a competitive wholesale power market. New England Power Pool, 85 FERC P. 61,379 (Dec. 17, 1998).

A chart of the organization of NEES is attached hereto as Exhibit E-4.

C. Description of the Merger

1. Background

National Grid has been seeking opportunities to develop earnings from outside the UK transmission business by applying its core skills in the development and management of infrastructure assets and systems. The Merger is a major step toward realizing those goals.
From National Grid's perspective, NEES:

- represents a significant investment in an efficient, focused transmission and distribution business with a strong operational track record, which will benefit further from National Grid's core skills;

- enhances National Grid's earnings per share, before the amortization of goodwill, and significantly enhances National Grid's cash flow per share immediately following acquisition;

- provides the right point of entry into the U.S. for National Grid, given New England's favorable economic climate and its more advanced

state of regulatory evolution towards performance-based regulation;

- brings National Grid a high-quality management team with proven distribution expertise and a shared view of the industry's future development in the Northeast U.S.; and

- provides an excellent regional platform for growth in transmission and distribution.

The Applicants believe that National Grid and NEES have complementary skills that can be used to benefit the public interest, as well as the interest of investors and consumers, the "protected interests" under the Act. National Grid has considerable experience:

- operating as a facilitator of competition in a regulatory environment that promotes and rewards efficiency; and

- improving system performance through investing in and managing complex transmission system networks and the sophisticated software systems that control the networks in real time.

National Grid believes that this experience complements NEES' proven expertise in operating efficient distribution businesses in an evolving regulatory environment and will provide it with an important competitive advantage both in developing its U.S. transmission and distribution

business and pursuing opportunities elsewhere. Both National Grid and NEES are committed to providing reliable and efficient service and enhancing overall performance standards for the benefit of customers and shareholders.

2. Merger Agreement

The Merger Agreement provides that NGG Holdings LLC, an indirect, wholly owned subsidiary of National Grid, will be merged with and into NEES, which shall survive as an indirect, wholly owned subsidiary of National Grid. Under the terms of the Merger Agreement, each outstanding NEES common share, other than shares held by NEES as treasury stock or held by any other NEES subsidiary and shares held by National Grid or any of its subsidiaries, but including all common shares held as treasury shares under a rabbi trust maintained by NEES to satisfy certain benefit obligations, will converted into the right to receive $53.75 in cash per share. This cash payment will increase by $0.003288 over share, up to a maximum price of $54.35 per share for each day completion of the Merger is delayed longer than six months after approval of the Merger by NEES shareholders. The Merger is subject to customary closing conditions, including receipt of all necessary regulatory approvals, including the approval of the Commission.

3. Corporate Structure for the Merger

As stated above, the Merger is structured as the indirect acquisition of NEES by National Grid. Promptly after the Merger is consummated, National Grid currently intends to convert NEES from a Massachusetts business trust into a more conventional business corporation. This conversion may result in NEES having a different corporate name. All references contained in this Application/Declaration to NEES after consummation of the Merger refer to NEES and its potential corporate successor. The companies (the "Intermediate Companies") in the corporate structure between National Grid and NEES create a structure typical for U.K. cross-border transactions and exist solely for the purpose of creating an economically efficient and viable structure for the transaction and the ongoing operations of NEES. The proposed structure as currently planned and specific function of each of the Intermediate Companies is set forth in Exhibit J-2 hereto. The Applicants note that certain

adjustments in the structure may be necessary to reflect tax and accounting changes as well as management decisions prior to consummation of the Merger. Material changes between the date of this Application/Declaration and the consummation of the Merger will be reflected in a pre-effective amendment hereto. National Grid's direct and indirect interest in each of the Intermediate Companies will flow through loans and equity interests similar to those indicated on Exhibit J-2. It should be noted that under this structure there will be no outside, third party interests, including no lenders, no minority equity interest holders and no customers, in Intermediate Companies. Moreover, each of the Intermediate Companies have been formed solely for the purpose of holding a direct or indirect interest in NEES or other U.S. operations of National Grid.

4. Financing the Merger

National Grid intends to finance the acquisition of NEES through a combination of borrowings under existing bank facilities and other internal cash sources. Given the price escalation provisions of the Merger Agreement and the nature of the transaction, the exact cash purchase price to be paid to NEES shareholders in the aggregate will depend on the timing of the closing of the Merger as well as the number of NEES shares outstanding at that time. However, it is expected that the acquisition price will be approximately $3.2 billion. On March 5, 1999, National Grid entered into a fully committed bank facility with six banks providing for up to $2.750 billion in borrowings, plus a further $250 million available to National Grid only. The facility has a maturity of 3 to 5 years. Each of these banks is a sophisticated commercial lender and the facilities were negotiated at arms' length. It is expected that additional banks will be added to the facility and subsequent syndication may bring the number of banks involved up to 40. These facilities were established both for funding the

acquisition and to provide other working capital needs for National Grid. In addition, National Grid will have access to other internal sources of funds for the acquisition, namely existing cash balances. As of February 28, 1999, the National Grid Group had on hand deposits of $1,538 million.

D. Management and Operations of National Grid and NEES Following the Merger

1. National Grid

Following consummation of the Merger, National Grid will become the parent company to NEES. All of National Grid's other operations will remain unchanged in the Merger. The Merger Agreement provides that at the effective time of the Merger, National Grid will appoint Richard P. Sergel, the NEES president and chief executive officer and one additional NEES director to National Grid's board of directors. The management of National Grid shall otherwise remain unchanged by the Merger.

Upon consummation of the Merger, National Grid and the other Applicants will register as holding companies under Section 5 of the Act. It is intended that National Grid Company and National Grid International Limited and certain of its subsidiaries will be qualified as foreign utility companies within the meaning of Section 33 of the Act. It is also intended that NGG Telecoms Limited and certain subsidiaries of National Grid International Limited will be qualified as exempt telecommunications companies within the meaning of Section 34 of the Act.

2. NEES

Following consummation of the Merger, NEES will become an indirect wholly owned subsidiary of National Grid and its common shares will be deregistered under the Securities Exchange Act of 1934, as amended, and delisted from the New York Stock Exchange and the Boston Stock Exchange. The NEES Agreement and Declaration of Trust shall continue in full force and effect as the Agreement and Declaration of Trust of NEES as the surviving entity in the Merger, until thereafter amended or revised in accordance with its terms. The Merger Agreement provides that the headquarters of NEES as the surviving entity will remain in Massachusetts, with offices for utility operations in Massachusetts, Rhode Island and New Hampshire. The post-Merger NEES board of directors will be comprised of up to nine members designated from among the officers of National Grid and NEES, as mutually agreed by National Grid and NEES. In addition, the then-current outside directors of NEES will be appointed to an advisory board to be maintained for at least two years after the

effectiveness of the Merger. The function of the advisory board will be to advise the surviving entity's board of directors with respect to general business opportunities and activities in the surviving entity's market area as well as customer relations issues. NEES will remain a registered holding company under the Act.

E. Industry Restructuring Initiatives Affecting U.S. Operations.

NEES' public utility subsidiaries operate in states in which electric utility restructuring has advanced significantly over the past year and a half. The Applicants believe that these restructuring efforts will continue to lead to significant changes in the electric utility industry in New England and will serve as models for restructuring efforts in other parts of the nation.

Starting in 1996 and continuing through 1998, restructuring legislation was passed in Massachusetts, Rhode Island and New Hampshire relating to competition and customer choice of power suppliers, recovery of stranded costs by utilities and reductions in rates. During this period, and in some cases prior to the enactment of legislation, NEES' public utility subsidiaries entered into settlement agreements with their relevant state regulators relating to corporate restructuring and the introduction of retail access to competitive power suppliers. The settlement agreements were also approved by the FERC. The overriding principle in this restructuring was that the transition to full competition at the retail level should be accomplished by separating generation from transmission to create a regime of independent transmission companies with a competitive market for power suppliers. Accordingly, NEES and its subsidiaries committed to the divestiture of all generating facilities, including all nuclear plants, to the extent practicable. As noted above, in 1998, NEP and Narragansett completed the sale of substantially all non-nuclear generation facilities, including obligations under power purchase and sale agreements, to USGen New England, Inc. As a result of this divestiture, NEES is now primarily a transmission and distribution system operating in a region undergoing significant restructuring. National Grid is the world's largest privately owned independent transmission company, has participated in the transition to a competitive electric market in England and Wales and now has had nine years experience in operating in a competitive environment. The industry restructuring that is occurring in New

England is a critical factor in understanding the rationale and benefits of the Merger, which are discussed in detail in Item 3.A.2.b below.

Pursuant to its settlement and in accordance with legislation enacted in Massachusetts in late 1997, starting in March, 1998, customers of

Mass. Electric were able to choose their power supplier. The legislation requires electric utilities to provide customers who do not choose a power supplier with standard offer service at prices that produce a 10 percent rate reduction from the prices that were in effect in 1997. The legislation also requires the rate reductions to increase to 15% (in real terms over 1997 prices) on or before September of 1999. The settlement and legislation also authorized the recovery of stranded costs resulting from the introduction of customer choice. The MDTE approved the settlement and found it to be consistent with the legislation. A November 1998 referendum on the ballot in Massachusetts calling for the repeal of the Massachusetts statute was defeated by the voters.

Under the Massachusetts settlement agreement providing for customer choice, recovery of NEP's stranded costs is allowed through a contract termination charge billed to Mass. Electric and Nantucket, which is in turn collected by Mass. Electric and Nantucket from all retail delivery customers. The Massachusetts settlement agreement also required the relevant NEES companies to divest all of their generation and related properties, and the companies completed the sale of their non-nuclear generating assets to USGen New England in 1998. The net proceeds of such sale were used to reduce the transition access charge from 2.8 cents per kWh initially reflected in the settlement. In addition, NEES's oil and gas properties were sold to Sameden Oil Corporation as of January 1, 1998. Through power purchase contracts with USGen New England, Inc. and TransCanada Power Marketing Ltd., Mass. Electric is providing transition services to customers who do not choose a power supplier. The Massachusetts settlement agreement and related transactions were approved by the MDTE and the FERC.

The State of Rhode Island enacted restructuring legislation in 1996, allowing certain customers in the state to choose power suppliers pursuant to a phase in schedule that is now complete. NEP and Narragansett entered into a settlement agreement with the RIPUC and RIDIV to implement the legislation on terms similar to the Massachusetts settlement

agreement with respect to divestiture, stranded cost recovery and transition services. This settlement agreement was approved by the FERC.

While restructuring efforts in New Hampshire began early, with the passage of legislation in 1996, regulatory efforts have largely been halted as a result of litigation by other in-state utilities. Granite State entered into a settlement with the Governor of New Hampshire and several public interest and customer groups in July 1998 that provided all of its customers with the right to choose their electricity suppler and guaranteed a rate reduction of 10 percent. Following the sale of the system's non-nuclear generation facilities, additional savings were passed on to Granite State's customers. Under the settlement transition service was to be provided by Granite State for a two and one-half year period. In January 1999, following an auction process, Granite

State selected Constellation Power Source as the supplier for its transition service offer, replacing USGen New England. Again, this settlement agreement was approved by the NHPUC and FERC.

Item 2. Fees, Commissions and Expenses

	Thousands
Accountants' fees	
Legal fees and expenses	
Shareholder communication and proxy solicitation expenses	
Investment bankers' fees and expenses	
Consulting fees	
Miscellaneous	
Total (to be filed by amendment)	

The total fees, commissions and expenses expected to be incurred in connection with the Merger are estimated to be approximately $37 million.

Item 3. Applicable Statutory Provisions

The following sections of the Act and the Commission's rules thereunder are or may be directly or indirectly applicable to the proposed transaction:

Sections of the Act	Transactions to which section or rule is or may be applicable:
2(a)(7),	2(a)(8) Request for declaration that Intermediate Companies are not holding companies or subsidiary companies, solely for purposes of Section 11(b)(2)
4, 5	Registration of National Grid as a holding company following the consummation of the Merger

9(a)(2), 10	Acquisition by National Grid of common stock of NEES public utility subsidiary companies
11(b)	Retention by National Grid of other businesses
12(c)	Authority to pay dividends out of capital or unearned surplus
13	Approval of the Service Agreement and services provided to affiliates thereunder by New England Power Service Company [if any National Grid affiliates are added to Service Agreement]
14, 15	Reporting, books and records

Rules

45(a), 52	Financing transactions, generally
80-91	Affiliate transactions, generally
93, 94	Accounts, records and annual reports by subsidiary service company

To the extent that other sections of the Act or the Commission's rules thereunder are deemed applicable to the merger, such sections and rules should be considered to be set forth in this Item 3.

C. Legal Analysis

Section 9(a)(2) makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public utility company, if such person is an affiliate . . . of such company and of any other public utility or holding company, or will by virtue of such acquisition become such an affiliate." Under the definition set forth in Section 2(a)(11)A), an "affiliate" of a specified company means "any person that directly or indirectly owns, controls, or holds with power to vote, 5 per centum or more of the outstanding voting securities of such specified company."

Granite State, Mass. Electric, Nantucket, Narragansett, NEP, NEET,

N.H. Hydro, Mass. Hydro and Vermont Yankee Nuclear Power Corporation (the "Utility Subsidiaries") also NEET, NH Hydro, and Massachusetts Hydro are public utility companies as defined in Section 2(a)(5) of the Act. Because National Grid directly or indirectly, will acquire more than five percent of the voting securities of each of the Utility Subsidiaries as a result of the merger, and thus will become an "affiliate" as defined in Section 2(a)(11)(A) of the Act of the Utility Subsidiaries as a result of the merger, National Grid must obtain the approval of the Commission for the Merger under Sections 9(a)(2) and 10 of the Act. The statutory standards to be considered by the Commission in evaluating the proposed transaction are set forth in Sections 10(b), 10(c) and 10(f) of the Act.

As set forth more fully below, the Merger complies with all of the applicable provisions of Section 10 of the Act and should be approved by the Commission because:

- the consideration to be paid in the Merger is fair and reasonable;

- the Merger will not create detrimental interlocking relations or concentration of control;
- the Merger will not result in an unduly complicated capital structure for the National Grid system;
- the Merger is in the public interest and the interests of investors and consumers;
- the Merger is consistent with Sections 8 and 11 of the Act;
- the Merger tends towards the economical and efficient development of an integrated public utility system; and
- the Merger will comply with all applicable state laws

3. Section 10(b)

Section 10(b) provides that, if the requirements of Section 10(f) are satisfied, the Commission shall approve an acquisition under Section 9(a) unless:

(1) such acquisition will tend towards interlocking relations or the concentration of control of public utility companies, of a kind or to an extent detrimental to the public interest or the interests of investors or consumers;

(2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or

(3) such acquisition will unduly complicate the capital structure of the holding company system of the applicant or will be detrimental to the public interest or the interests of investors or consumers or the proper functioning of such holding company system.

b. Section 10(b)(1)

i. Interlocking Relationships

By its nature, any Merger results in new links between theretofore unrelated companies. Northeast Utilities, Holding Co. Act Release No. 25221 (Dec. 21, 1990), as modified, Holding Co. Act Release No. 25273 (March 15, 1991), aff'd sub nom. City of Holyoke v. SEC, 972 F.2d 358 (D.C. Cir. 1992) ("interlocking relationships are necessary to integrate [the two merging entities]"). The Merger Agreement provides for the Board of Directors of National Grid to be composed of members drawn from the Boards of Directors of both National Grid and NEES. This is necessary to integrate NEES fully into the National Grid system and will therefore be in the public interest and the interests of investors and consumers. Forging such relations is beneficial to the protected interests under the Act and thus are not prohibited by Section 10(b)(1).

ii. Concentration of Control

Section 10(b)(1) is intended to avoid "an excess of concentration and bigness" while preserving the "opportunities for economies of scale, the elimination of duplicate facilities and activities, the sharing of production capacity and reserves and generally more efficient operations" afforded by the coordination of local utilities into an integrated system. American Electric Power Co., 46 S.E.C. 1299, 1309 (1978). In applying Section 10(b)(1) to utility

acquisitions, the Commission must determine whether the acquisition will create "the type of structures and combinations at which the Act was specifically directed." Vermont Yankee Nuclear Corp., 43 S.E.C. 693, 700 (1968). As discussed below, the Merger will not create a "huge, complex, and irrational system," but rather will result in a new holding company over a previously-approved integrated electric utility system. See WPL Holdings, Inc., Holding Co. Act Release No. 24590 (Feb. 26, 1988), aff'd in part and rev'd in part sub nom., Wisconsin's Environmental Decade, Inc. v. SEC, 882 F.2d 523 (D.C. Cir. 1989), reaffirmed, Holding Co. Act Release No. 25377 (Sept. 18, 1991).

Competitive Effects: In Northeast Utilities, Holding Co. Act Release No. 25221 (Dec. 21, 1990), the Commission stated that "antitrust ramifications of an acquisition must be considered in light of the fact that public utilities are regulated monopolies and that federal and state administrative agencies regulate the rates charged consumers." National Grid and NEES will file Notification and Report Forms with the DOJ and FTC pursuant to the HSR Act describing the effects of the Merger on competition in the relevant market and it is a condition to the consummation of the Merger that the applicable waiting periods under the HSR Act shall have expired or been terminated.

In addition, the competitive impact of the Merger will be fully considered by the FERC pursuant to Section 203 of the Federal Power Act in its review of the Merger. As explained more fully in the FERC application, a copy of which is attached hereto as Exhibit D-1.1, the Merger will not have an adverse effect on competition. NEES and its subsidiary companies, on the one hand, and National Grid and its related companies, on the other, do not have facilities or sell products in any common geographic markets. With the exception of NEES Global, which does some limited consulting work outside of the United States, the NEES companies operate exclusively in the United States, selling electricity and transmission, distribution and related energy services. National Grid and its subsidiary companies operate almost exclusively in the United Kingdom and other countries outside the United States.

For these reasons, the Merger will not "tend toward interlocking relations or the concentration of control" of public utility companies, of a kind or to the extent detrimental to the public interest or the interests of investors or customers within the meaning of Section 10(b)(1).

c. Section 10(b)(2) -- Fairness of Consideration

Section 10(b)(2) requires the Commission to determine whether the consideration to be given by National Grid to the holders of NEES common stock in connection with the Merger is reasonable and whether it bears a fair relation to investment in and earning capacity of the utility assets underlying the securities being acquired. Market prices at which securities are traded have always been strong indicators as to values. As shown in the table below, the quarterly price data, high and low, for NEES common stock provide support for the consideration of $53.75 for each share of NEES common stock.

	NEES		
	High	Low	Dividends
1996			
First Quarter	40 5/8	36 1/8	$0.59
Second Quarter	36 7/8	32 7/8	0.59
Third Quarter	36 3/8	31 1/8	0.59
Fourth Quarter	35 5/8	31	0.59
1997			
First Quarter	35 5/8	33 3/8	0.59
Second Quarter	37 1/8	33 1/4	0.59
Third Quarter	39 11/16	36 1/4	0.59

Fourth Quarter	43 5/16	37 1/4	0.59

1998			
First Quarter	45 13/16	41	0.59
Second Quarter	45 9/16	40 5/8	0.59
Third Quarter	45 3/8	38 15/16	0.59
Fourth Quarter	49 1/8	40 5/16	0.59

On December 11, 1998, the last full trading day before the public announcement of the execution and delivery of the Merger Agreement, the closing price per share as reported on the NYSE-Composite Transaction of NEES common stock was $43.

In addition, the consideration is the product of extensive and vigorous arms-length negotiations between National Grid and NEES. These negotiations were preceded by months of due diligence, analysis and evaluation of the assets, liabilities and business prospects of the respective companies. See National Grid Circular (Exhibit C-2 hereto); NEES proxy statement (Exhibit C-1 hereto).

Finally, internationally-recognized investment bankers for both National Grid and NEES have reviewed extensive information concerning the companies and analyzed a variety of valuation methodologies, and have provided advice to the companies that the consideration is fair, from a financial point of view, to the holders of National Grid ordinary shares and NEES common stock. The investment bankers' analyses are attached hereto. See National Grid Circular (Exhibit C-2); Opinion of Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Exhibit G-1).

In light of these opinions and an analysis of all relevant factors,

including the benefits that may be realized as a result of the Merger, National Grid believes that the consideration for the Merger bears a fair relation to the sums invested in, and the earning capacity of, the utility assets of NEES.

d. Section 10(b)(2) -- Reasonableness of Fees

National Grid believes that the overall fees, commissions and expenses incurred and to be incurred in connection with the Merger are reasonable and fair in light of the size and complexity of the Merger relative to other transactions and the anticipated benefits of the Merger to the public, investors and consumers; that they are consistent with recent precedent; and that they meet the standards of Section 10(b)(2).

As set forth in Item 2 of this Application/Declaration, National Grid and NEES together expect to incur a combined total of approximately $37 million in fees, commissions and expenses in connection with the Merger. By contrast, American Electric Power Company and Central and South West Corporation have represented that they expect to incur total transaction fees and regulatory processing fees of approximately $53 million, including financial advisory fees of approximately $31 million, in connection with their proposed Merger.

The Applicants believe that the estimated fees and expenses in this matter bear a fair relation to the value of NEES and the strategic benefits to be achieved by the Merger, and further that the fees and expenses are fair and reasonable in light of the complexity of the Merger. See Northeast Utilities, Holding Co. Act Release No. 25548 (June 3, 1992), modified on other grounds, Holding Co. Act Release No. 25550 (June 4, 1992) (noting that fees and expenses must bear a fair relation to the value of the company to be acquired and the benefits to be achieved in connection with the acquisition). Based on the price of NEES stock on December 11, 1998, the Merger would be valued at approximately $3.2 billion. The total estimated fees and expenses of $37 million represent approximately 1.15% of the value of the consideration to be paid by National Grid Company, and are consistent with (and are in fact generally lower than) percentages previously approved by the Commission. See, e.g., Entergy Corp., Holding Co. Act Release No. 25952 (Dec. 17, 1993) (fees and expenses represented approximately 1.7% of the value of the consideration paid to the shareholders of Gulf States Utilities); Northeast Utilities, Holding Co.

Act Release No. 25548 (June 3, 1992) (approximately 2% of the value of the assets to be acquired).

d. Section 10(b)(3)

Section 10(b)(3) requires the Commission to determine whether a proposed acquisition will unduly complicate the acquiror's capital structure or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of the resulting system.

For the reasons that follow, the capital structure of National Grid will not be unduly complicated nor will it be detrimental to the public interest, the interest of investors or consumers or the proper functioning of the combined system.

The Applicants are proposing a structure for the Merger that will be completely transparent between National Grid and NEES and will meet all of the requirements of the 1935 Act.

In the Merger, current common shareholders of NEES will receive cash (in the aggregate, the "Cash Consideration") in exchange for their NEES shares. National Grid proposes to obtain the amount of cash comprising the Cash Consideration from existing cash resources and through the Bank Loans. The Bank Loans will be straightforward commercial loans from sophisticated commercial lenders directly to National Grid. The Bank Loans will be full recourse obligations of National Grid and will be neither guaranteed by, nor secured by any assets of, any subsidiary of National Grid which directly or indirectly owns equity

securities of NEES. In no event will National Grid issue any equity or debt securities to NEES shareholders as consideration for the Merger and the acquisition of NEES.

Upon consummation of the Merger, NEES will become a wholly owned indirect subsidiary of National Grid. National Grid proposes to hold its interest in NEES through the Intermediate Companies. Each of the Intermediate Companies will be organized under the laws of either a member state of the European Union with which the U.S. has a comprehensive Double Taxation Treaty or a state of the U.S. All of the Intermediate Companies will be directly or indirectly wholly owned by National Grid and will have no public or private institutional equity or debt holders. The Intermediate Companies will be capitalized with equity and/or debt all of which will be held by either National Grid, UK Finance (as a debtholder only) or another Intermediate Company. The ultimate U.S. parent of NEES will be capitalized with both equity and debt, to be held by one or more of the Intermediate Companies. None of the Intermediate Companies will be engaged in any business or trade other than the business of owning, directly or indirectly, equity securities of NEES and the financing transactions which are the subject of this memorandum and none of the Intermediate Companies will be regulated by U.K. or other third country regulatory authorities having jurisdiction over electricity rates and service.

As a wholly owned indirect subsidiary of National Grid, NEES (or its corporate successor) will retain its designation as a registered holding company under the 1935 Act as well as its current capital structure. Neither NEES nor any of NEES's subsidiaries will incur any additional indebtedness or issue any securities to finance any part of the Cash Consideration. Except with respect to the effect in corporate structure resulting from the potential conversion of NEES from a business trust into a business corporation, the acquisition of NEES by National Grid and the corporate and financing mechanics summarized above are not designed or intended to alter or otherwise affect NEES's and NEES's subsidiaries current

corporate structure and financing obligations as members of a registered holding company system.

It is contemplated that NEES and each of its subsidiaries will each continue to pay dividends (and, in the case of NEES's subsidiaries, dividends on preferred stock and interest on and principal of long-term debt). Dividends paid by NEES may ultimately be used by National Grid or UK Finance, as the case may be, to pay interest on and principal of the Bank Loans.

i. The presence of debt at more than one level of the National Grid system does not "unduly complicate" the capital structure of that company for purposes of Section 10(b)(3).

Implementation of the Transaction structure requires that a number of steps be taken in a specified sequence in order to achieve the economic benefits of the Transaction structure as an entirety. While many of the individual transactional steps necessary to implement the Transaction structure will occur prior to consummation of the Merger at a time when National Grid will continue to enjoy the benefits of exemption under Rule 5, completion of a number of the steps necessary to implement the Transaction structure will occur shortly following consummation of the Merger and, thus, will be subject to SEC review. We request that the SEC view all of the steps necessary to implement the Transaction structure in their entirety as they are, in fact, constituent elements comprising a single transaction.

In addition, we recognize that, in prior matters involving the formation of a registered holding company, the SEC has considered preliminary financing transactions (i.e., transactions occurring prior to the formation of a registered holding company) in view of their effect on the capital structure of the resulting holding company. For example, in connection with the Merger of Atlantic Energy, Inc. and Delmarva Power & Light Co., the SEC took

occasion to comment on the fact that the resulting registered holding company would have two classes of common stock -- notwithstanding that, at the time the letter or tracking stock was issued, the issuer was not a registered holding company. The SEC did not address the specific question of whether it had jurisdiction to pass on the securities issuance but instead noted that, under Section 7(c)(2)(A) of the 1935 Act, a registered holding company can issue other than "plain vanilla" securities "solely . . . for the purpose of effecting a Merger, consolidation, or other reorganization." Conectiv, Inc., Holding Company Act Release No. 26832 (Feb. 25, 1998). Accordingly, to the extent that the SEC might choose to treat any element of the implementation of the Transaction structure, such as the borrowing of the Bank Loans, as a jurisdictional event, there is express statutory provision for such transactions under Section 7(c)(2)(A) of the 1935 Act. The applicants note further that the Commission has previously approved the use of parent-level debt by a registered electric utility holding company in connection with a cross-border transaction. In General Public Utilities Corporation, Holding Co. Act Release No. 26559 (Aug. 23, 1996), the Commission authorized GPU to issue and sell debentures with terms of one to up to 40 years and to use the proceeds of such financings to, among

other things, "fund the acquisition of interests, and to make investments, in . . . foreign utility companies," and "for other GPU corporate purposes."

Nor does the presence of parent level debt to be used for general working capital represent an undue complication of the capital structure of National Grid for purposes of Section 10(b)(1). In the first instance, to the extent that the debt is associated with facilities that have been entered into before National Grid becomes a registered holding company, it should be grandfathered for purposes of the Act. Second, and more important, Section 7(c)(2)(D) expressly provides for the issuance of nontraditional securities if "such security is to be issued or sold solely for necessary or urgent corporate purposes of the declarant where the requirements of the provisions of paragraph (1) would impose an unreasonable financial burden upon the declarant and are not necessary or appropriate in the public interest or for the protection of investors or consumers." Registered gas systems have relied on this provision for years in connection with their routine financing transactions. See, e.g., The Columbia Gas

System, Inc., Holding Co. Act Release No. 26634 (Dec. 23, 1996) (authorizing Columbia to issue external, long-term debt which, in the aggregate with equity financing issued by Columbia, would not exceed $5 billion at any one time outstanding through December 31, 2001). In addition, as noted above, the Commission has also authorized registered electric systems to issue parent-level debt for general corporate purposes. General Public Utilities Corporation, Holding Co. Act Release No. 26559 (Aug. 23, 1996).

Further, the issue for purposes of Section 10(b)(3) is not the existence of parent-level debt per se. Rather, the question is whether it is permissible for a registered system to have debt at more than one level. Again, the Commission has answered that question in the affirmative. In the 1992 amendments to Rule 52, the Commission eliminated the requirement that a public-utility subsidiary company could issue debt to nonassociates only if its parent holding company had issued no securities other than common stock and short-term debt. The rule release explains:

> Condition (6) provides that a public-utility subsidiary company may issue and sell securities to nonassociates only if its parent holding company has issued no securities other than common stock and short-term debt. All eight commenters that considered this condition recommended that it be eliminated. They noted that it may be appropriate for a holding

company to issue and sell long-term debt and that such a transaction is subject to prior Commission approval. They further observed that other controls, that did not exist when the statute was enacted, provide assurance that such financings will not lead to abuse. These include the likely adverse reaction of rating agencies to excessive amounts of debt at the parent holding company level and the disclosure required of companies seeking public capital. The Commission agrees with these observations and also noted the power of many state utility commissions to limit the ability of utility subsidiaries to service holding company debt by restricting

the payment of dividends to the parent company. The Commission concludes that this provision should be eliminated.

Exemption of Issuance and Sale of Certain Securities by Public-Utility Subsidiary Companies of Registered Public-Utility Holding Companies, Holding Co. Act Release No. 25573 (July 7, 1992).

The Applicants have commissioned a study by Professor Julian Franks of the London Business School, working with independent consultants from the Brattle Group, to address the financial strength of the registered holding company system post-Merger. A copy of the study is attached as Exhibit J-3. The study examines National Grid's debt level after both the instant Merger and the acquisition by NEES of EUA, and concludes that National Grid's post-acquisition debt, relative to its projected rate base, will lie within a range for comparable U.S. utilities. Credit rating agencies have confirmed that National Grid will retain a strong credit rating. The debt issuances of National Grid currently have a rating of "AA" from Standard & Poor's and "A1" from Moody's. The major rating agencies have indicated that National Grid will retain at least an "A" rating post-Merger. The financial strength of the company is confirmed by the competitive terms under which National Grid has been able to secure financing for the proposed transaction.(4)

ii. The Merger will not be detrimental to the public interest or the interest of investors or consumers or the proper functioning of the registered holding company system.

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(4) The Applicants are submitting, on a confidential basis, a series of financial projections for NEES, EUA and the consolidated National Grid. The projections are intended to demonstrate the ability of National Grid to service its indebtedness in a reasonable manner.

For the reasons set forth previously, and discussed below in the context of Section 10(c)(2), the Applicants believe that the proposed Merger will, in fact, benefit the protected interests and enhance the functioning of the resulting holding company systems. NEES and National Grid are requesting an affirmation from each of the affected state regulators that it has the authority and resources to protect consumers subject to its jurisdiction and that it intends to exercise that authority. In addition, National Grid commits that it will not seek recovery in higher rates to NEES ratepayers for any losses or inadequate returns that may be associated with its non-NEES investments. Accordingly, the proposed Merger will not be detrimental to the public interest or the interest of investors or consumers or the proper functioning of the registered holding company system.

2. Section 10(c)

Section 10(c) of the Act provides that, notwithstanding the provisions of Section 10(b), the Commission shall not approve:

(1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or

(2) the acquisition of securities or utility assets of a public utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and efficient development of an integrated public utility system.

a. Section 10(c)(1)

Section 10(c)(1), in the first instance, precludes approval of an acquisition that is unlawful under the standards of Section 8. That section, which requires compliance with the applicable state laws concerning the ownership or operation of the utility assets of an electric utility company and a gas utility company serving substantially the same territory, does not apply to the instant Merger.

Section 10(c)(1) also requires that an acquisition not be detrimental to carrying out the provisions of Section 11. Section 11(a) directs the Commission:

> to examine the corporate structure of every registered holding company and subsidiary company thereof, the relationships among the companies in the holding-company system of every such company and the character of the interests thereof and the properties owned or controlled thereby to determine the extent to which the corporate structure of such holding-company system and the companies therein may be simplified, unnecessary complexities therein eliminated, voting power fairly and equitably distributed among the holders of securities thereof, and the properties and business thereof confined to those necessary or appropriate to the operations of an integrated public-utility system.

Sections 11(b)(1) and 11(b)(2) provide further directions concerning the specifics of a permissible registered holding company system.

i. The Merger will satisfy the requirements of Section 11(b)(1), as incorporated by Section 10(c)(1).

Section 11(b)(1) directs the Commission:

> To require . . . that each registered holding company, and each subsidiary company thereof, shall take such take such action as the Commission shall find necessary to limit the operations of the holding-company system of which such company is a part to a single integrated public-utility system, and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system. . . . The Commission may permit as reasonably incidental, or economically necessary or appropriate to the operations of one or more integrated public-utility systems the retention of an interest in any business (other than the business of a public-utility company as such) which the Commission shall find necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning of such system or systems.

For purposes of the single system requirement, the Merger would simply impose a new holding company structure over a fully-integrated electric utility system.

The question then becomes whether the "other businesses" of National Grid are retainable under the standards of Section 11 and the statutory amendments thereto. For the reasons that follow, the Applicants believe that the nonutility interests are fully retainable consistent with Commission precedent:

- National Grid Company will claim exemption as a foreign utility company ("FUCO") pursuant to Rule 57 under Section 33 of the Act.

- National Grid Insurance Limited, which is an insurance subsidiary formed in connection with the self-insured retention of National Grid Company's transmission assets, is retainable consistent with the Commission's precedent concerning captive insurance companies. See, e.g., The Columbia Gas System, Inc., Holding Co. Act Release No. 26596 (Oct. 25, 1996) (authorizing the formation of a wholly-owned captive insurance company).

- National Grid International Limited, which serves as an intermediate holding company for certain of the overseas operations of National Grid, will be qualified as a FUCO pursuant to Rule 57 under Section 33 of the Act.

- The National Grid Group Quest Trustees Limited, which is the trustee company for the National Grid Group qualifying employee share ownership trust. The Commission has previously approved Employees' Share Ownership Plan.

- NGG Telecoms Limited, which holds National Grid's interest in Energis, will seek to be qualified as an exempt telecommunications company within the meaning of Section 34 of the Act.

- NatGrid Finance provides financial management services to National Grid Group and is retainable consistent with the Commission's precedent concerning companies providing intrasystem financial services. See e.g., Central and South

West Corporation, Holding Company Act Release No. 23767 (July 19, 1985) (authorizing formation of subsidiary to factor intrasystem receivables) and Ameren Corporation, Holding Co. Act (December 30, 1997) (permitting retention of subsidiary providing intrasystem investment services).

ii. The Merger will satisfy the requirements of Section 11(b)(2), as incorporated by Section 10(c)(1).

Section 11(b)(2) further directs the Commission:

> To require . . . that each registered holding company, and each subsidiary company thereof, shall take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding-company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of such holding-company system. In carrying out the provisions of this paragraph the Commission shall require

each registered holding company (and any such company in the same holding company system with such holding company) to take such action as the Commission shall find necessary in order that such holding company shall cease to be a holding company with respect to each of its subsidiary companies which itself has a subsidiary company which is a holding company. Except for the purpose of fairly and equitably distributing voting power among the security holders of such company, nothing in this paragraph shall authorize the Commission to require any change in the corporate structure or existence or any company which is not a holding company,

or of any company whose principal business is that of a public-utility company.

There are two sets of issues under Section 11(b)(2): first, will the corporate structure or continued existence of any company unduly or unnecessarily complicate the structure of the National Grid holding company system post-Merger and, second, will the Merger result in an unfair or inequitable distribution of voting power among the security holders of National Grid? As explained more fully below, any apparent complexity in the resulting holding company system is justified by the economic efficiencies to be achieved thereby. Further, there will be no inequitable distribution of voting power as a result of the proposed Merger.

The principal economic effect of the Transaction structure will be to permit National Grid to maximize after-tax returns, given that the consideration for the Merger will be funded by external borrowings in the U.K. and cash in the U.K.. The only external parties to the contemplated transactions will be the sophisticated commercial lenders that will be advancing moneys to National Grid or UK Finance, as the case may be, under fully negotiated lending agreements, none of which will involve any guarantees by, or pledges of assets from, National Grid's other subsidiaries, including NEES and its operating companies.

It is common practice for U.K. based multinational corporations to hold their non-U.K. subsidiaries through one or more intermediary companies

incorporated under the laws of European Union member states. These types of transaction structures are implemented to minimize the impact of tax on the repatriation of dividends and interest to the U.K. and are understood by the U.K. tax authorities. National Grid has used this type of structure in connection with its other foreign investments. Again, in considering the appropriateness of the transaction structure, the Applicants ask the staff to recognize that this type of corporate and financing structure is normal for cross-border transactions. In that connection, it is worth

noting that U.S. registered holding companies already employ similar structures in connection with their, albeit out-bound, cross-border transactions. See, e.g., Exhibit H from the Form U5S filed by The Southern Company for the year ended December 31, 1997, detailing the ownership structure for the system's exempt wholesale generators ("EWGs") and FUCOs.(5)

- National Grid's Corporate Structure Will Not Be "Unduly or Unnecessarily" Complicated.

As noted above, National Grid's proposed transaction structure is more complicated than the traditional corporate structure commonly used by U.S. registered holding companies with respect to their U.S. subsidiaries and operations in that there will be more corporate layers between National Grid and NEES than there are, for example, between NEES and its operating subsidiaries. The Applicants believe that the structure is nonetheless appropriate in that the type of corporate structure proposed by National Grid with its principal objective being to maximize after-tax returns is, however, the norm rather than the exception for cross-border transactions generally. Moreover, as to its future U.S. subsidiaries and regulated utility operations; i.e., the NEES system, National Grid proposes to continue the current NEES corporate and holding company system structure.(6)

Further, the Intermediate Companies will not be means by which National Grid seeks to diffuse control of NEES and its subsidiary companies. Rather, these companies will be created as special-purpose entities for the sole purpose of helping the parties to capture economic efficiencies that might otherwise be lost in a cross-border transaction. There will be

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(5) We recognize that Section 11(b)(2) does not, by its terms, apply to acquisitions of EWGs and FUCOs because these entities, by definition, are not

"public utility companies" within the meaning of the 1935 Act.

(6) Although NEP is technically a holding company, the structure should not be a long-term concern due to shut-down/probable sale of Yankee companies.

no third-party investors; each of the Intermediate Companies will be wholly-owned, directly or indirectly, by National Grid. Nor will the "upper structure" affect the operation of NEES and its subsidiaries; indeed, the corporate structure "downstream" from NEES will remain unaffected as a result of the proposed Merger. Finally, at the end of the day, both National Grid and NEES will be fully regulated registered holding companies. Accordingly, the Applicants submit that this is not the type of situation that concerned the drafters of the Act, and that the Commission should thus exercise its discretion to find that any apparent complexity of the proposed transaction structure is neither undue nor unnecessary.

The Commission has in the past, consistent with its role as the administrative agency with the expertise, authority and discretion to administer the 1935 Act in a responsive manner, giving due regard to relevant policy considerations, recognized the necessity of permitting the continued existence of intermediate holding companies in registered holding company systems in order to achieve economic and tax efficiencies that would not otherwise be achievable in the absence of such arrangements. Thus, in specific cases where the issue was considered, the Commission exercised reasonable discretion and, on the basis of other relevant provisions of the 1935 Act, expressly permitted the continued existence of intermediate holding companies in a registered holding company system, apparently on a finding of "no harm, no foul" and giving due regard to the economic desirability of the corporate structure and other arrangements. See, e.g., West Penn Railways Co., Holding Company Act Release No. 953 (Jan. 3, 1938) (expressly authorizing the continued existence of an intermediate holding company); and West Texas Utilities Co., Holding Co. Act Release No. 4068 (Jan. 25, 1943) (reserving jurisdiction under Section 11(b)(2) in connection with acquisition that resulted in the creation of a "great grandfather" company). In each of these matters, the Commission apparently concluded that the economic benefits associated with the additional corporate layers in the holding company system outweighed the potential for harm and the possibility that there could be a recurrence of the financial abuses that the 1935 Act was intended to eliminate. See West Penn Railways ("The substantial traction interests of the West Penn Railways Company make it impractical, from a financial standpoint, to eliminate it

as a separate corporation."); and West Texas Utilities Co. (noting likely bankruptcy of acquired company in the event transaction not approved).

In the specific cases in which the issue was considered and the Commission ultimately determined to permit the continued existence of intermediate companies in a registered holding company system, in an apparent contradiction of the "great-grandfather" provisions of Section 11(b)(2) (when viewed in isolation), the Commission, in an exercise of reasonable discretion, relied on other provisions of the 1935 Act, such as the definitions of "holding company" and "subsidiary company," to find that such intermediate companies could be excluded from designation as "holding companies" and "subsidiary companies," respectively, and, thus, could be exempted from the "elimination" provisions of Section 11(b). Based on that precedent, the Applicants ask the Commission to exercise its discretion to declare the Intermediate Companies not be subsidiary companies or holding companies, solely for purposes of compliance with the "great-grandfather" provisions of Section 11(b)(2).

It is again worth emphasizing that none of the economic planning reflected in the proposed transaction structure will result in any change in the corporate organization of the NEES system (other than the change in organization of NEES from business trust to corporation) or in the financing transactions undertaken by NEES and its subsidiaries. NEES will receive cash in the form of equity from National Grid to pay the Cash Consideration and neither NEES nor any of NEES's subsidiaries will borrow or issue any security or pledge any assets to finance any part of the Cash Consideration. Thus, there is no possibility that implementation and continuance of the proposed Transaction structure could result in an undue or unnecessary capital structure to the detriment of the public interest or the interest of consumers.

The Applicants thus request that the Commission exercise its authority and discretion (under all relevant sections of the 1935 Act and considering the policy of the 1935 Act as a whole) to approve the transaction structure in the instant situation because, as with "out-bound" investments by U.S. registered holding companies, the "layers of complication" are in fact the economically necessary and efficient bridge by which cross-border transactions are generally accomplished.

o Voting Power Will Be Fairly and Equitably Distributed.

National Grid is a public corporation organized under and domiciled in the U.K.. Its shares are listed on, and trade on, the London Stock Exchange. The vast majority of National Grid's 800,000 public shareholders are not U.S. residents. National Grid has a small number of American Depositary Shares in the U.S. which trade as ADRs and are principally held by U.S. institutions. American Depositary Shares, in the aggregate, account for less than 1% of National Grid's publicly issued shares. National Grid's shareholders and ADR holders must vote to approve the Merger under applicable requirements of the London Stock Exchange. The moneys necessary to pay the Cash Consideration will be borrowed by National Grid or UK Finance, as the case may be, from sophisticated commercial lenders and the financing has been documented in fully negotiated loan agreements. None of the Intermediate Companies in the chain of ownership between National Grid and NEES, and including NEES, will have any public or private institutional equity or debt holders (all such equity or debt will be held only by National Grid and/or one or more of the Intermediate Companies). NEES's operating subsidiaries have, and will continue to have, publicly issued preferred stock and long-term debt. The terms of these securities will not be altered or modified or otherwise affected by virtue of the Merger or the proposed Transaction structure. Thus, as there are no direct or indirect security holders of NEES with whom National Grid must share voting power, there is no possibility that voting power among security holders of the National Grid holding company system could be unfairly or inequitably distributed.

o Policy Considerations.

The Commission has publicly confirmed that the 1935 Act does not bar the acquisition of a U.S. utility by a non-U.S. person. See Gaz Metropolitain, Inc., Holding Company Act Release No. 35-26170 (1994). The question now presented is whether the Commission will permit such transactions to proceed in an economically desirable and efficient manner. Following the Merger, National Grid will register as a holding company under Section 5 of the 1935 Act and will be fully subject to Commission regulation and oversight with respect to its U.S. operations. Moreover, no component of the transaction structure implicates the abuses identified in Section 1(b) of the 1935 Act associated with holding companies prior to 1935. In this regard, the absence of public and private institutional investors in the National Grid-NEES ownership chain and the commitment on the part of National Grid to retain the NEES/NEES subsidiary corporate and financing structure are critical to the analysis. No aspect of the proposed transaction structure will work to the detriment of the public interest or the interests of investors or consumers. National Grid's intention in

implementing the proposed transaction structure is to bridge the differing legal, regulatory and tax regimes in the U.K. and the U.S. while maximizing after-tax returns from the National Grid-NEES combination. In other situations, the Commission has recognized that efforts to achieve economic efficiencies and synergies through tax savings are "in the ordinary course of business" of a registered holding company. See Central and South West Corporation, Holding Company Act Release No. 23578 (1985) ("It can hardly be argued that for a business to attempt to reduce its tax liability is anything but an indication of prudent management and is not uncommon in the non-regulated business sector. For such businesses to attempt such reductions can fairly be characterized as being in the ordinary course of business... The Commission can think of no argument which suggests that attempting to reduce one's tax liability should not also be considered to be in the ordinary course of business for a regulated utility holding company.").

Section 11(b)(2) of the 1935 Act directs the Commission to require the elimination of any "undue or unnecessary" complication in the capital structures of registered holding company systems. As an administrative agency, the Commission has an obligation to use its expertise and authority to achieve statutory objectives of the 1935 Act. No provision of the 1935 Act, however, requires the Commission to ignore the realities of commercial practice that are commonplace in cross-border transactions or the benefits that may be obtained through the use of sophisticated corporate and financial planning techniques when such techniques do not result in any detriment to the protected interests under the 1935 Act. Rather, the Applicants submit that the attempt to maximize after-tax returns in connection with a Merger is an indication of prudent management and typical in the non-regulated business sector. Accordingly, the policy and practice under the 1935 Act provide a compelling rationale for approving the proposed transaction structure for the National Grid-NEES combination.

The Applicants note that maintaining an efficient post-acquisition structure will require them to respond quickly to changes in matters such as tax and accounting rules, including by making appropriate revisions after consummation of the Merger to the "upper structure" between NGG and NEES that will not have any material impact on the financial condition or operations of NEES and its subsidiaries or of NGG. For the reasons noted above, and especially the lack of any third party interests in the upper structure, the Applicants request authorization to make these non-material corporate structure changes without having to seek specific authority from the Commission for each change, subject to the condition that no change (i) will result in the introduction of any third party interests in the upper structure, (ii) will introduce a

non-European Union or non-U.S. entity into the upper structure or (iii) will have any material impact on the financial condition or operations of NEES and its subsidiaries or of NGG.

b. Section 10(c)(2)

The standards of Section 10(c)(2) are satisfied because the Merger will tend toward the economical and efficient development of an integrated public utility system, thereby serving the public interest, as required by that section of the Act. Integration is not an issue in that the Merger will simply impose a new holding company structure over an existing integrated electric utility system. The analysis under Section 10(c)(2) focuses then on the associated benefits, the so-called "economies and efficiencies" as a result of the proposed transaction.

The first part of the discussion will focus on the perceived benefits to customers, employees and shareholders, arising from the transaction. The second part will then consider the more strategic benefits which the transaction will bring to New England.

o Benefits to customers, employees and shareholders

NEES shareholders will benefit from the consideration received for their shares on closure of the transaction. The base consideration of $53.75 per share is equal to 125% of the $43 market value of the shares on the last trading day before the Merger was announced. The purchase price will be subject to adjustment, dependent on the time of closing, and will be paid in cash. The NEES Board has received an opinion from Merrill Lynch, Pierce, Fenner & Smith, an investment banking firm with extensive experience in utility Mergers, that the consideration for the Merger is fair to shareholders and in line with comparable utility Mergers.

For NEES employees the transaction represents an opportunity for growth as the company becomes the U. S. base of operations for a large

international group. National Grid has expressed intentions to expand and consolidate its operations in this country, which will bring expanded opportunities for employees. The transaction will ensure that NEES and its employees remain active in the restructuring debate in the United States, while National Grid's expanding foreign operations will provide opportunities for NEES employees abroad.

Benefits to customers fall in three categories. First, National Grid has significant expertise in providing the infrastructure, dispatch and power exchange necessary for an efficient power supply market. Power supply is the major cost element of electricity and is crucially influenced by the efficient development of the market for the product. The efficient provision of the infrastructure to let the supply market develop will facilitate the increase in potential suppliers of electricity, with the competition so generated leading to lower and more stable prices for the unregulated supply component of electric service.

Second, there will be savings and efficiencies associated with the NEES-National Grid Merger itself. The two companies are currently in the process of evaluating integration possibilities, aimed at eliminating duplication and implementing best practices. National Grid's significantly larger scale, both in financial and operational terms, will enhance the ability of NEES to utilise new developments in transmission and distribution technology, information systems, and capital markets, where these can be seen to bring economic benefit.

Third, the Merger will allow further pursuit of consolidation in the electric utility business. The restructuring of the industry in New England and the divestiture of generation by companies owning transmission and distribution interests has left a fragmented infrastructure with individual companies of too small a size to fully exploit economies of scale. NEES, with its already low distribution prices and profit margins, is not in a position on its own to pursue significant further regional consolidation. This transaction will allow further consolidations and consolidation savings to be pursued, while maintaining low rates for customers. The agreement for NEES to acquire EUA, while not in itself conditional on the NEES-National Grid Merger, is entirely consistent with this strategy.

- Strategic benefits

National Grid owns, operates and maintains the high voltage network in England and Wales, which connects power stations with distribution networks. This transmission network consists of approximately 4,300 route miles of overhead lines and 400 miles of underground cables, both operating principally at voltages of 400kV and 275kV. National Grid also owns and operates interconnectors which enable electricity to be transferred between the England and Wales market and Scotland and France. National Grid also has investments in transmission businesses in Argentina and Zambia and direct experience of operating and maintaining systems in those countries.

A key factor in the efficient development of a competitive electricity supply market is the provision of open access on non-discriminatory terms to the electric transmission system. National Grid, as holder of the only transmission licence for England and Wales, is obliged facilitate competition in the generation and supply of electricity and to offer terms for connection to and use of its transmission system to those who request it. Since 1990, National Grid has received over 70 applications from generators seeking to use the transmission system and is obliged to provide a formal offer of connection, including all technical and commercial terms, within 90 days.

In addition, National Grid is the system operator for England and Wales, with an obligation to schedule and dispatch generation to meet demand, while maintaining security of the transmission system and supply quality. Through wholly-owned subsidiaries, National Grid also provides data collection and settlement services to facilitate the competitive electricity supply market. The development of new generation sources and of new competing electricity supply companies, since the restructuring of the electric industry, has seen the price of electricity fall by 15-25% in real terms, depending on customer class.

Another relevant feature of National Grid's experience is its financial incentivization. In England and Wales both its wires ownership and system operation activities

are subject to incentive forms of regulation. These provide a direct stimulus for National Grid to improve the efficiency of its licensed activities and this

has led to significant benefits for both customers and shareholders. Supply quality is assured through the requirement for National Grid to work to prescribed standards and to report annually on system performance to the industry regulator. National Grid's experience of this sort is not limited to England and Wales, since its operation of the transmission system in Argentina is also subject to financial incentivization.

The Merger comes at a time of substantial change in the United States electricity industry, with reform and restructuring proceeding nationwide and in particular in New England. The intentions of National Grid and NEES to pursue consolidation and rationalization of transmission and distribution in the region are seen as being fully consistent with the views of the FERC on the development of strong Regional Transmission Organisations. NEPOOL and the New England Independent System Operator are grappling with many complex issues on transmission pricing, congestion management and market price determination as they attempt to advance the development of the electric market in New England. National Grid does not claim that its experience or the solutions which have been reached for similar issues in England and Wales can be simplistically transplanted to the United States. However, its experience in addressing and finding appropriate solutions to similar problems, both in the U.K. and in other countries, will be important in facilitating the development of electricity markets in the United States and in the timely achievement of the benefits which such markets can bring.

Although some of the anticipated economies and efficiencies will be fully realizable only in the longer term, they are properly considered in determining whether the standards of Section 10(c)(2) have been met. See American Electric Power Co., 46 S.E.C. 1299, 1320-1321 (1978). Further, the Commission has recognized that while some potential benefits cannot be precisely estimated, nevertheless they too are entitled to be considered: "[S]pecific dollar forecasts of future savings are not necessarily required; a demonstrated potential for economies will suffice even when these are not precisely quantifiable." Centerior Energy Corp., Holding Co. Act Release No. 24073 (April 29, 1986) (citation omitted). See Energy East Corporation,

Holding Co. Act Release No. 26976 (Feb. 12, 1999) (authorizing acquisition based on strategic benefits and potential but presently unquantifiable savings).

3. Section 10(f)

Section 10(f) provides that:

> The Commission shall not approve any acquisition as to which an application is made under this section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect to such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of section 11.

As described in Item 4 of this Application/Declaration, and as evidenced by the applications and the requested certification from each of the affected state regulators, the Applicants intend to comply with all applicable state laws related to the proposed transaction.

B. Other Statutory Provisions

1. Sections 6 and 7, and Rule 53

The Applicants seek confirmation that preexisting investments in FUCOs will not be counted toward the cap on "aggregate investment" for purposes of Rule 53. The basis for this request is two-fold: First, in an analogous situation, the Commission has traditionally

grandfathered nonutility investments made before an entity became part of a registered system. See, e.g., New Century Energies, Holding Co. Act Release No. 26748 (Aug. 1, 1997). Thus, investments in "energy-related companies" that predate registration of the investor are not counted toward "aggregate investment" for purposes of Rule 58. Although there is no case on point, the Applicants believe that the same accommodation should be made for preexisting FUCO investments for purposes of Rule 53, simply as a matter of comity.

Second, and perhaps more important, there is no equitable basis for

including National Grid's preexisting FUCO holdings in the calculation of "aggregate investment" because, unlike the FUCO investments of U.S. utility affiliates, registered or not, no part of the capital currently invested in National Grid's FUCO operations can be deemed to be derived, directly or directly, from captive U.S. ratepayers.

2. Section 13 -- Intrasystem Provision of Services

All services provided by National Grid system companies to other National Grid system companies will be in accordance with the requirements of Section 13 of the Act and the rules promulgated thereunder. National Grid is aware that questions concerning the FERC's policy in this area are likely to arise with respect to affiliate transactions involving the New England Power Company, Mass. Electric, Narragansett, New England Electric Transmission Corporation, New England Hydro-Transmission Electric Company, Inc. and AllEnergy Marketing Company, L.L.C., companies that are public utilities under the Federal Power Act. In connection with the requested FERC authorization, the applicants in that matter have represented that "with respect to any transaction between any member company of the NEES system and National Grid and any of its subsidiary or affiliated companies, the NEES Companies will abide by [FERC] policy regarding intra-affiliate transactions." See FERC Application, attached hereto as Exhibit D-1.1. The FERC intra-corporate transactions policy, with respect to non-power goods and services, generally requires that affiliates or associates of a public utility not sell non-power

goods and services to the public utility at a price above market; and sales of non-power goods and services by a public utility to its affiliates or associates be at the public utility's cost for such goods and services or market value for such goods and services, whichever is higher.

The Applicants recognize that affiliate transactions among the member companies of National Grid will be subject of the jurisdiction of the Commission under Section 13(b) of the Act and the rules and regulations thereunder. That section generally requires that affiliate transactions involving system utilities be "at cost, fairly or equitably allocated among such companies." See also Rule 90. Nonetheless, National Grid believes that, as a practical matter, there should not be any irreconcilable inconsistency between the application of the Commission's "at cost" standard and the FERC's policies with respect to intra-system transactions as applied to National Grid.

On this basis, the applicants believe that National Grid will be able to comply with the requirements of both the FERC and the "at cost" and fair and equitable allocation of cost requirements of Section 13, including Rules 87, 90 and 91 thereunder, for all services, sale and construction contracts between associate companies and with the holding company parent unless otherwise permitted by the Commission by rule or order.

The Service Company, which has been previously approved by the Commission, will continue to provide the NEES companies, pursuant to the Standard Form of Service Contract ("Standard Form"), with a variety of administrative, management and support services, including services relating to electric power planning, electric system operations, materials management, facilities and real estate, accounting, budgeting and financial forecasting, finance and treasury, rates and regulation, legal, internal audit, corporate communications, environmental, fuel procurement, corporate planning, investor relations, human resources, marketing and customer services, information systems and general administrative and executive management services. It is contemplated that the Standard Form will be amended to provide for services to entities that will

become associate companies of NEES and its subsidiaries, by virtue of the proposed Merger. In accordance with the Standard Form, Exhibit B-2, services provided by the Service Company will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. To accomplish this, employees of the Service Company will record transactions utilizing the existing data capture and accounting systems of each client company. Costs will be accumulated in accounts of the Service Company and directly assigned, distributed and allocated to the appropriate client company in accordance with the guidelines set forth in Schedule II of the Standard Form.

The Service Company's accounting and cost allocation methods and procedures are structured so as to comply with the Commission's standards for service companies in registered holding-company systems. The Service Company's billing system will use the "Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies" established by the Commission for service companies of registered holding-company systems, as may be adjusted to use the FERC uniform system of accounts.

As compensation for services, the Standard Form states that Services provided by the Service Company will be rendered "at cost, fairly and equitably allocated." Where more than one company is involved in or has received benefits from a service performed, the Standard Form provides that costs will be allocated, between or among such companies on an equitable basis by means of an allocation formula, in accordance with the methods set forth in Schedule II to the Standard Form. Thus, for financial reporting purposes, charges for all services provided by the Service Company to affiliates will be on an "at cost" basis as determined under Rules 90 and 91 of the Act.

No change in the organization of the Service Company, the type and character of the companies to be serviced (other than the amendment discussed above to include services for the National Grid associate companies), the methods of allocating costs to associate companies,

or in the scope or character of the services to be rendered subject to Section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until the Service Company shall first have given the Commission written notice of the proposed change not less than 60 days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the Commission shall notify the Service Company within the 60-day period that a question exists as to whether the proposed change is consistent with the provisions of Section 13 of the Act, or of any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until the Service Company shall have filed with the Commission an appropriate declaration regarding such proposed change and the Commission shall have permitted such declaration to become effective.

3. Sections 14 and 15 -- Jurisdiction

Pursuant to these sections, the Commission has broad authority over, and access to, the books and records and reporting of companies in a registered holding company system. As noted previously, National Grid is preparing the necessary documentation which will enable it to become listed on the New York Stock Exchange through a full ADR program sometime prior to the closing of this transaction. For that purpose, National Grid will provide financial statements for the fiscal year ended March 31, 1999 that include a reconciliation of net income and shareholders' equity in accordance with US Generally Accepted Accounting Principles ("US GAAP").

It should be further noted that the utility assets of National Grid Company are accounted for on the basis required by the U.K. regulator, rather than that used for purposes of U.S. ratemaking proceedings, and rates for U.K. regulated utilities are also determined in a different manner than those for U.S. regulated companies. These issues are discussed at length in the attached paper by Professor Franks. See Exhibit J-3.

In addition, National Grid undertakes and agrees to file, and will cause each of its present and future directors and officers, who is not a resident of the United States, to file with the Commission irrevocable designation of the party's custodian as an agent in the United States to accept service of process in any suit, action or proceeding before the Commission or any appropriate court to enforce the provisions of the acts administered by the Commission.

Item 4. Regulatory Approvals

Set forth below is a summary of the regulatory approvals that National Grid and NEES expect to obtain in connection with the Merger.

A. Antitrust

The Merger is subject to the requirements of the HSR Act and the rules and regulations thereunder, which provide that certain acquisition transactions may not be consummated until certain information has been furnished to the Antitrust Division of the Department of Justice (the "Antitrust Division") and the Federal Trade Commission (the "FTC") and until certain waiting periods have been terminated or have expired. The expiration or earlier termination of the HSR Act waiting period would not preclude the Antitrust Division or the FTC from challenging the Merger on antitrust grounds. Neither NEES nor National Grid Group believes that the Merger will violate federal antitrust laws. If the Merger is not consummated within 12 months after the expiration or earlier termination of the initial HSR Act waiting period, NEES and National Grid Group would be required to submit new information to the Antitrust Division and the FTC, and a new HSR Act waiting period would have to expire or be earlier terminated before the Merger could be consummated. NEES and

National Grid Group intend to file their premerger notifications in the spring of 1999.

B. Federal Power Act

Section 203 of the Federal Power Act (the "FPA") provides that no public utility may sell or otherwise dispose of its facilities subject to the jurisdiction of the FERC or, directly or indirectly, merge or consolidate such facilities with those of any other person or acquire any security of any other public utility without first having obtained authorization from the FERC. Because this transaction involves a change in ownership and control of NEES's public utility subsidiaries, the prior approval of the FERC under FPA Section 203 is required in order to consummate the Merger.

Under Section 203 of the FPA, the FERC is directed to approve a Merger if it finds such Merger "consistent with the public interest." In reviewing a Merger, the FERC generally evaluates: (1) whether the Merger will adversely affect competition; (2) whether the Merger will adversely affect rates; and (3) whether the Merger will impair the effectiveness of regulation. NEES and National Grid Group believe the proposed Merger satisfies these standards.

NEES's public utility subsidiaries filed an application with the FERC on March 10, 1999 requesting that the FERC approve the Merger under Section 203 of the EPA. The FERC issued a notice on March 10, 1999, indicating the comment period relating to this application expires on May 10, 1999.

C. Atomic Energy Act

Since NEP holds licenses issued by the Nuclear Regulatory Commission ("NRC") in connection with that subsidiary's interests in various nuclear power plants and also holds minority common stock interest in corporations that hold such licenses, the Merger (which would constitute an indirect transfer of NEP's licenses to National Grid Group) requires NRC approval

under the Atomic Energy Act of 1954. The Atomic Energy Act effectively prohibits foreign ownership or control of a nuclear license (as distinct from the physical plant). National Grid Group is a foreign entity within the meaning of the Atomic Energy Act. NEES and National Grid Group believe they can satisfy NRC concerns about foreign ownership and control. NEP's minority interests in the common stock of corporations that hold nuclear licenses does not give NEES control over such facilities or the licensee for the facilities, and therefore the indirect acquisition by National Grid Group of NEP's interest will not be inconsistent with the Atomic Energy Act. In addition, although NEP owns a minority interest in two nuclear facilities and therefore has minority, non-operating ownership licenses with respect to those facilities, NEP has no control over the facilities themselves, and a recently issued NRC review procedure regarding foreign ownership or control provides that foreign ownership of such minority non-operating licenses is permissible, provided that the licensee agrees to conditions that prevent foreign domination or control of the facility. NEES and National Grid Group have filed an application with the NRC agreeing to such conditions on March 16, 1999. The foreign ownership issue could extend the time otherwise required for NRC approval of license transfers related to the Merger.

D. Exon-Florio

The Committee on Foreign Investment in the United States ("CFIUS") may review and investigate the Merger under Exon-Florio, and the President of the United States or his designee is empowered to take certain actions in relation to Mergers, acquisitions and takeovers by foreign persons which could result in foreign control of persons engaged in interstate commerce in the United States pursuant to Exon-Florio. In particular, Exon-Florio enables the President to block or reverse any acquisitions by foreign persons which threaten to impair the national security of the United States. Before the Merger may be consummated, any CFIUS review and investigation of the Merger under Exon-Florio must have terminated, and the President must not have taken any of his authorized actions under Exon-Florio. NEES and National Grid Group believe that the Merger does not threaten to impair the national security of the United States and that the Merger will receive Exon-Florio clearance.

E State Regulatory Approval

The Merger does not require the approval of the MDTE or the RIPUC. The merger also will not require the approval of the NHPUC if the jurisdictional

companies in New Hampshire, Granite State and NEP, affirm that the transaction will not adversely offset their rates, terms, service or operations. The merger does require the approval of the VPSB and the CDPUC.

While the MDTE does not have jurisdiction over the merger, NEES and National Grid made an informational filing on March 8, 1999 with the MDTE, describing the merger and the benefits of the merger to ratepayers. As part of the filing, the companies advised the MDTE that the SEC would be seeking a certification from the MDTE, the RIPUC and the NHPUC that each of the state commissions has the authority and resources to protect ratepayers in matter such as rates, financings, affiliate transactions and the financial integrity of the operating utility within its state and additionally that the commission intends to continue to exercise its authority.

On March 18, 1999, the companies made a similar informational filing with the NHPUC and requested certification from the NHPUC to the SEC that it has the authority and resources to protect ratepayers. The companies also filed affidavits attesting to the fact that the transaction would not adversely affect ratepayers and that there would be no change in the NHPUC's jurisdiction over Granite State and NEP as a result of the merger. The companies believe that as a result of the filing no approval is required by the NHPUC of the merger.

While the RIPUC has indicated that no filing with it is required, a copy of the informational filing made with the MDTE was given to the RIPUC. Additionally, the companies

will be meeting with the RI PUC and staff to answer any questions they may have and to request that a certification to the SEC from the RIPUC that it has the authority and resources to protect ratepayers.

NEP has a small amount of transmission assets in Vermont and therefore is deemed to be a Vermont public utility. While the VPSB has no regulatory jurisdiction over NEP's operations, under Vermont law it does have authority to approve the merger. The company will be filing for approval of the Merger by the VPSB within the next two weeks.

The CDPUC has jurisdiction over the transaction because of NEP's minority ownership interest in the Millstone III Nuclear Power Plant. A filing is expected to be made with the CDPUC within the next two weeks.

* * * * *

Finally, pursuant to Rule 24 under the Act, the Applicants represent that the transactions proposed in this filing shall be carried out in accordance with the terms and conditions of, and for the purposes stated in, the declaration-application no later than December 31, 2004.

Item 5. Procedure

The Commission is respectfully requested to issue and publish not later than April 30, 1999 the requisite notice under Rule 23 with respect to the filing of this Application, such notice to specify a date not later than May 31, 1999 by which comments may be entered and a

date not later than August 30, 1999 as the date after which an order of the Commission granting and permitting this Application to become effective may be entered by the Commission.

It is submitted that a recommended decision by a hearing or other responsible officer of the Commission is not needed for approval of the proposed Merger. The Division of Investment Management may assist in the preparation of the Commission's decision. There should be no waiting period between the issuance of the Commission's order and the date on which it is to become effective.

Item 6. Exhibits and Financial Statements

A. Exhibits

A-1 Memorandum and Articles of Association of The National Grid Group

plc.

A-2 Agreement and Declaration of Trust of New England Electric System (filed as Exhibit 3 to the 1994 NEES Form 10-K (File No. 1-3446), and incorporated herein by reference).

A-2.2 Proposed amendment to the NEES Agreement and Declaration of Trust (included in Exhibit C-1 hereto).

B-1 Agreement and Plan of Merger, dated as of December 11, 1998, by and among NEES, National Grid Group and NGG Holdings LLC (included in Exhibit C-1 hereto).

B-2 NEES Standard Form of Service Contract, as amended

B-3 Credit Agreement (to be filed by amendment).

C-1 Proxy Statement of NEES for the shareholders meeting to be held in connection with the Merger (to be filed by amendment).

C-2 Circular of National Grid Group for the extraordinary general meeting of shareholders to be held in connection with the Merger (to be filed by amendment).

D-1.1 Joint Application of New England Power Company, Massachusetts Electric Company, The Narragansett Electric Company, New England Electric Transmission Corporation, New England Hydro-Transmission Corporation, New England Hydro-Transmission Electric Company Inc., AllEnergy Marketing Company, L.L.C. and NGG Holdings LLC before the FERC.

D-1.2 Order of the FERC (to be filed by amendment).

D-2.1 Application of New England Power Company before the NRC.

D-2.2 Order of the NRC (to be filed by amendment).

D-3.1 Submission to the MDTE.

D-3.2 Response from the MDTE (to be filed by amendment).

D-4.1 Submission to the RIPUC (to be filed by amendment).

D-4.2 Response from the RIPUC (to be filed by amendment).

D-5.1 Submission to the NHPUC.

D-5.2 Response from the NHPUC (to be filed by amendment).

D-6.1 Submission to the VPSB (to be filed by amendment).

D-6.2 Response from the VPSB (to be filed by amendment).

D-7.1 Submission to the CDPUC (to be filed by amendment).

D-7.2 Order of the CDPUC (to be filed by amendment).

E-1 Map of service territory of NEES (filed in paper format on Form SE).

E-2 NGG Corporate Chart.

E-3 NEES Corporate Chart.

F-1.1 Opinion of Counsel - National Grid Group (to be filed by amendment).

F-1.2 Opinion of Counsel - NEES (to be filed by amendment).

F-2 Past tense opinion of counsel (to be filed by amendment).

G-1 Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated (see Exhibit C- 1, supra).

H-1 Annual Report of National Grid Group dated March 31, 1998 (filed in paper format on Form SE).

H-2 Annual Report on Form 10-K of NEES for the year ended December 31, 1998 (to be filed by amendment).

H-3 Form U5S of NEES for the year ended December 31, 1998 (to be filed by amendment).

I-1 Proposed Form of Notice.

J-1 Description of Nonutility Subsidiaries of National Grid.

J-2 Merger Structure and Description of Intermediate Companies

J-3 "The Financial Strength of the National Grid Group and the Proposed Acquisitions of NEES and EUA," Julian Franks and the Brattle Group (March, 1999) (filed in paper format on Form SE).

K-1 Financial Data Schedule (to be filed by amendment).

B. Financial Statements

FS-1 National Grid Group Unaudited Pro Forma Condensed Consolidated Balance Sheet (to be filed by amendment).

FS-2 National Grid Group Unaudited Pro Forma Condensed Consolidated Statement of Income (to be filed by amendment).

FS-3 Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements (to be filed by amendment).

FS-4 National Grid Group Consolidated Balance Sheet (to be filed by amendment).

FS-5 National Grid Group Consolidated Statement of Income (to be filed by amendment).

FS-6 NEES Consolidated Balance Sheet as of December 31, 1998 (to be filed by amendment).

FS-7 NEES Consolidated Statement of Income for the twelve months ended December 31, 1998 (to be filed by amendment).

Item 7. Information as to Environmental Effects

The Merger neither involves a "major federal action" nor "significantly affects the quality of the human environment" as those terms are used in Section 102(2)(C) of the National Environmental Policy Act, 42 U.S.C. Sec. 4321 et seq. Consummation of the Merger will not result in changes in the operations of NEES and its subsidiaries that would have any impact on the environment. No federal agency is preparing an environmental impact statement with respect to this matter.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the Applicants have duly caused this Application/Declaration Inc. to be signed on behalf by the undersigned thereunto duly authorized.

Date: March 26, 1999

/s/ Jonathan M. G. Carlton

Jonathan M. G. Carlton

Business Development Manager -- Regulation

/s/ Kirk Ramsauer

Kirk Ramsauer
Assistant General Counsel

Registered No. 2367004

The Companies Acts

Public Company Limited by Shares

MEMORANDUM

AND

ARTICLES OF ASSOCIATION

of

THE NATIONAL GRID GROUP plc

McKenna & Co.,
Mitre House, 160 Aldersgate Street, London, EC1A 4DD
Telephone: 0171-606 9000 Fax: 0171-606 9100
CDE Box 724

File Ref: 37459-0256 Doc Ref: D1201.GMG

Registered No. 2367004

The Companies Acts
Public Company Limited by Shares

MEMORANDUM OF ASSOCIATION

of

THE NATIONAL GRID GROUP plc

1. The Company's name is "The National Grid Group plc".

2. The Company is to be a public company.

3. The Company's registered office is to be situated in England and Wales.

4.

1/The objects for which the Company is established are:-

4.1 to carry on the business of a holding company and to acquire by purchase, exchange, subscription or otherwise and to hold the whole or any part of the shares, stocks, debentures and other securities and interests of and in any corporations, companies, associations or firms for the time being engaged, concerned or interested in any industry, trade or business and to promote the beneficial co-operation of any such corporations, companies, associations or firms as well with

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1/ The Company's objects clause were amended by a special resolution passed on 4th April, 1990 which became unconditional on 5th April, 1990, and by a special resolution passed on 17th November, 1995 which became unconditional on 11th December, 1995.

one another as with the Company and to exercise in respect of such investments and holdings all the rights, powers and privileges of ownership including the right to vote thereon;

4.2 to employ the funds of the Company in the development and expansion of the business of the Company and all or any of its subsidiary or associated companies and in any other company whether now existing or hereafter to be formed and engaged in any like business of the Company or any of its subsidiary or associated companies or in any other industry ancillary thereto or in any business which can conveniently be carried on in connection therewith;

4.3 to co-ordinate the administration, policies, management, supervising, control, research, development, planning, manufacture, trading and any and all other activities of, and to act as financial advisers and consultants to, any company or companies or group of companies now or hereafter formed or incorporated or acquired which may be or may become related or associated in any way with the Company or with any company related or associated therewith and either without remuneration or on such terms as to remuneration as may be agreed;

4.4 to guarantee the payment of dividends on any shares in the capital of any of the corporations, companies or associations in which the Company has or may at any time have an interest, and to become surety in respect of, endorse, or otherwise guarantee the payment of, the principal of or interest on any shares, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, acceptances, drafts, bills of exchange

or evidence of indebtedness issued or created by any such corporations, companies or associations;

4.5 to become surety for or guarantee the carrying out and performance of, any and all contracts, leases and obligations of every kind, of any corporation, company or association, any of whose shares, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, acceptances, bills of exchange or evidence of indebtedness, are at any time held by or for the Company, or in which the Company is interested or with which it is associated, and to do any acts or things designed to protect, preserve, improve or enhance the value of any such shares, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, bills of exchange or evidence of indebtedness;

4.6 to organise, incorporate, reorganise, finance, aid and assist, financially or otherwise, companies, corporations, syndicates, partnerships, associations and firms of all kinds and to underwrite or guarantee the subscription of, shares, stocks, debentures, debenture stock, bonds, loans, obligations, securities or notes of any kind, and to make and carry into effect arrangements for the issue, underwriting, resale, exchange or distribution thereof;

4.7 to carry on the business of land and property developers of every and any description and to acquire by purchase, lease, concession, grant, licence or otherwise such lands, buildings, leases, underleases, rights, privileges, stocks, shares and debentures in public or private companies, corporate or unincorporate, policies of insurance and other such property as the Company may deem fit and shall acquire the same for the purposes of investment and development and with a view to receiving the income therefrom; and to enter into any contracts and other arrangements of all kinds with persons having dealings with the Company on such terms and for such periods of time as the Company may from time to time determine, on a commission or fee basis or otherwise, and to

carry on any other trade or business, whatever, of a like and similar nature;

4.8 to carry on all kinds of promotion business and, in particular, to form, constitute, float, lend money to, assist, manage and control any companies, associations or undertakings whatsoever and to market, advertise or promote goods, services, material (tangible or intangible) or

any other thing whatsoever;

4.9 to vary the investments and holdings of the Company as may from time to time be deemed desirable;

4.10 to act as trustee of any kind including trustee of any deeds constituting or securing any debentures, debenture stock or other securities or obligations and to undertake and execute any trust or trust business (including the business of acting as trustee under wills and settlements), and to do anything that may be necessary or assist in the obtaining of any benefit under the estate of an individual, and also to undertake the office of executor, administrator, secretary, treasurer or registrar or to become manager of any business, and to keep any register or undertake any registration duties, whether in relation to securities or otherwise;

4.11 to provide technical, cultural, artistic, educational, entertainment or business material, facilities, information or services and to carry on any business involving any such provision;

4.12 to carry on the business of commission agents, factors, general merchants and dealers in every description of goods, exporters and importers, concessionaries,

wholesale and retail traders, carriers, warehousemen, designers, advertising contractors or agents, or trustees, brokers or agents for any company;

4.13 to manufacture, develop, process, refine, repair, purchase, sell, export, import, deal in or let on hire all kinds of goods, substances, articles, services and material (tangible or intangible) of any kind which may be advantageous to the Company or which any of the customers or other companies having dealings with the Company may from time to time require;

4.14 to provide services of any kind including the carrying on of advisory, consultancy, brokerage and agency business of any kind;

4.15 to acquire and carry on any business carried on by a subsidiary or a holding company of the Company or another subsidiary of a holding company of the Company;

4.16 to enter into any arrangements with any government or authority or person and to obtain from any such government or authority or person any legislation, orders, rights, privileges, franchises and concessions and to carry out, exercise and comply with the same;

4.17 to purchase, take on lease or in exchange, hire, renew, or otherwise

acquire and hold for any estate or interest, and to sell, let, grant licences, easements, options and other rights over or otherwise deal with or dispose of, in whole or in part, any lands, buildings, machinery, rights, stock-in-trade, business concerns, choses in action, and any other real and personal property of any kind including all of the assets of the Company and to perform any services or render any

consideration and to construct, equip, alter and maintain any buildings, works and machinery necessary or convenient for the Company's business and in each case for any consideration (including in particular but without detracting from the generality of the foregoing for any securities or for a share of profit or a royalty or other periodical or deferred payment);

4.18 to enter into partnership or any other arrangement for sharing profits or joint venture or co-operation with any company carrying on, engaged in or about to carry on or engage in any business or transaction capable of being conducted so as directly or indirectly to benefit the Company, and to subsidise or otherwise assist any such company;

4.19 to invest money of the Company (or any of its subsidiaries) in any investments and to hold, sell or otherwise deal with investments or currencies or other financial assets and to carry on the business of an investment company;

4.20 to lend or advance money or otherwise give credit or provide financial accommodation to any company with or without security and to deposit money with any company and to carry on the business of a banking, finance or insurance company;

4.21 for any reason whatsoever to mortgage, charge, pledge or otherwise secure, either with or without the Company receiving any consideration or advantage, all or any part of the undertaking, property, assets, rights and revenues present and future and uncalled capital of the Company and to guarantee, indemnify or otherwise support or secure, either with or without the Company

receiving any consideration or advantage and whether by personal covenant or by mortgaging, charging, pledging or otherwise securing all or any part of the undertaking, property, assets, rights and revenues present and future and uncalled capital of the Company or by any or all such methods or by any other means whatsoever, the liabilities and obligations of any person, firm or company including but not limited to any company which is

for the time being a subsidiary or a holding company of the Company or another subsidiary of a holding company of the Company or otherwise associated with the Company;

4.22 to borrow and raise money and accept money on deposit and to secure or discharge any debt or obligation of or binding on the Company or any other company and in particular by mortgaging or charging all or any part of the undertaking, property and assets (present or future) and the uncalled capital of the Company, or by the creation and issue, on such terms as may be thought expedient, of securities of any description;

4.23 to undertake interest rate and currency swaps, options, swap option contracts, forward exchange contracts, forward rate agreements, futures contracts or other financial instruments including hedging agreements and derivatives of any kind and all or any of which may be on a fixed and/or floating rate basis and/or in respect of Sterling, any other currencies, basket of currencies including but not limited to European Currency Units (as the same may from time to time be designated or constituted) or commodities of any kind and in the case of such swaps, options, swap option contracts, forward exchange contracts, forward rate agreements, futures contracts or other financial instruments including

hedging agreements and derivatives of any kind they may be undertaken by the Company on a speculative basis or otherwise;

4.24 to undertake any transaction which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or combination of these transactions and whether for the purposes of risk management, on a speculative basis or otherwise;

4.25 to draw, make, accept, indorse, discount, execute, issue, negotiate and deal in promissory notes, bills of exchange, shipping documents and other instruments and securities (whether negotiable, transferable or otherwise) and to buy, sell and deal in foreign currencies;

4.26 to buy, sell, export, manufacture and deal in all kinds of goods, stores and equipment whether in connection with any of the above activities or otherwise and to act as agents for all purposes;

4.27 to apply for, purchase or otherwise acquire any patents, licences, concessions, privileges and like rights, conferring a non-exclusive or

exclusive or limited right to use, or any secret or other information as to any invention which is capable of being used for any of the purposes of the Company, or

the acquisition of which may seem calculated directly or indirectly to benefit the Company and to use, exercise, develop, grant licences in respect of, or otherwise turn to account, the rights and information so acquired;

4.28 to apply for and take out, purchase or otherwise acquire, sell, licence, transfer, deal or trade in any way in trade marks and names, service marks and names, designs, patents, patent rights, inventions, secret processes, know-how and information and any form of intellectual property and to carry on the business of an inventor, designer or research organisation;

4.29 to sell, improve, manage, develop, lease, mortgage, let, charge, dispose of, turn to account, or otherwise deal with all or any part of the undertaking or property or rights of the Company, and to sell the undertaking of the Company, or any part thereof for such consideration as the Company may think fit, and in particular for cash, shares, debentures or debenture stock or other obligations, whether fully paid or otherwise, of any other company;

4.30 to issue and allot securities of the Company for cash or in payment or part payment for any real or personal property purchased or otherwise acquired by the Company or any services rendered to the Company or as security for any obligation or amount (even if less than the nominal amount of such securities) or for any other purpose;

4.31 to give any remuneration or other compensation or reward for services rendered or to be rendered in placing or procuring subscriptions of, or otherwise

assisting in the issue of, any securities of the Company or in or about the formation of the Company or the conduct or course of its business, and to establish or promote, or concur or participate in establishing or promoting, any company, fund or trust and to subscribe for, underwrite, purchase or otherwise acquire securities of any company, fund or trust and to carry on the business of company, fund, trust or business promoters or managers and of underwriters or dealers in securities, and to act as director of, and as secretary, manager, registrar or transfer agent for, any other company;

4.32 to grant or procure the grant of donations, gratuities, pensions, annuities, allowances, or other benefits, including benefits on death, to any directors, officers or employees or former directors, officers or employees of the Company or any company which at any time is or was a subsidiary or a holding company of the Company or another subsidiary of a holding company of the Company or otherwise associated with the Company or of any predecessor in business of any of them, and to the relations, connections or dependants of any such persons, and to other persons whose service or services have directly or indirectly been of benefit to the Company or whom the board of directors of the Company considers have any moral claim on the Company or to their relations, connections or dependants, and to establish or support any funds, trusts, insurances or schemes (including in particular but without detracting from the generality of the foregoing any trust or scheme relating to the grant of any option over, or other interest in, any share in the capital of the Company or of any other company, or in any debenture or security of any corporation or company, including the

Company) or any associations, institutions, clubs or schools, or to do any other thing likely to benefit any such persons or otherwise to advance the interests of such persons or the Company or its members, and to subscribe, guarantee or pay money for any purpose likely, directly or indirectly, to further the interests of such persons or the Company or its members or for any national, charitable, benevolent, educational, social, public, general or useful object;

4.33 to promote or assist in promoting any company or companies in any part of the world and to subscribe shares therein or other securities thereof for the purpose of carrying on any business which the Company is authorised to carry on, or for any other purpose which may seem directly or indirectly calculated to benefit the Company;

4.34 to amalgamate with any other company in any manner whatsoever (whether with or without a liquidation of the Company);

4.35 to procure the Company to be registered or recognised in any country or place in any part of the world;

4.36 to cease carrying on or wind-up any business or activity of the Company, and to cancel any registration of and to wind-up or procure the dissolution of the Company in any state or territory;

4.37 to compensate for loss of office any directors or other officers of the Company and to make payments to any persons whose office, employment or duties may be terminated by virtue of any transaction in which the Company

is engaged;

4.38 to pay out of the funds of the Company the costs, charges and expenses of and incidental to the formation and registration of the Company, and any company promoted by the Company, and the issue of the capital of the Company and any such other company and of and incidental to the negotiations between the promoters preliminary to the formation of the Company, and also all costs and expenses of and incidental to the acquisition by the Company of any property or assets and of and incidental to the accomplishment of all or any formalities which the Company may think necessary or proper in connection with any of the matters aforesaid;

4.39 to effect insurances against losses, damages, risks and liabilities of all kinds which may affect the Company or any subsidiary of it or company associated with it or in which it is or may be interested;

4.40 to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers, employees or auditors of the Company, or of any other company which is its holding company or in which the Company or such holding company has any interest whether direct or indirect or which is in any way allied to or associated with the Company or of any subsidiary undertaking of the Company or of any such other company, or who are or were at any time trustees of any pension fund in which any employees of the Company or of any such other company or subsidiary undertaking are interested, including (without prejudice to the generality of the foregoing) insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their powers

and/or otherwise in relation to their duties, powers or offices in relation to the Company or any such other company, subsidiary undertaking or pension fund and to such extent as may be permitted by law otherwise to indemnify or to exempt any such person against or from any such liability. For the purposes of this clause "holding company" and "subsidiary undertaking" shall have the same meanings as in the Companies Act 1985 (as amended);

4.41 to act as directors or managers of or to appoint directors or managers of any subsidiary company or of any other company in which the Company is or may be interested;

4.42 to contribute by donation, subscription, guarantee or otherwise to any

public, general, charitable, political or useful object whatsoever;

4.43 to distribute among the members in cash, specie or kind any property of the Company, or any proceeds of sale or disposal of any property of the Company, but so that no distribution amounting to a reduction of capital be made except with the sanction (if any) for the time being required by law;

4.44 to do all or any of the above things in any part of the world, and either as principals, agents, trustees, contractors or otherwise and either alone or in conjunction with others, and either by or through agents, sub-contractors, trustees, subsidiaries or otherwise;

4.45 to carry on any other activity and do anything of any nature which in the opinion of the board of directors

of the Company is or may be capable of being conveniently carried on or done by the Company in connection with the above, or may seem to the Company calculated directly or indirectly to enhance the value of or render more profitable all or any part of the Company's undertaking, property or assets or otherwise to advance the interests of the Company or any of its members; and

4.46 to do all such things as in the opinion of the board of directors of the Company are or may be incidental or conducive to the above objects or any of them.

And it is hereby declared that for the purposes of this clause:-

(a) the word "company" shall (except where referring to this Company) be deemed to include any person or partnership or other body of persons, whether incorporated or not incorporated, and whether formed, incorporated, resident or domiciled in the United Kingdom or elsewhere;

(b) "associated companies" shall mean any two or more companies if one has control of the other or others, or any person has control of both or all of them;

(c) "securities" shall include any fully, partly or nil paid or no par value share, stock, unit, debenture or loan stock, deposit receipt, bill, note, warrant, coupon, right to subscribe or convert, or similar right or obligation;

(d) "and" and "or" shall mean "and/or";

(e) "other" and "otherwise" shall not be construed ejusdem generis where a wider construction is possible; and

(f) the objects specified in each paragraph of this clause shall, except if at all where otherwise expressed, be in no way limited or restricted by reference to or inference from the terms of any other paragraph or the name of the Company or the nature of any business carried on by the Company or the order in which such objects are stated, but may be carried out in as full and ample a manner and shall be construed in as wide a sense as if each of the said paragraphs defined the objects of a separate, distinct and independent company.

5. The liability of the members is limited.

6. 2/The Company's share capital is (pound)50,000 divided into 50,000 shares of (pound)1 each.

2/ The authorised share capital was changed from (pound)50,000 divided into 50,000 shares of (pound)1 each to (pound)50,001 divided into 50,000 shares of (pound)1 each and one special rights redeemable preference share of (pound)1 by a resolution passed on 4th April, 1990 which became unconditional on 5th April, 1990.

On 31st October, 1990, the 50,000 issued ordinary shares of (pound)1 each were sub-divided into 500,000 ordinary shares of 10p each and the authorised share capital of the Company increased to (pound)50,000,001 by the creation of 499,500,000 new ordinary shares of 10p each.

The authorised share capital of the Company was increased from (pound)50,000,001 to (pound)250,000,001 by the creation of 2,000,000,000 new ordinary shares of 10p each by a resolution passed on 17th November, 1995 which became unconditional on 11th December, 1995.

WE, the subscribers to this memorandum of association, wish to be formed into a Company pursuant to this memorandum and we respectively agree to take the number of shares shown opposite our respective names.

	Subscribers		Number of shares taken by each subscriber
1.	Signature:	W.F.S. Rickett	One
	Full name:	William Francis Sebastian Rickett	
	Address:	12, Duncan Terrace, London, N1 8BZ	
2.	Signature:	D.F. Pascho	One
	Full name:	David Frederick Pascho	
	Address:	25, Derwent Road, Whitton, Twickenham, Middlesex, TW2 7HQ	
	Total shares taken:		Two

Dated 9th March, 1989

Witness to the above signatures

Signature of Witness:	B.G. Johnson
Full name:	Berenice Germaine Johnson,
Address:	161, Wessex Drive, Erith, Kent, DA8 3AH
	Civil Servant

Registered No. 2367004

The Companies Acts

Public Company Limited by Shares

ARTICLES OF ASSOCIATION

of

THE NATIONAL GRID GROUP plc

(Adopted by a special resolution
passed on 17th November, 1995 which
became unconditional on 11th December, 1995)

Incorporated on 1st April, 1989

McKENNA & Co
Mitre House, 160 Aldersgate Street, London EC1A 4DD
Telephone: 0171-606 9000 Fax: 0171 606 9100
CDE: Box 724
File Ref: 37459-0256 Doc Ref: D1143.GMG

Registered No. 2367004

The Companies Acts

Public Company Limited by Shares

ARTICLES OF ASSOCIATION

of

THE NATIONAL GRID GROUP plc

(Adopted by a special resolution passed on 17th November, 1995 which
became unconditional on 11th December, 1995)

DEFINITIONS AND INTERPRETATION

1. Definitions and interpretation

1.1 In these Articles, the following words and expressions have the meanings set opposite them:-

"Act"	the Companies Act 1985
"Affiliate"	in respect of any company, means every associated company, subsidiary, subsidiary undertaking, holding company or associated company, subsidiary or subsidiary undertaking of a holding company, of such company and for the purposes of this definition the terms

	"subsidiary" and "holding company" shall have the meanings given to them in sections 736, 736A and 736B of the Act as substituted by section 144 of the Companies Act 1989 and the term "subsidiary undertaking" shall have the meaning given to it in section 258 of the Act
"these Articles"	these articles of association as originally adopted or as altered from time to time
"associated company"	an undertaking in which a company has a participating interest (as defined in section 260 of the Act) which is not a subsidiary of such company
"Auditors"	the auditors of the Company for the time being or, in the case of joint auditors, any one of them
"Board"	the board of Directors from time to time of the Company or those Directors present at a duly convened meeting of the Directors at which a quorum is present
"clear	days" in relation to the period of a notice, that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect

"Director"	a director for the time being of the Company
"holder"	in relation to shares, the member whose name is entered in the Register as the holder of the shares
"Introduction"	the commencement of dealings in the ordinary shares of the Company on the London Stock Exchange
"London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"member"	a member of the Company
"NGG Group"	the Company and each of its wholly owned subsidiaries from time to time. For the purposes of this definition the term "wholly owned subsidiary" shall have the meaning given to it in sections 736, 736A and 736B of the Act as substituted by section 144 of the Companies Act 1989
"Office"	the registered office of the Company
"paid up"	paid up or credited as paid up
"person entitled by transmission"	a person entitled to a share in consequence of the death or bankruptcy of a member or of any other event giving rise to its

	transmission by operation of law and whose name is entered in the Register in respect of the share
"recognised	clearing house" a recognised clearing house within the meaning of the Financial Services Act 1986 acting in relation to a recognised investment exchange
"recognised investment exchange"	a recognised investment exchange within the meaning of the Financial Services Act 1986

"REC"	any one of Eastern Group plc, East Midlands Electricity plc, London Electricity plc, Manweb plc, Midlands Electricity plc, Northern Electric plc, NORWEB plc, SEEBOARD plc, South Wales Electricity plc, South Western Electricity plc, Southern Electric plc and Yorkshire Electricity plc
"Register"	the register of members of the Company
"Restricted Person"	any Pool Member (as such term is defined in the Pooling and Settlement Agreement dated 30th March, 1990 in the form in force at the Introduction) or the holder of a licence under the Electricity Act 1989, or, in either case, any Affiliate thereof or the trustees (acting in that capacity) of

	any trust established by such person or Affiliate thereof
"Retaining REC Group"	any REC, together with all its subsidiaries, any holding company of that REC and all other subsidiaries of that holding company, except any such company which is a Permitted Person (as defined in Article 56(2)(f) below) which together have an interest in shares in the Company which in aggregate carry the right to cast 1 per cent. or more of the total votes attaching to the Relevant Share Capital (as defined in Article 56(2)(h) below) of all classes (taken as a whole) and capable of being cast on a poll and, for the purposes of this definition, the terms "holding company" and "subsidiary" shall have the meanings given to them in sections 736, 736A and 736B of the Act as substituted by section 144 of the Companies Act 1989
"Seal"	the common seal of the Company or any official seal kept by the

	Company pursuant to the Statutes
"Secretary"	the secretary of the Company or any other person appointed to perform the duties of the secretary of the Company, including a joint, assistant or deputy secretary and any person appointed to

	perform the duties of secretary temporarily or in any particular case
"Special Share"	the one special rights redeemable preference share of (pound)1
"Special Shareholder"	the holder of the Special Share
"Statutes"	every statute (including any statutory instrument, order, regulation or subordinate legislation made under it) for the time being in force concerning companies and affecting the Company
"Transmission Licence"	the licence to transmit electricity for the purpose of enabling a supply to be given to any premises or enabling a supply to be so given in England (other than the Scilly Isles) and Wales, which was granted to The National Grid Company plc on 26th March, 1990 pursuant to section 6(1)(b) of the Electricity Act 1989, as amended from time to time, or any licence which succeeds or replaces all or part of such licence
"Transmission Licence Holder"	the holder from time to time of the Transmission Licence (at the Introduction being The National Grid Company plc)
"United Kingdom"	Great Britain and Northern Ireland.

1.2 The expressions "debenture" and "debenture holder" include "debenture

stock" and "debenture stockholder".

References to writing include any method of reproducing or representing words in a legible and non-transitory form.

References to a document being executed include references to its being executed under hand or under seal or by any other method.

Unless the context otherwise requires, any words or expressions defined in the Statutes bear the same meaning in these Articles (or any part of these Articles) as the meaning in force at the date of the adoption of these Articles (or that part), save that the word "company" shall include any body corporate.

A reference to a statute or a statutory provision includes any amendment or re-enactment of it.

Words importing the singular number only include the plural and vice versa. Words importing the masculine gender include the feminine and neuter gender. Words importing persons include corporations.

References to a meeting shall not be taken as requiring more than one person to be present if any quorum requirement can be satisfied by one person.

Headings and paragraph (1) of Article 56 are inserted for convenience only and shall not affect the construction of these Articles.

2. Table "A" excluded

None of the regulations contained in Table A in the Schedule to the Companies (Tables A to F) Regulations 1985 or any other Statute shall apply to the Company.

3. Form of resolutions

A special or extraordinary resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under the Statutes or these Articles and a special resolution shall be effective for any purpose for which an extraordinary resolution is expressed to be required.

SHARE CAPITAL

4. Share capital

At the date of adoption of these Articles, the share capital of the

Company is (pound)250,000,001 divided into 2,500,000,000 ordinary shares of 10p each and one special rights redeemable preference share of (pound)1.

5. Rights attached to shares

Subject to the Statutes and without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine (or, in the absence of any such determination or in so far as such ordinary resolution does not make specific provision, as the Board may determine).

6. Redeemable shares

Subject to the Statutes and without prejudice to any rights attached to any existing shares, shares may be issued which are to be redeemed or which are liable to be redeemed at the option of the Company or of the holder on such terms and in such manner as may be provided for by these Articles.

7. Unissued shares

Subject to the Statutes and these Articles, the Board may offer, allot, grant options over, or otherwise dispose of unissued shares or rights to subscribe for, or to convert any security into, such shares to such persons and on such terms as they think fit.

8. Payment of commissions

The Company may exercise the powers of paying commissions and brokerage conferred or permitted by the Statutes. Subject to the Statutes, any such commission may be satisfied by the payment of cash or by the allotment (or an option to call for the allotment) of fully or partly paid shares or partly in one way and partly the other.

9. Trusts not recognised

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or recognise (except as otherwise provided by these Articles or by law or under an order of a court of competent jurisdiction) any interest in any share except an absolute right to the whole of the share in the holder.

10. Variation of rights

Subject to the Statutes, all or any of the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. The provisions of the Statutes and of these Articles relating to general meetings shall mutatis mutandis apply to any such separate meeting, except that: (a) the necessary quorum shall be a person or persons holding or representing by proxy not less than one-third in nominal amount of the issued shares of that class or, at any adjourned meeting of holders of shares of that class at which such a quorum is not present, shall be any such holder who is present in person or by proxy whatever the number of shares held by him; (b) any holder of shares of that class present in person or by proxy may demand a poll; and (c) every holder of shares of that class shall on a poll have one vote in respect of every share of that class held by him.

11. Matters not constituting a variation of rights

The rights attached to any share or class of shares shall not, unless otherwise expressly provided by its terms of issue, be deemed to be varied by:

(a) the creation or issue of further shares ranking pari passu with it; or

(b) the purchase by the Company of any of its own shares.

SHARE CERTIFICATES

12. Right to certificates

Every person, whose name is entered in the Register as a holder of shares in the Company, shall be entitled, within the time specified by the Statutes and without payment, to one certificate for all the shares of each class registered in his name. Upon a transfer of part of the shares of any class registered in his name, every holder shall be entitled without payment to one certificate for the balance of his holding. Upon request and upon payment, for every certificate after the first, of such reasonable sum (if any) as the Board may determine, every holder shall be entitled to receive several certificates for shares of one class registered in his name (subject to surrender for cancellation of any existing certificate representing such shares). Every holder shall be entitled to receive one certificate in substitution for several certificates for shares of one class registered in his name upon surrender to the Company of all the share certificates representing such shares. No certificate will normally be issued in respect of shares held by a

recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange.

13. Issue of certificate to joint holders

The Company shall not be bound to issue more than one certificate in respect of shares registered in the names of two or more persons and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

14. Sealing of certificates

Every certificate for shares shall be issued under the Seal (or in such other manner as the Board, having regard to the terms of issue, the Statutes and the regulations of the London Stock Exchange, may authorise) and shall specify the shares to which

it relates, the distinguishing number (if any) of the shares and the amount paid up on the shares.

15. Replacement certificates

If a share certificate is worn out, defaced or damaged then, upon its surrender to the Company, it shall be replaced free of charge. If a share certificate is or is alleged to have been lost or destroyed it may be replaced without fee but on such terms (if any) as to evidence and indemnity and to payment of any exceptional out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board thinks fit.

LIEN

16. Company's lien

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company's lien on a share shall extend to any amount payable in respect of it. The Board may at any time resolve that any share shall be wholly or in part exempt from this Article.

17. Enforcing lien by sale after notice

The Company may sell, in such manner as the Board determines, any shares on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within fourteen clear days after a notice has been given to the holder of the share or the person entitled by transmission to

his share, demanding payment and stating that if the notice is not complied with the shares will be sold.

18. Manner of sale

To give effect to a sale, the Board may authorise some person to execute an instrument of transfer of the shares sold to, or in accordance with the directions of, the purchaser. The transferee shall not be bound to see to the application of the purchase money and his title to the shares shall not be affected by any irregularity or invalidity of the proceedings in reference to the sale.

19. Application of sale proceeds

The net proceeds of the sale, after payment of the costs, shall be applied in or towards payment of so much of the sum for which the lien exists as is presently payable, and any residue shall (upon surrender to the Company for cancellation of the certificate for the shares sold and subject to a like lien for any moneys not presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares immediately before the sale.

CALLS ON SHARES

20. Calls

Subject to the terms of issue, the Board may from time to time make calls upon the members in respect of any money unpaid on their shares (whether in respect of the nominal amount or by way of premium). Each member shall (subject to receiving at least fourteen clear days' notice specifying when and where payment is to be made) pay to the Company as required by the notice the

amount called on his shares. A call may be made payable by instalments. A call may, at any time before receipt by the Company of any sum due under the call, be revoked in whole or in part and payment of a call may be postponed in whole or in part, as the Board may determine. A person upon whom a call is made shall remain liable for all calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made.

21. Time of call

A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed.

22. Liability of joint holders

The joint holders of a share shall be jointly and severally liable to pay all calls in respect of the share.

23. Interest

If a call remains unpaid after it has become due and payable, the person from whom it is due and payable shall pay all costs, charges and expenses that the Company may have incurred by reason of such non-payment, together with interest on the amount unpaid from the day it became due and payable until the day it is paid at the rate fixed by the terms of issue of the share or in the notice of the call or, if no rate is fixed, at the appropriate rate (as defined by the Act) but the Board may waive payment of the interest wholly or in part.

24. Sums due on allotment or by way of instalment treated as calls

An amount payable in respect of a share on allotment or at any fixed date, whether in respect of the nominal amount of the share or by way of premium or as an instalment of a call, shall be deemed to be a call and, if it is not paid these Articles shall apply as if that amount had become due and payable by virtue of a call.

25. Power to differentiate

Subject to the terms of issue, the Board may, on the issue of shares, differentiate between the allottees or holders in the amount of calls to be paid and the times of payment.

26. Advance payment of calls

The Board may, if it thinks fit, receive from any member willing to advance them all or any part of the moneys unpaid and uncalled upon the shares held by him and may pay interest upon the moneys so advanced (to the extent such moneys exceed the amount of the calls due and payable upon the shares in respect of which they have been advanced) at such rate (not exceeding 15 per cent. per annum unless the Company by ordinary resolution otherwise directs) as the Board may determine. A payment in advance of calls shall extinguish, to the extent of it, the liability upon the shares in respect of which it is advanced.

FORFEITURE OF SHARES

27. Notice if call not paid

If a call or instalment of a call remains unpaid after it has become due and payable, the Board may at any time serve a notice on the holder requiring payment of so much of the call or instalment as remains unpaid together with any interest which

may have accrued thereon and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name a further day (not being less than fourteen clear days from the date of the notice) on or before which, and the place where the payment required by the notice is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made or instalment is payable will be liable to be forfeited. The Board may accept the surrender of any share liable to be forfeited and, in such case, references in these Articles to forfeiture shall include surrender.

28. Forfeiture if notice not complied with

If the notice is not complied with, any share in respect of which the notice was given may, before payment of all calls or instalments and interest due in respect of it is made, be forfeited by (and with effect from the time of the passing of) a resolution of the Board that such share be forfeited. The forfeiture shall include all dividends declared and other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

29. Notice of forfeiture

When any share has been forfeited, notice of the forfeiture shall be served upon the person who was, before the forfeiture, the holder of the share, but a forfeiture shall not be invalidated by any failure to give such notice. An entry of such notice and an entry of the forfeiture with the date thereof shall forthwith be made in the Register in respect of such share. However, no forfeiture shall be invalidated by any omission to make such entries as aforesaid.

30. Sale of forfeited share

Until cancelled in accordance with the Statutes, a forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was the holder before the forfeiture or to any other person, upon such terms and in such manner as the Board thinks fit. To give effect to a sale or other disposal, the Board may authorise a person to execute an instrument of transfer to the designated transferee. The Company may receive any consideration given for the share on its disposal and may register the transferee as holder of the

share. At any time before a sale, re-allotment or other disposition, the forfeiture may be cancelled on such terms as the Board thinks fit.

31. Arrears to be paid notwithstanding forfeiture

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares and shall surrender to the Company for cancellation the certificate for the forfeited shares but shall remain liable to the Company for all moneys which at the date of forfeiture were presently payable by him to the Company in respect of those shares with interest thereon from the date of forfeiture until payment at such rate (not exceeding fifteen per cent. per annum) as the Board may determine. The Board may waive payment wholly or in part and the Board may enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal.

32. Statutory declaration and validity of sale

A statutory declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive

evidence of the facts stated in it as against all persons claiming to be entitled to the share. The declaration shall (subject to the execution of an instrument of transfer, if necessary) constitute a good title to the share and the person to whom the share is disposed of shall be registered as the holder of the share and shall be discharged from all calls made prior to such disposition and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale, re-allotment or other disposal of the share.

UNTRACED SHAREHOLDERS

33. Power to sell shares of untraced shareholders

The Company shall be entitled to sell at the best price reasonably obtainable any shares of a holder or any shares to which a person is entitled by transmission if in respect of those shares:-

33.1 for a period of at least twelve years (the "qualifying period"), no cheque, warrant or other financial instrument sent by the Company in the manner authorised by these Articles has been cashed; the Company has paid at least three dividends and no dividend has been claimed;

33.2 the Company has at the expiration of the qualifying period given notice of its intention to sell such shares by two advertisements, one in a national newspaper published in the United Kingdom and the other in a newspaper

circulating in the area in which the last known address of the holder or the address at which

service of notices may be effected in the manner authorised by these articles is located;

33.3 so far as the Board is aware, the Company has not during the qualifying period or the period of three months after the date of such advertisements (or the later of the two dates if they are published on different dates) and prior to the exercise of the power of sale received any communication from the holder or person entitled by transmission; and

33.4 if any part of the share capital of the Company is admitted to the Official List of the London Stock Exchange, the Company has given notice in writing to the Listing Department of the London Stock Exchange of its intention to sell such share.

34. Manner of sale and creation of debt in respect of net proceeds

To give effect to any such sale, the Board may authorise a person to execute an instrument of transfer of the shares and such instrument of transfer shall be as effective as if it had been executed by the holder of, or person entitled by transmission to, the shares. The transferee shall not be bound to see to the application of the purchase money and his title shall not be affected by any irregularity in, or invalidity of, the proceedings relating to the sale. The net proceeds of sale shall belong to the Company which shall be indebted to the former holder or person entitled by transmission for an amount equal to such proceeds and shall enter the name of such former member or other person in the books of the Company as a creditor for such amount. No trust shall be created in respect of the debt, no interest shall be payable in respect of it and the Company shall not be required to account for any moneys earned

on the net proceeds, which may be employed in the business of the Company or otherwise invested as the Board thinks fit.

TRANSFER OF SHARES

35. Form and execution of transfer

35.1 Subject to such of the restrictions of these Articles as may be applicable, a member may transfer all or any of his shares by an instrument of transfer in any usual form or in any other form which the Board may approve. A transfer shall be executed by or on behalf of the transferor and (unless the share is fully paid) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the

share until the name of the transferee is entered in the Register in respect of it.

35.2 Notwithstanding any other provisions of these Articles, title to any securities of the Company may be evidenced and transferred without a written instrument in accordance with statutory regulations from time to time made and the Board shall have power to implement any arrangements it may think fit for such evidencing and transfer which accord with those regulations.

36. Right to refuse registration of partly paid share

The Board may refuse to register the transfer of a share which is not fully paid without giving any reason for so doing provided that where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis.

37. Other rights to refuse registration

The Board may also refuse to register the transfer of a share:-

37.1 if it is not lodged, duly stamped (if necessary), at the Office or at such other place as the Board may appoint and accompanied by the certificate for the shares to which it relates (where a certificate has been issued in respect of the shares) and/or such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

37.2 if it is not in respect of one class of share only;

37.3 if it is not in favour of four or less transferees; or

37.4 if it is in favour of a minor, bankrupt or person of mental ill health.

38. Notice of refusal

If the Board refuses to register a transfer it shall, within two months after the date on which the transfer was lodged, send to the transferee notice of the refusal.

39. Suspension of registration

The registration of transfers may be suspended at such times and for such periods (not exceeding thirty days in any calendar year) as the Board may determine.

40. No fee for registration

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

41. Retention of documents

Any instrument of transfer which is registered may be retained by the Company, but any instrument of transfer which the Board refuses to register shall be returned to the person lodging it when notice of the refusal is given.

42. Destruction of documents

42.1 The Company may destroy:-

42.1.1 any instrument of transfer of shares and any other document on the basis of which an entry is made in the Register, at any time after the expiration of six years from the date of registration;

42.1.2 any instruction concerning the payment of dividends or other moneys in respect of any share or any notification of change of name or address, at any time after the expiration of two years from the date the instruction or notification was recorded; and

42.1.3 any share certificate which has been cancelled, at any time after the expiration of one year from the date of cancellation;

provided that the Company may destroy any such type of document after such shorter period as the Board may determine if a copy

of such document is retained on microfilm or by other similar means.

42.2 It shall conclusively be presumed in favour of the Company that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every share certificate so destroyed was a valid and effective document duly and properly cancelled and that every other document so destroyed was a valid and effective document in accordance with its particulars recorded in the books or records of the Company provided that :-

42.2.1 this Article shall apply only to the destruction of a document in good faith and without express notice that its retention was relevant to any claim (regardless of the parties to the claim);

42.2.2 nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than the times mentioned above or in any case where the conditions of Article 42.2.1 are not fulfilled; and

42.2.3 references in this Article to the destruction of any document include references to its disposal in any manner.

TRANSMISSION OF SHARES

43. Transmission on death

If a member dies, the survivor or survivors where he was a joint holder, and his personal representatives where he was a sole

holder or the only survivor of joint holders shall be the only persons recognised by the Company as having any title to his shares; but nothing contained in this Article shall release the estate of a deceased member from any liability in respect of any share solely or jointly held by him.

44. Election by person entitled by transmission

Any person becoming entitled to a share in consequence of the death or bankruptcy of a member or of any other event giving rise to its transmission by operation of law may, upon such evidence being produced as the Board may require, elect either to become the holder of the share or to have some person nominated by him registered as the transferee. If he elects to become the holder, he shall give notice to the Company to that effect. If he elects to have another person registered, he shall execute a transfer of the share in favour of that person. All the provisions of these Articles relating to the transfer of shares shall apply to the notice or instrument of transfer as if the death or bankruptcy of the member or other event giving rise to the transmission had not occurred and the notice or instrument of transfer was an instrument of transfer executed by the member.

45. Rights in respect of the share

A person becoming entitled to a share in consequence of the death or bankruptcy of a member or of any other event giving rise to its transmission by operation of law shall have the same rights to which he would be entitled if he were the holder of that share, except that he shall not be entitled in respect of it to attend or vote at any general meeting of the Company or at any separate meeting of the holders of any class of shares in the Company until he is registered as the holder of the share.

The Board may at any time give notice to such person requiring him to elect either to become the holder of the share or to transfer the share and if the notice is not complied with within sixty clear days from the date of the notice, the Board may withhold payment of all dividends and other moneys payable in respect of the share until he complies with the notice.

ALTERATION OF CAPITAL

46. Increase, consolidation, sub-division and cancellation

The Company may by ordinary resolution:-

46.1 increase its share capital by new shares of such amount as the resolution prescribes;

46.2 consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

46.3 subject to the Statutes, sub-divide its shares, or any of them, into shares of smaller amount and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage or be subject to any restrictions as compared with the others; and

46.4 cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

47. Fractions

Whenever as a result of a consolidation, division or subdivision of shares any member would become entitled to fractions of a share, the Board may deal with the fractions as it thinks fit and, in particular, may sell the shares representing the fractions to any person (including, subject to the Statutes, the Company) and may distribute the net proceeds of sale in due proportion among those members save for amounts of (pound)3.00 or less which shall be retained for the benefit of the Company. To give effect to any such sale, the Board may authorise a person to transfer or deliver the shares to, or in accordance with the directions of, the purchaser. The transferee shall not be bound to see to the application of the purchase money and his title shall not be affected by any irregularity in, or invalidity of, the proceedings relating to the sale.

48. Reduction of capital

Subject to the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account or other undistributable reserve in any manner.

STOCK

49. Conversion of shares into stock

The Company may by ordinary resolution convert any fully paid up shares into stock and re-convert any stock into fully paid up shares of any denomination.

50. Transfer of stock

Stock may be transferred in accordance with these Articles which, prior to conversion, applied to the shares from which the stock arose or as near thereto as circumstances allow, but the Board may from time to time fix the minimum amount of stock which is transferable (which minimum amount shall not exceed the nominal amount of the shares from which the stock arose), in which case stock may be transferred in the sum of the minimum amount or a multiple of it.

51. Rights attaching to stock

A holder of stock shall, according to the amount of the stock held by him, have the same rights as if he held the shares from which the stock arose, but no such rights (except participation in dividends and in assets on a winding-up) shall be conferred by an amount of stock which would not, if existing in shares, have conferred those rights.

52. Articles applicable to stock

The provisions of these Articles applicable to paid up shares shall apply to stock, and the words "share" and "holder" shall include "stock" and "stockholder".

PURCHASE OF OWN SHARES

53. Purchase of own shares

Subject to the Statutes and to any rights conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class (including any redeemable shares). If any shares of the Company convertible into shares of another class are outstanding, the Company may not purchase any of its shares unless the purchase has been sanctioned (at

the time that authority for a market purchase is given or an off-market purchase contract is approved) by such resolution of the Company as may be required by the Statutes and by an extraordinary resolution passed at a separate general meeting (or meetings if there is more than one class) of the holders of the convertible shares. Neither the Company nor the Board shall be required to select the shares to be purchased rateably or in any particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital attached to any class of shares.

SPECIAL PROVISIONS

54. The Special Share

(1) The Special Share may only be issued to, held by and transferred to one of Her Majesty's Secretaries of State, another Minister of the Crown, the Solicitor for the affairs of Her Majesty's Treasury or any other person acting on behalf of the Crown.

(2) Notwithstanding any provision in these Articles to the contrary, each of the following matters shall be deemed to be a variation of the rights attaching to the Special Share and shall accordingly be effective only with the consent in writing of the Special Shareholder and without such consent shall not be done or caused to be done:-

(a) the amendment, or removal, or the alteration of the effect of (which, for the avoidance of doubt, shall be taken to include the ratification of any breach of) all or any of the following:-

(i) in Article 1, the definitions of "Act, "Affiliate", "associated company", "Board", "company", "Introduction", "NGG Group", "recognised clearing house", "recognised investment exchange", "REC", "Restricted Person", "Retaining REC Group", "Special Share", "Special Shareholder", "Transmission Licence" and "Transmission Licence Holder";

(ii) this Article;

(iii) Article 55 (save to the extent that any amendment, removal or alteration thereof is required to comply with the Listing Rules of the London Stock Exchange, as amended from time to time); and

(iv) Articles 56 and 57;

(b) the creation or issue of any shares in the Company with voting rights attached, not being:-

(i) shares comprised or shares which would, following issue, be comprised in the relevant share capital (as defined in section 198(2) of the Act) of the Company; or

(ii) shares which do not or shares which, following issue, would not constitute equity share capital (as defined in

section 744 of the Act) and which, when aggregated with all other such shares, carry (or would, if in issue, carry) the right to cast less than 15 per cent. of the maximum number of votes capable of being cast on a poll on any resolution at any general meeting of the Company (whether or not the votes could be cast on a poll in relation to all resolutions at all general meetings);

(c) the variation of any rights (save for dividend rights and rights to repayment of capital) attached to any shares in the Company (and, for the avoidance of doubt, the creation or issue of shares falling within sub-paragraph (b)(i) or (ii) above shall not be regarded as a variation for the purposes of this sub-paragraph);

(d) the disposal by the Company or the disposal by any other member of the NGG Group, to any person who is not a member of the NGG Group, of all or any of the shares or of any rights or interests therein held by such company in the Transmission Licence Holder or in any company which directly or indirectly holds shares therein, or the entering into by the Company or any other member of the NGG Group of any agreement or arrangement with any person who is not a member of the NGG Group with respect to, or to

the exercise of any rights attaching to, such shares;

(e) any scheme or arrangement which if put into effect would relieve the Transmission Licence Holder or any other Affiliate of the Company of, or otherwise modify, the obligations required to be imposed on such person by the Company by virtue of the provisions of Article 57;

(f) the voluntary winding-up of the Company, a special resolution to the effect that the Company should be wound up by the court, the presentation by the Company or by the Directors (whether solely or jointly with each other or with any other person) of a petition for the winding-up of the Company by the court or any proposal for any of the foregoing;

(g) the presentation by the Company (whether solely or jointly with any other person) of a petition to the court for, or the exercise by the Company of any rights in support of, the winding-up of the Transmission Licence Holder or any proposal for either of the foregoing;

(h) the presentation by the Company or by the Directors (whether solely or jointly with each other or with any other person) of a petition applying for an administration order pursuant to section 9 of the Insolvency Act 1986 or any proposal therefor;

(i) the proposal by the Board of a voluntary arrangement pursuant to section 1 of the Insolvency Act 1986; and

(j) the establishment of a holding company for the Company.

(3) (a) For the purposes of paragraph (2)(d) of this Article:

(i) "disposal" shall include any sale, exchange, gift, lease, licence, mortgage, charge or the grant of any other encumbrance or the permitting of any encumbrance to subsist or any other disposition to a third party; and

(ii) "agreements or arrangements" shall include all agreements or arrangements of the type

contemplated by section 204(2)(a) of the Act (as if that section extended to all shares in the relevant company howsoever acquired).

(b) For the purpose of paragraph (2)(j)of this Article the term "holding company" shall have the meaning given to it in sections 736, 736A and 736B of the Act as substituted by section 144 of the Companies Act 1989.

(4) The Special Shareholder shall be entitled to receive notice of, and to attend and speak at, any general meeting or any separate meeting of the holders of any class of shares, but the Special Share shall carry no right to vote nor any other rights at any such meeting.

(5) In a distribution of capital in the winding-up of the Company, the Special Shareholder shall be entitled to repayment of the capital paid up or treated for the purposes of the Act as paid up on the Special Share in priority to any repayment of capital to any other

member. The Special Share shall confer no other right to participate in the capital, and no right to participate in the profits, of the Company.

(6) The Special Shareholder may, after consulting the Company and subject to the provisions of the Act, require the Company to redeem the Special Share at par at any time by giving notice to the Company and delivering to it the relevant share certificate.

55. Disclosure of Interests

(1) If a member, or any other person appearing to be interested in shares held by that member, has been given notice under section 212 of the Act, he shall, if requested, also be obliged, in addition to giving the Company the information thereby required, to notify the Company if he is a Relevant Person (as defined in Article 56(2)(g) below) or a Restricted Person. If he has failed in relation to any shares (the "default shares") to give the Company the information required from him under the notice within the prescribed period from the date of the notice, the following sanctions shall apply (subject to paragraph (6) below), unless the Board otherwise determines:

(a) the member shall not be entitled in respect of the default shares to attend or vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares;

and

(b) where the default shares represent 0.25 per cent. or more of their class:

(i) any dividend (including any non-cash dividend) or money payable in respect of the shares shall be withheld by the Company, which shall not have any obligation to pay interest on it, and the member shall not be entitled to elect, pursuant to Article 137 below, to receive shares instead of that dividend; and

(ii) no transfer, other than an approved transfer, of any shares held by the member shall be registered unless:

(A) the member is not himself in default as regards supplying the information required; and

(B) the member provides evidence to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

(2) Where the sanctions under paragraph (1) above apply in relation to any shares, they shall cease to have effect -

(a) if the shares are transferred by means of an approved transfer; or

(b) when the Board is satisfied that the information required by the notice mentioned in that paragraph has been received in writing by the Company.

(3) For the purposes of this Article -

(a) a person other than the member holding a share shall be treated as appearing to be interested in that share if the member has informed the Company

that the person is, or may be, so interested, or if the Company (after taking account of any information obtained from the member or, pursuant to a section 212 notice, from anyone else) knows or has reasonable cause to believe that the person is, or may be, so interested;

(b) "interested" shall be construed as it is for the purpose of section 212 of the Act;

(c) reference to a person having failed to give the Company the information required by a notice, or being in default as regards supplying such information, includes (i) reference to his having failed or refused to give all or any part of it and (ii) reference to his having given information which he knows to be false in a material particular or having recklessly given information which is false in a material particular;

(d) "the prescribed period" means -

(i) in a case where the default shares represent at least 0.25 per cent of their class, fourteen days; and

(ii) in any other case, twenty-eight days;

(e) an "approved transfer" means, in relation to any shares held by a member:-

(i) a transfer pursuant to acceptance of an offer made to all the holders (or all the holders other than the person making the offer and his associates (as such term is defined in section 430E of the Act)) of the shares in the Company to acquire those shares or a specified proportion of them, or to all the holders (or all the holders other than the person making the offer and his associates (as such term is defined in Section 430E of the Act)) of a particular class of those shares to acquire the shares of that class or a specified proportion of them; or

(ii) a transfer in consequence of a sale made

through a recognised clearing house, a recognised investment exchange or other stock exchange outside the United Kingdom on which the Company's shares are normally traded; or

(iii) a transfer which is shown to the satisfaction of the Board to be made in consequence of a sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person

appearing to be interested in the shares.

(4) Where, on the basis of information obtained from a member in respect of any share held by him, the Company gives a notice under section 212 of the Act to any other person, it shall at the same time send a copy of the notice to the member, but the accidental omission to do so, or the non-receipt by the member of the copy, shall not invalidate or otherwise affect the application of paragraph (1) above.

(5) Where the member on whom the notice under section 212 of the Act is served is the ADR Depositary (as defined in Article 56(2)(a)) acting in its capacity as such, the obligations of the ADR Depositary as a member pursuant to the preceding provisions of this Article shall be limited to disclosing to the Company such information relating to the shares in question as has been recorded pursuant to the terms entered into between the ADR Depositary and the Company provided that nothing in this paragraph (5) shall in any other way restrict the powers of the Board under this Article.

(6) Where a notice under section 212 of the Act is served upon the ADR Depositary acting in its capacity as such, or upon any other person appearing to be interested in shares held by the ADR Depositary, the sanctions under paragraph (1) shall not be effective unless the Company serves upon the ADR Depositary a notice stating that a specified ADR Holder or ADR Holders (as defined in Article 56(16)) is or are believed to be interested in a specified number of shares, and that those shares are default shares (as defined in paragraph (1)).

56. Limitations on Shareholdings

(1) The purpose of this Article is to prevent:

(a) any person (other than a Permitted Person as defined below) directly or indirectly having or controlling the right to cast on a poll 15 per cent. or more of the votes at general meetings of the Company;

(b) Restricted Persons directly or indirectly having or controlling the right to cast on a poll at general meetings of the Company percentages equal to or in excess of such lower percentages of the votes as are set out in paragraph (2)(g) below; and

(c) any Retaining REC Group from exercising any right to cast on a poll 1 per cent. or more of the votes at general meetings of the Company.

(2) In this Article:-

(a) "ADR Depositary" means a custodian or depositary or his nominee, approved by the Board, under contractual arrangements with the Company by which he or that nominee holds shares in the Company and he or another person issues American Depositary Receipts evidencing rights in relation to those shares or a right to receive them;

(b) "Additional Interest" means any such interest as is referred to in paragraph (d)(ii) below;

(c) "ADR Holder" is as defined in paragraph (16) below;

(d) "interest", in relation to shares, means:-

(i) any interest which would be taken into account in determining for the purposes of Part VI of the Original Act whether a person has a notifiable interest (including any interest which he would be taken as having for those purposes); and

(ii) any interest (an "Additional Interest") mentioned in section 209(1)(a), (b), (d), (e), (g) or (h) of the Original Act (except that of a bare or custodian trustee under the laws of England and Wales and of a simple trustee under the

laws of Scotland) or mentioned in section 208(4)(b) of the Original Act (but on the basis that the entitlement there referred to could arise under an agreement within the meaning in section 204(5) and (6) of the Act), and "interested" shall be construed accordingly;

(e) "the Original Act" means the Companies Act 1985 as in force at the date of adoption of this Article and notwithstanding any repeal, modification or re-enactment thereof after that date (including for the avoidance of doubt, any amendment, replacement or repeal by regulations made by the Secretary of State pursuant to section 210A of the Act to the definition of relevant share capital in section 198(2) or to the provisions as to what is taken to

be an interest in shares in section 208 or as to what interests are to be disregarded in section 209 or the percentage giving rise to a notifiable interest in section 199(2));

(f) "Permitted Person" means:-

(i) an ADR Depositary, acting in its capacity as such;

(ii) a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange, in each case acting in its capacity as such;

(iii) the chairman of a meeting of the Company or of a meeting of the holders of Relevant Share Capital or of any class thereof when exercising the voting rights conferred on him under paragraph (10) below;

(iv) a trustee (acting in that capacity) of any employees' share scheme of the Company;

(v) any person who has an interest but who, if the incidents of his interest were governed by the laws of England and Wales, would in the opinion of the

Board be regarded as a bare trustee of that interest, in respect of that interest only;

(vi) an underwriter in respect of interests in shares which exist only by virtue of a contingent obligation to purchase or subscribe for such shares pursuant to an underwriting or sub-underwriting agreement approved by the Board or in respect of interests in shares purchased or subscribed for by it pursuant to such an obligation;

(vii) any other person who under arrangements approved by the Board subscribes or otherwise acquires Relevant Share Capital (or interests therein) which has been allotted or issued with a view to that person (or purchasers from that person) offering the same to the public, for a period not exceeding three months from the date of the relevant allotment or issue (and in respect only of the shares so subscribed or otherwise acquired);

(viii) Japan Securities Clearing Corporation and/or its nominee acting in its capacity as a clearing house in respect of dealings on the Tokyo Stock Exchange;

(ix) The Depository Trust Company and/or its nominee acting in the capacity of a clearing agency in respect of dealings in American Depositary Receipts; or

(x) any person who has an interest, and who shows to the satisfaction of the Board that he has it by virtue only of being entitled to exercise or control the exercise (within the meaning of section 203(4) of the Original Act) of one-third or more of the voting power at general meetings of a company which is

a Permitted Person within (i) to (ix) above;

(g) "Relevant Person" means:

(i) any person (whether or not identified and regardless of whether he in addition falls within paragraphs (2)(g)(ii) or (2)(g)(iii) below) who has, or who appears to the Board to have, an interest in shares which carry the right to cast 15 per cent. or more of the total votes attaching to Relevant Share Capital of all classes (taken as a whole) and capable of being cast on a poll;

(ii) any person (whether or not identified) who is, or who appears to the Board to be, a Restricted Person having an interest in shares which carry the right to cast 1 per cent. or more of the total votes attaching to Relevant Share Capital of all classes (taken as a whole) and capable of being cast on a poll, save that a Retaining REC Group

(including any Restricted Person within such a Group) shall not be a Relevant Person solely by reason of the fact that it holds an interest up to, but not greater than, such interest as would render it a Relevant Person under paragraph (2)(g)(iii) below (and for the purposes of this paragraph (2)(g)(ii), until the first anniversary of the Introduction, the term "person" is to be regarded as including a Retaining REC Group); or

(iii) subject to paragraph (3) below, any Retaining REC Group which has, or appears to the Board to have, an interest (an "increased interest") in shares which carry the right to cast a percentage of the total votes attaching to Relevant Share Capital of all classes (taken as a whole) and capable of being cast on a poll greater than

that corresponding to the interest in such shares which is the smallest of either the aggregate of the interests which members of the Retaining REC Group had at the Introduction (the "Aggregate Interest") or, in the event that such Retaining REC Group makes any disposals to any person outside that Retaining REC Group of any such shares after the Introduction, that interest which is the Aggregate Interest less the interest so disposed of, save where

such increased interest has arisen solely as a result of the redemption, purchase or cancellation by the Company of its own shares or to the extent that any re-acquisition of shares by such Retaining REC Group results in it having an interest up to, but not greater than, such interest as would render it a Relevant Person under paragraph (2)(g)(ii) above;

(h) "Relevant Share Capital" means the relevant share capital (as defined in section 198(2) of the Original Act), and references therein to the temporary suspension of voting rights shall for the purposes of this Article include shares subject to the provisions of Article 56(4);

(i) "Relevant Shares" means all shares comprised in the Relevant Share Capital in which a Relevant Person has, or appears to the Board to have, an interest or which are deemed for the purposes of this Article to be Relevant Shares; and

(j) "Required Disposal" means a disposal or disposals of such a number of Relevant Shares (or interests therein) as will cause a Relevant Person to cease to be a Relevant Person, not being a disposal to another Relevant Person (other than a Permitted Person) or a disposal which constitutes any other person (other than a Permitted Person) a Relevant Person;

and, for the purposes of this Article, where the Board resolves

that it has made reasonable enquiries and that it is unable to determine:-

(i) whether or not a particular person has an interest in any particular shares comprised in Relevant Share Capital, or

(ii) who is interested in any particular shares so comprised,

the shares concerned shall be deemed to be Relevant Shares and all persons interested in them to be Relevant Persons.

(3) On the first anniversary of the Introduction paragraph (2)(g)(iii) above shall lapse and shall forthwith cease to have effect and paragraphs (2)(g)(i) and (2)(g)(ii) above shall apply without exception or derogation.

(4) No Restricted Person or Retaining REC Group shall be entitled in any circumstances, in respect of any part of its interest in the Company's shares which carries the right to cast in excess of 1 per cent. of the total votes attaching to the Relevant Share Capital of all classes (taken as a whole) and capable of being cast on a poll, to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares.

(5) Subject to paragraphs (6), (16) and (17) below and without prejudice to Article 55 above, the provisions of Part VI of the Original Act shall apply in relation to the Company as if those provisions extended to

Additional Interests and accordingly the rights and obligations arising under that Part shall apply in relation to the Company, its members and all persons interested in Relevant Share Capital, as extended by this paragraph; but so that Additional Interests shall, when disclosed to the Company, be entered in a separate register kept by the Company for that purpose. The rights and obligations created by this paragraph in respect of interests in shares (including, but not limited to, Additional Interests) are in addition to and separate from those arising under Part VI of the Act.

(6) Sections 210(3) to (6), 211(10), 213(3) (so far as it relates to section 211(10)), 214(5), 215(8), 216(1) to (4), 217(7), 218(3), 219(3) and (4), 454, 455, 732 and 733 of the Original Act shall not apply in respect of Additional Interests.

(7) If, to the knowledge of the Board, any Retaining REC Group or any person other than a Permitted Person is or becomes a

Relevant Person (including, without limitation, by virtue of being deemed to be one), the Board shall give notice to all persons (other than persons referred to in paragraph (12) below) who appear to the Board to have interests in the Relevant Shares and, if different, to the registered holders of those shares. The notice shall set out the restrictions referred to in paragraph (10) below and call for a Required Disposal to be made within 21 days of the giving of the notice to the holder or such longer period as the Board considers reasonable. If the Relevant Shares are held by the ADR Depositary, the notice shall state that:

(a) a specified ADR Holder or ADR Holders (the "Relevant ADR Holder(s)"), as the case may be, is or are believed or deemed to be ADR Holders through which a Relevant Person or Persons have interests in either case as specified in the notice; and

(b) the Board believes that each Relevant ADR Holder or the Relevant Person or Persons believed or deemed to have interests through such Relevant ADR Holder, is or are deemed to be interested in a specific number of shares.

The Board may extend the period in which any such notice is required to be complied with and may withdraw any such notice (whether before or after the expiration of the period referred to) if it appears to it that there is no Relevant Person in relation to the shares concerned. After the giving of such a notice, and save for the purpose of a Required Disposal under this or the following paragraph, no transfer of any of the Relevant Shares may be registered until either the notice is withdrawn or a Required Disposal has been made to the satisfaction of the Board and registered.

(8) If a notice given under paragraph (7) above has not been complied with in all respects to the satisfaction of the Board and has not been withdrawn, the Board shall so far as it is able, make a Required Disposal (or procure that a Required Disposal is made) and shall give written notice of the disposal to those persons on whom the notice was served. The Relevant Person(s) and the registered holder(s) of the shares duly disposed of shall be deemed to have irrevocably and unconditionally authorised the Board to make such Required Disposal.

The manner, timing and terms of any such Required Disposal made or sought to be made by the Board (including but not limited to the price or prices at which the same is made and the extent to which assurance is obtained that no transferee, except a Permitted Person, is or would become a Relevant Person) shall be such as the Board determines, based on advice from bankers, brokers, or other appropriate persons consulted by it for the purpose, to be reasonably practicable having regard to all the circumstances, including but not limited to the number of shares to be disposed of and the requirement that the disposal be made without delay; and the Board shall not be liable to any person for any of the consequences of reliance on such advice. If, in relation to the Required Disposal to be made by the Board, Relevant Shares are held by more than one holder (treating joint holders of any Relevant Shares as a single holder) the Board shall cause as nearly as practicable the same proportion of each holding (so far as known to them) of the Relevant Shares to be sold.

(9) For the purposes of effecting any Required Disposal, the Board may authorise in writing any officer or employee of the Company to execute any necessary transfer on behalf of any holder and may enter the name of the transferee in the register of members in respect of the transferred shares notwithstanding the absence of any share certificate and may issue a new certificate to the transferee and an instrument of transfer executed by such person shall be as effective as if it had been executed by the registered holder of the transferred shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto. The net proceeds of the

disposal shall be received by the Company whose receipt shall be a good discharge for the purchase money, and shall be paid (without any interest being payable in respect of it and after deduction of any expenses incurred by the Board in the sale) to the former holder (or in the case of joint holders, the first of them named in the register) together with, if appropriate, a new certificate in respect of the balance of the Relevant Shares to which he is entitled upon surrender by him or on his behalf of any certificate in respect of the Relevant Shares sold and formerly held by him.

(10) A holder of a Relevant Share on whom a notice has been given under (and complying with) paragraph (7) above shall not in respect of that share be entitled, until such time as the notice has been complied with to the satisfaction of the Board or

withdrawn, to attend or vote at any general meeting of the Company or meeting of the holders of Relevant Share Capital or of any class thereof, or to exercise any other right conferred by membership in relation to any such meeting; and the rights to attend (whether in person or by representative or proxy), to speak and to demand and vote on a poll which would have attached to the Relevant Share had it not been a Relevant Share shall vest in the chairman of any such meeting. The manner in which the chairman exercises or refrains from exercising any such rights shall be entirely at his discretion. The chairman of any such meeting shall be informed by the Board of any share becoming or being deemed to be a Relevant Share.

(11) Without prejudice to the provisions of the Act and subject to paragraph (2)(f) above, the Board may assume without enquiry that a person is not a Relevant Person

unless the information contained in the registers kept by the Company under Part VI of the Act or under Part VI of the Original Act (as applied and extended by this Article), including the separate register to be kept under paragraph (5) above, appears to the Board to indicate to the contrary or the Board has reason to believe otherwise, in which circumstances the Board shall make reasonable enquiries to discover whether any person is a Relevant Person.

(12) The Board shall not be obliged to give any notice required under this Article to be given to any person if they do not know either his identity or his address. The absence of such a notice in those circumstances and any accidental error in or failure to give any notice to any person to whom notice is required to be given under this Article shall not prevent the implementation of, or invalidate, any procedure under this Article.

(13) If any Director has reason to believe that a person (not being a Permitted Person) is a Relevant Person, he shall inform the other Directors.

(14) Save as otherwise provided in this paragraph, the provisions of these Articles applying to the giving of notice of meetings to members shall apply to the giving to a member of any notice required by this Article. Any notice required by this Article to be given to a person who is not a member, or who is a member whose registered address is not within the United Kingdom and who has not given to the Company an address within the United Kingdom at which notices may be given to him, shall be deemed validly served if it is sent through the post in a prepaid envelope addressed to that person at the

address (or if more than one, at one of the addresses), if any, at which the Board believes him to be resident or carrying on business or to his last known address as shown on any of the Registers, and the lists of ADR Holders maintained by the ADR Depositary. The notice shall in such a case be deemed to have been given on the day following that on which the envelope containing the same is posted, unless it was sent by second class post or there is only one class of post, in which case it shall be deemed to have been given on the day next but one after it was posted. Proof that the envelope was properly addressed, prepaid and posted shall be conclusive evidence that the notice was given.

(15) Any resolution or determination of, or decision or exercise of any discretion or power by, the Board or any Director or by the chairman of any meeting under or pursuant to the provisions of this Article (including without prejudice to the generality of the foregoing as to what constitutes reasonable enquiry or as to the manner, timing and terms of any Required Disposal made by the Board under paragraph (8) above) shall be final and conclusive; and any disposal or transfer made, or other thing done, by or on behalf of, or on the authority of, the Board or any Director pursuant to the foregoing provisions of this Article shall be conclusive and binding on all persons concerned and shall not be open to challenge, whether as to its validity or otherwise on any ground whatsoever. The Board shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with this Article.

(16) Paragraph (5) above shall not apply to an ADR Depositary in its capacity as such. A person (an "ADR Holder") who has an interest in shares of the Company evidenced by an American Depositary Receipt shall be deemed for the purposes of this Article to have an interest in the number of shares in the Company held by the ADR Depositary and represented by such American Depositary Receipt.

(17) Paragraph (5) of this Article shall not apply to a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange, in each case acting in its capacity as such. Where in that capacity interests in shares in the Company are held by a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange under arrangements recognised by the Company for the

purposes of this Article any person who has rights in relation to shares in the Company in which such a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange has an interest shall be deemed to be interested in the number of shares in the Company for which such a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange is or may become liable to account to him and any interest which (by virtue of his being a tenant in common in relation to interests in shares in the Company so held by such a recognised clearing house or a nominee of a recognised clearing house or of a recognised investment exchange) he would otherwise be treated for the purposes of this Article as having in a larger number of shares in the Company shall (in the

absence of any other reason why he should be so treated) be disregarded.

(18) This Article shall apply notwithstanding any provision in any other of these Articles which is inconsistent with or contrary to it.

57. Obligations relating to the Transmission Licence Holder

The Company shall procure that, without the consent in writing of the Special Shareholder:

(a) the Transmission Licence shall not be held by any person outside the NGG Group;

(b) the NGG Group shall not cease to carry on, or dispose of or relinquish operational control over any asset required to carry on, the Transmission Business or the Interconnectors Business (as defined in the Transmission Licence at the Introduction), save where such cessation, disposal or relinquishment is required by law or is permitted pursuant to or by virtue of the terms of the Transmission Licence (and the term "dispose" shall be construed in accordance with the definition of "disposal" in Condition 16 of the Transmission Licence at the Introduction);

(c) neither the Company nor any Affiliate of the Company shall carry on in the United Kingdom any activity which requires a generation or supply licence or which is exempted from such requirement under or by virtue of the Electricity Act 1989, save where such activity is expressly permitted under the terms of the Transmission Licence at the Introduction and that neither

the Company

nor any Affiliate of the Company shall be engaged outside the United Kingdom in the generation of electricity to be imported into the United Kingdom;

(d) no employee or director of a Restricted Person which is neither the Company nor any other member of the NGG Group shall be a director of the Company, the Transmission Licence Holder or of any holding company thereof (which term shall have the meaning ascribed to it in Article 54(3)(b) above); and

(e) the Transmission Licence Holder shall not carry on activities other than:-

(i) those required or contemplated on the part of the Transmission Licence Holder (in its capacity as the holder of the Transmission Licence) by the Transmission Licence or the Electricity Act 1989 or connected therewith or consequential thereto; or

(ii) those carried on by The National Grid Company plc at or prior to the Introduction,

Provided that (but subject to paragraph (c) above) nothing in this paragraph (e) shall prevent the acquisition of any share capital by the Transmission Licence Holder in any company.

GENERAL MEETINGS

58. Annual general meetings

Subject to the requirements of the Statutes, annual general meetings shall be held at such time and place as the Board may determine.

59. Extraordinary general meetings

Any general meeting of the Company other than an annual general meeting shall be called an extraordinary general meeting.

60. Convening an extraordinary general meeting

The Board may convene an extraordinary general meeting whenever it thinks fit.

SEPARATE GENERAL MEETINGS

61. Separate general meetings

The provisions of these Articles relating to general meetings shall apply, with necessary modifications, to any separate general meeting of the holders of shares of a class held otherwise than in connection with the variation or abrogation of the rights attached to shares of the class. For this purpose, a general meeting at which no holder of a share other than an ordinary share may, in his capacity as a member, attend or vote shall also constitute a separate general meeting of the holders of the ordinary shares. The notice of any separate general meeting given before the date of adoption of this Article shall be as valid as if this Article had been in force at the date when the notice was given.

NOTICE OF GENERAL MEETINGS

62. Length of notice period

An annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution appointing a person as a director shall be convened by at least twenty-one clear days' notice. All other extraordinary general meetings shall be convened by at least fourteen clear days' notice. Notwithstanding that a meeting of the Company is convened by shorter notice than that specified in this Article, it shall be deemed to have been properly convened if it is so agreed:-

62.1 in the case of an annual general meeting, by all the members entitled to attend and vote at the meeting; and

62.2 in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. in nominal value of the shares giving that right.

The notice shall specify the day, time and place of the meeting and the general nature of the business to be transacted and, in the case of an annual general meeting, shall specify the meeting as such. Subject to these Articles and to any restrictions imposed on any shares, the notice shall be given to all the members, to all persons entitled by transmission and to the Directors and Auditors.

63. Omission or non-receipt of notice

The accidental omission to give notice of a meeting or to send an instrument of proxy with a notice (where required by these Articles) to, or the non-receipt of a notice or instrument of proxy by, any person entitled to receive either or both shall not invalidate the proceedings at that meeting.

PROCEEDINGS AT GENERAL MEETINGS

64. Quorum

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the choice or appointment of a chairman, which shall not be treated as part of the business of the meeting. Save as otherwise provided by these Articles, two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

65. Procedure if quorum not present

If within five minutes (or such longer time not exceeding one hour as the chairman of the meeting may decide to wait) after the time appointed for the commencement of the meeting a quorum is not present, the meeting shall stand adjourned to such other day (not being less than ten nor more than twenty-eight days later) and at such time and place as the chairman of the meeting may decide and at such adjourned meeting one member present in person or by proxy (whatever the number of shares held by him) shall be a quorum. The company shall give not less than seven clear days' notice in writing of any meeting adjourned through want of a quorum and the notice shall state that one member present in person or by proxy (whatever the number of shares held by him) shall be a quorum.

66. Chairman of general meeting

66.1 The chairman (if any) of the Board or, in his absence, the deputy chairman (if any) shall preside as chairman at every general meeting. If there is no such chairman or deputy chairman, or if at any meeting neither the chairman nor a deputy chairman is present within five minutes after the time appointed for the commencement of the meeting, or if neither of them is willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman, if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, the persons present and entitled to vote shall elect one of their number to be chairman.

66.2 The chairman may invite any person to attend and speak at any general meeting of the Company whom the chairman considers to be equipped by

knowledge or experience of the Company's business to assist in the deliberations of the meeting.

67. Directors' right to attend and speak

Each Director shall be entitled to attend and to speak at any general meeting of the Company and at any separate general meeting of the holders of any class of shares or debentures in the Company.

68. Meeting at more than one place and/or in a series of rooms

68.1 A general meeting or adjourned meeting may be held at more than one place. The notice of meeting will specify

the place at which the chairman will be present (the "Principal Place") and a letter accompanying the notice will specify any other place(s) at which the meeting will be held simultaneously.

68.2 A general meeting or adjourned meeting will be held in one room or a series of rooms at the place specified in the notice of meeting or any other place at which the meeting is to be held simultaneously.

68.3 If the meeting is held in more than one place and/or in a series of rooms, it will not be validly held unless all persons entitled to attend and speak at the meeting are able:

68.3.1 if excluded from the Principal Place or the room in which the chairman is present, to attend at one of the other places or rooms; and

68.3.2 to communicate with one another audio visually throughout the meeting.

The Board may make such arrangements as it thinks fit for simultaneous attendance and participation at the meeting and may vary any such arrangements or make new arrangements. Arrangements may be notified in advance or at the meeting by whatever means the Board thinks appropriate to the circumstances. Each person entitled to attend the meeting will be bound by the arrangements made by the Board.

68.4 Where a meeting is held in more than one place and/or a series of rooms, then for the purpose of these Articles the meeting shall consist of all those persons entitled

to attend and participate in the meeting who attend at any of the places or rooms.

69. Security arrangements

The Board may direct that members or proxies wishing to attend any general meeting should submit to such searches or other security arrangements or restrictions as the Board shall consider appropriate in the circumstances and shall be entitled in its absolute discretion to refuse entry to such general meeting to any member or proxy who fails to submit to such searches or to otherwise comply with such security arrangements or restrictions.

70. Adjournments

The chairman may at any time without the consent of the meeting adjourn any meeting (whether or not it has commenced or a quorum is present) either indefinitely or to such time and place as the chairman may decide if it appears to the chairman that:-

70.1 the members wishing to attend cannot be conveniently accommodated in the place appointed for the meeting;

70.2 the conduct of persons present prevents, or is likely to prevent, the orderly continuation of business; or

70.3 an adjournment is otherwise necessary so that the business of the meeting may be properly conducted.

In addition, the chairman may at any time with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting either sine die or to such time and place as the chairman may decide. When a

meeting is adjourned sine die the time and place for the adjourned meeting shall be fixed by the Board.

No business shall be transacted at any adjourned meeting except business which might properly have been transacted at the meeting had the adjournment not taken place.

71. Notice of adjourned meeting

Where a meeting is adjourned indefinitely, the Board shall fix the time and place for the adjourned meeting. Whenever a meeting is adjourned for fourteen days or more or indefinitely, seven clear days' notice at the least, specifying the place, the day and time of the adjourned meeting and the general nature of the business to be transacted, shall be given in the same manner as in the case of an original meeting. Save as aforesaid, no member shall be entitled to any notice of an adjournment or of the

business to be transacted at any adjourned meeting.

72. Method of voting

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll a poll is duly demanded. Subject to the Statutes, a poll may be demanded by:-

72.1 the chairman of the meeting;

72.2 at least five members present in person or by proxy and entitled to vote at the meeting;

72.3 any member or members present in person or by proxy and representing in aggregate at least one-tenth of the

total voting rights of all the members having the right to attend and vote at the meeting; or

72.4 any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or not carried by a particular majority or lost and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

73. Right to withdraw demand for a poll

The demand for a poll may, before the earlier of the close of the meeting and the taking of the poll, be withdrawn but only with the consent of the chairman and, if a demand is withdrawn, any other members entitled to demand a poll may do so. If a demand is withdrawn, it shall not be taken to have invalidated the result of a show of hands declared before the demand was made. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.

74. Procedure if poll demanded

If a poll is duly demanded, it shall be taken in such manner as the chairman directs and he may appoint scrutineers (who need

not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

75. When poll to be taken

A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either forthwith or on such date (being not more than thirty days after the poll is demanded) and at such time and place as the chairman directs. No notice need be given of a poll not taken immediately if the time and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case, at least seven clear days' notice shall be given specifying the time and place at which the poll is to be taken. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

76. Continuance of other business after poll demanded

The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll was demanded.

77. Chairman's casting vote

In the case of an equality of votes at a general meeting, whether on a show of hands or on a poll, the chairman shall be entitled to a casting vote in addition to any other vote he may have.

78. Proposal or amendment of resolution

A resolution proposed by the chairman does not need to be seconded. In the case of a resolution duly proposed as an extraordinary or special resolution, no amendment to that resolution (other than an amendment to correct a patent error) may be considered or voted upon. In the case of a resolution duly proposed as an ordinary resolution no amendment to that resolution (other than an amendment to correct a patent error) may be considered or voted upon unless at least forty-eight hours prior to the time appointed for holding the meeting or adjourned meeting at which such ordinary resolution is to be proposed, notice in writing of the terms of the amendment and of the intention to move the amendment has been lodged at the Office or the chairman in his absolute discretion decides that it may be considered and voted upon.

79. Amendment of resolution ruled out of order

If an amendment is proposed to any resolution under consideration which the chairman rules out of order, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.

VOTES OF MEMBERS

80. Votes of members

Subject to any rights or restrictions attached to any shares and to any other provisions of these Articles, on a show of hands every member who is present in person shall have one vote and on a poll every member shall have one vote for every share of which he is the holder.

81. Votes of joint holders

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and seniority shall be determined by the order in which the names of the holders stand in the Register.

82. Votes of member suffering incapacity

A member in respect of whom an order has been made by any competent court or official on the ground that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so on his behalf and that person may vote on a poll by proxy. Evidence to the satisfaction of the Board of the authority of the person claiming to exercise the right to vote shall be deposited at the Office, or at such other place as is specified in accordance with these Articles for the deposit of instruments of proxy, not later than the last time at which an instrument of proxy should have been delivered in order to be valid for use at that meeting or on the holding of that poll.

83. No right to vote where sums overdue on shares

No member shall, unless the Board otherwise decides, vote at any general meeting or at any separate meeting of holders of any class of shares in the Company, either in person or by proxy, or exercise any other right or privilege as a member in respect of any share in the Company held by him unless all moneys presently payable by him in respect of that share have been paid.

84. Votes on a poll

On a poll votes may be given either personally or by proxy. A member may appoint more than one proxy to attend on the same occasion.

85. Objections or errors in voting

If:-

85.1 any objection shall be raised to the qualification of any voter;

85.2 any votes have been counted which ought not to have been counted or which might have been rejected; or

85.3 any votes are not counted which ought to have been counted

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless it is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be conclusive.

PROXIES

86. Execution of an instrument of proxy

An instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing or, if the appointor is a corporation, either under its Seal or under the hand of an officer, attorney or other person authorised to sign it. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer of that corporation, it shall be assumed, unless the contrary is shown, that such officer was duly authorised to sign that instrument on behalf of that corporation without further evidence of that authorisation. A proxy need not be a member of the Company.

87. Times for deposit of an instrument of proxy

The instrument appointing a proxy and the power of attorney or other

authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, shall:

87.1 be deposited at the Office or at such other place within the United Kingdom as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting not less than forty-eight hours before the time of the holding of the meeting or adjourned meeting at which the person named in the instrument proposes to vote; or

87.2 in the case of a poll taken more than forty-eight hours after it is demanded, be deposited as aforesaid after the poll has been demanded and not less than twenty-four

hours before the time appointed for the taking of the poll; or

87.3 where the poll is not taken forthwith but is taken not more than forty-eight hours after it was demanded, be delivered at the meeting at which the poll was demanded to the Chairman of the meeting or to any Director.

88. Form of proxy

An instrument of proxy shall be in any usual form or any other form which the Board may approve. The Board may, if it thinks fit but subject to the Statutes, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to include the right to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The proxy shall, unless the contrary is stated in it, be as valid for any adjournment of the meeting as for the meeting to which it relates.

89. Validity of proxy

A vote given or poll demanded by proxy or by the duly authorised representative of a corporation shall be valid, notwithstanding the previous determination of the authority of the person voting or demanding a poll unless notice in writing of such determination was received by the Company at the Office (or at such other place in the United Kingdom as was specified for the delivery of instruments of proxy in the notice convening the meeting or adjourned meeting or other accompanying document) not later than the last time at which an instrument of proxy should have been delivered in order to be valid for use at the meeting

or on the holding of the poll at which the vote was given or the poll demanded.

90. Maximum validity of proxy

An instrument of proxy shall cease to be valid after the expiration of twelve months from the date of its execution.

DIRECTORS

91. Number of Directors

Unless otherwise determined by ordinary resolution of the Company, the number of Directors (disregarding alternate directors) shall not be less than two but shall not be subject to any maximum number.

92. No shareholding qualification for Directors

No shareholding qualification for Directors shall be required.

REMUNERATION OF DIRECTORS

93. Ordinary remuneration

Each of the Directors shall be paid a fee for his services at such rate as may from time to time be determined by the Board or by a committee authorised by the Board provided that the aggregate of such fees (excluding any amounts payable under any other provision of these Articles) shall not exceed (pound)500,000 per annum or such higher amount as the Company by ordinary resolution may determine from time to time. Such fee shall be deemed to accrue from day to day.

94. Expenses

The Directors may be paid all travelling, hotel and other expenses properly incurred by them in the conduct of the Company's business performing their duties as Directors including all such expenses incurred in connection with attending and returning from meetings of the Board or any committee of the Board or general meetings or separate meetings of the holders of any class of shares or debentures of the Company or otherwise in connection with the business of the Company.

95. Extra remuneration

Any Director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Company

or goes or resides abroad for any purposes of the Company shall (unless the Company by ordinary resolution determines otherwise) receive such remuneration or extra remuneration by way of salary, commission, participation in profits or otherwise as the Board or any committee authorised by the Board may determine.

ALTERNATE DIRECTORS

96. Appointment, removal and resignation

Any Director (other than an alternate Director) may, by notice in writing delivered to the Secretary at the Office or in any other manner approved by the Board, appoint any person to be his alternate and may revoke any such appointment. If the alternate Director is not already a Director, the appointment unless previously approved by the Board, shall have effect only upon and subject to its being so approved. Any appointment of an

alternate will only have effect once the person who is to be appointed has consented to act. If his appointor so requests, an alternate Director shall (subject to his giving to the Company an address for service within the United Kingdom) be entitled to receive notice of all meetings of the Board or of committees of the Board of which his appointor is a member, to attend and vote and be counted in the quorum as a Director at any such meeting at which his appointor is not personally present, and generally, in the absence of his appointor, at the meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at the meeting, these Articles shall apply as if he were a Director. A Director present at a meeting of the Board or committee of the Board and appointed alternate for another Director shall have an additional vote for each of his appointors absent from such meeting (but shall count as one only for the purpose of determining whether a quorum is present). Execution by an alternate Director of any resolution in writing of the Board or a committee of the Board shall, unless the notice of his appointment provides to the contrary, be as effective as execution by his appointor. An alternate Director shall cease to be an alternate Director if he resigns or if for any reason his appointment is revoked or if his appointor ceases to be a Director; but, if a Director retires by rotation or otherwise but is reappointed or deemed to have been reappointed at the meeting at which he retires, any appointment of an alternate Director made by him which was in force immediately prior to his retirement shall continue after his reappointment as if he had not retired. The appointment of an alternate Director shall be revoked on the happening of any event which, if he were a Director, would cause him to vacate such office under these Articles. All appointments and revocations of appointments and resignations of alternate Directors shall be in

writing and left at the Office or delivered at a meeting of the Board, or in any other manner approved by the Board.

97. Alternate to be responsible for his own acts and remuneration of alternate

An alternate Director shall be deemed an officer of the Company and shall be subject to these Articles relating to Directors (except as regards power to appoint an alternate and remuneration) and an alternate Director shall not be deemed the agent of his appointor and shall alone be responsible to the Company for his acts and defaults. An alternate Director may contract and be interested in and benefit from contracts or arrangements or transactions and be paid expenses and indemnified to the same extent as if he were a Director but, save to the extent that his appointor directs the payment to him of part or all of the remuneration which would otherwise be payable to his appointor, he shall not be entitled to any remuneration from the Company for acting in that capacity.

EXECUTIVE DIRECTORS

98. Executive Directors

The Board or any committee authorised by the Board may from time to time appoint one or more of its body to hold any employment or executive office with the Company (including that of a managing director) for such period (subject to the Statutes) and on such other terms as the Board or any committee authorised by the Board may decide and may revoke or terminate any appointment so made. Any revocation or termination of the appointment shall be without prejudice to any claim for damages that the Director may have against the Company or that the Company may have against the Director for any breach of any contract of service

between him and the Company. A Director so appointed may be paid such remuneration (whether by way of salary, commission, participation in profits or otherwise) in such manner as the Board or any committee authorised by the Board may decide and either in addition to or in place of his ordinary remuneration as a Director.

POWERS AND DUTIES OF DIRECTORS

99. General powers of the Company vested in the Board

Subject to the Statutes, the Memorandum of Association of the Company and these Articles and to any directions given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Board which may exercise all the powers of the Company. No alteration of the Memorandum of Association or these Articles and no such special resolution shall invalidate any prior act of the Board which would

have been valid if that alteration had not been made or that resolution had not been passed. The powers given by this Article shall not be limited by any special power given to the Board by any other Article.

DELEGATION OF DIRECTORS' POWERS

100. Agents

The Board may, by power of attorney or otherwise, appoint any person to be the agent of the Company on such terms (including terms as to remuneration) and subject to such conditions as it may decide and may delegate to any person so appointed any of its powers, authorities and discretions (with power to sub-delegate). The Board may remove any person so appointed and may revoke or vary the delegation but no person dealing in good

faith and without notice of the revocation or variation shall be affected by it. The power to delegate contained in this Article shall be effective in relation to the powers, authorities and discretions of the Board generally and shall not be limited by the fact that in certain Articles, but not in others, express reference is made to particular powers, authorities or discretions being exercised by the Board or by committee authorised by the Board.

101. Delegation to individual Directors

The Board may entrust to and confer upon a Director any of its powers, authorities and discretions (with power to sub-delegate) upon such terms (subject to the Statutes) and subject to such conditions and with such restrictions as it may decide and either collaterally with or to the exclusion of its own powers, authorities and discretions. The Board may from time to time revoke or vary all or any of them but no person dealing in good faith and without notice of the revocation or variation shall be affected by it. The power to delegate contained in this Article shall be effective in relation to the powers, authorities and discretions of the Board generally and shall not be limited by the fact that in certain Articles, but not in others, express reference is made to particular powers, authorities or discretions being exercised by the Board or by a committee authorised by the Board.

102. Delegation to committees

102.1 The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee consisting of such person or persons as it thinks fit (whether a member or members of its body or not) provided that the majority of the members of the

committee are Directors. Any committee so formed may exercise its power to sub-delegate by sub-delegating to any person or persons (whether or not a member or members of the Board or of the committee). Subject to any regulations imposed on it by the Board, the proceedings of any committee consisting of two or more members shall be governed by the provisions in these Articles for regulating proceedings of the Board so far as applicable except that no meeting of that committee shall be quorate for the purpose of exercising any of its powers, authorities or discretions unless a majority of the committee present at the meeting are Directors. A member of a committee shall be paid such remuneration (if any) in such manner as the Board may decide, and, in the case of a Director, either in addition to or in place of his ordinary remuneration as a Director.

102.2 The power to delegate contained in this Article shall be effective in relation to the powers, authorities and discretions of the Board generally and shall not be limited by the fact that in certain Articles, but not in others, express reference is made to particular powers, authorities or discretions being exercised by the Board or by a committee authorised by the Board.

SPECIFIC POWERS

103. Provision for employees

The Board may exercise any power conferred by the Statutes to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the Company or that subsidiary.

104. Borrowing Powers

104.1 The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party.

104.2 The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (but as regards subsidiary undertakings only in so far as by the exercise of such rights or powers of control the Board can secure) that the aggregate principal amount from time to time outstanding of all borrowings by the Group (exclusive of borrowings owing by one member of the Group to another member of the Group) shall not at any time without the previous sanction

of an ordinary resolution of the Company exceed an amount equal to four times the Adjusted Capital and Reserves.

104.3 For the purposes of this Article:-

104.3.1 "the Adjusted Capital and Reserves" means the aggregate of:-

104.3.1.1 the amount paid up on the issued share capital of the Company;

104.3.1.2 the amounts standing to the credit of the capital and revenue reserves of the Company and its subsidiary undertakings (including any share premium account, capital redemption reserve, reserves arising on a revaluation of fixed assets or on consolidation and any credit balance on profit and loss account);

104.3.1.3 the amounts, so far as attributable to the Company or a subsidiary undertaking, standing to the credit of investment grants equalisation account, deferred regional development grants equalisation account or any other equalisation account of a similar nature; and

104.3.1.4 the amounts, so far as attributable to the Company or a subsidiary undertaking, set aside for the purpose of deferred tax or any other account of a similar nature;

as shown by the then latest audited balance sheet but after:-

104.3.1.5 making such adjustments as may be appropriate to reflect any variation in the amount of the paid up share capital or reserves since the date of the relevant audited balance sheet and any variation in the amounts attributable to the interest of the Company in the share capital of any subsidiary undertaking and so that for this purpose if any issue or proposed issue of shares by a member of the Group for cash has been underwritten then

such shares shall be deemed to have been issued and the amount (including any premium) of the subscription monies payable in respect thereof (not being monies payable later than six months after the date of allotment) shall to the extent so underwritten be deemed to have been paid up on the date when the issue of such shares was underwritten (or, if such underwriting was conditional, on the date when it became unconditional); and

104.3.1.6 making such adjustments as may be appropriate in respect of any distribution declared, recommended or made by any member of the Group (otherwise than to a member of the Group) out of profits earned up to and including the date of the audited balance sheet of the Group to the extent that such distribution is not provided for in such balance sheet;

104.3.1.7 deducting the amount of any debit balance on profit and loss account existing at the date of the relevant audited balance sheet to the extent that a deduction has not already been made on that account; and

104.3.1.8 adding back sums equivalent to the amount of goodwill arising on acquisitions of companies and businesses remaining part of the Group at the date of calculation and which, at that date, had been written off against share capital and reserves in accordance with United Kingdom accounting practice.

104.3.2 "borrowings" include not only items referred to as borrowings in the audited balance sheet but also the following, except in so far as otherwise taken into account:-

104.3.2.1 the nominal amount of any issued share capital and the principal amount of any debentures or borrowed moneys of any person, the beneficial interest in which is not for the time being owned by a member of the Group, and the payment or repayment of which is the subject of a guarantee or indemnity by a member of the Group or is secured on the assets of any member of the Group;

104.3.2.2 the outstanding amount raised by acceptances by any bank or accepting house under any acceptance credit opened on behalf of and in favour of any member of the Group, not being acceptances of trade bills for the purchase of goods or services in the ordinary course of business;

104.3.2.3 the principal amount of any debenture (whether secured or unsecured) of a member of the Group, which debenture is owned otherwise than by another member of the Group Provided that where the amount raised by the Company or any of its subsidiary undertakings by the issue of any debentures, debenture stocks, loan stocks, bonds, notes or other indebtedness is less than the nominal or principal amount thereof (including for these purposes any fixed or minimum premium payable

on final redemption or repayment but disregarding the expenses of any such issue) the amount to be treated as monies borrowed for the purpose of this Article shall, so long as the nominal or principal amount of such monies borrowed is not presently due and payable, be the nominal or principal amount thereof (together with any fixed or minimum premium payable on final redemption or repayment) but after deducting therefrom the unexpired portion of any discount applied to such amount in the audited balance sheet of the Group. Any references in this Article to debentures or monies borrowed or the nominal or principal amount thereof shall, accordingly, be read subject to this Article 104.3.2.3 ;

104.3.2.4 the principal amount of any preference share capital of any subsidiary undertaking owned otherwise than by a member of the Group;

104.3.2.5 any fixed or minimum premium payable on the repayment of any borrowing or deemed borrowing; and

104.3.2.6 the capital value of any financial lease required to be capitalised and treated as a liability in the audited balance sheet by any applicable accounting standard (as defined in section 256 of the Act) from time to time in force;,

but do not include:-

104.3.2.7 monies borrowed by a member of the Group for the purpose of repaying the whole or any part of any borrowings of such member of the Group or any other member of the Group for the time being outstanding and so to be applied within six months of being so borrowed, pending their application for such purpose within such period;

104.3.2.8 monies borrowed by a member of the Group for the purpose of financing any contract in respect of which any part of the price receivable by that member or any other member of the Group is guaranteed or insured by the Export Credits Guarantee Department, or by any other governmental department or agency fulfilling a similar function, up to an amount equal to that part of the price receivable under the contract which is so guaranteed or insured;

104.3.2.9 for a period of twelve months from the date upon which a company becomes a member of the Group, an amount equal to the monies borrowed by such company outstanding at the date when it becomes such a member provided always that monies borrowed by the Group (including monies otherwise excluded by the application of this sub-paragraph) must not exceed an amount equal to five times the Adjusted Capital and Reserves; and

104.3.2.10 an amount equal to the minority proportion of monies borrowed by

a partly owned subsidiary of the Group (after excluding any monies borrowed owing between members of the Group) except to the extent that such monies borrowed are guaranteed by the Company or any wholly owned subsidiary undertaking of the Company. For these purposes the minority proportion shall be the proportion of the issued equity share capital of such partly owned subsidiary which is not for

the time being beneficially owned within the Group. Monies borrowed by a member of the Group from a partly owned subsidiary of the Group which would fall to be excluded as being monies borrowed owing between members of the Group shall nevertheless be included to the extent of an amount equal to such minority proportion of such monies borrowed; and

104.3.2.11 sums advanced or paid to any member of the Group (or its agents or nominee) by customers of any member of the Group as unexpended customer receipts or progress payments pursuant to any contract between such customer and a member of the Group in relation thereto;

provided that, in calculating borrowings under this Article there shall be credited (subject, in the case of any item held or deposited by a partly owned subsidiary undertaking, to the exclusion of a proportion thereof equal to the proportion of the issued equity share capital of the partly owned subsidiary undertaking which is not attributable to the Company or any subsidiary undertaking of the Company) against the amount of any monies borrowed the aggregate of:-

(a) cash in hand of the Group; and

(b) cash deposits and the balance on each current account of the Group with banks in the United Kingdom and/or elsewhere if the remittance of the cash to the United Kingdom is not prohibited by any law, regulation, treaty or official directive; and

(c) the amount of all assets ("short term assets") as might be included in "Investments - short term loans and deposits" in a consolidated balance sheet of the Group prepared as at the date of the relevant calculation in accordance with the principles with which the then latest audited balance sheet was produced; and

(d) the amount of any cash or short term assets securing the repayment by the Group of any amount borrowed by the Group deposited or otherwise placed with the trustee or similar entity in respect of the relevant borrowing; and

104.3.3 where the aggregate principal amount of borrowings required to be taken into account for the purposes

of this Article on any particular date is being ascertained:-

104.3.3.1 monies borrowed by the Company or any subsidiary undertaking expressed in or calculated by reference to a currency other than sterling shall be converted into sterling by reference to the rate of exchange used for the conversion of such currency in preparation of the audited balance sheet which forms the basis of the calculation of the Adjusted Capital and Reserves or, if such calculation did not involve the relevant currency, by reference to the rate of exchange or approximate rate of exchange ruling as at the date of the aforesaid audited balance sheet as the Auditors may consider appropriate for this purpose; and

104.3.3.2 if under the terms of any borrowing, the amount of money that would be required to discharge the principal amount of such borrowing in full if it fell to be repaid (at the option of the Company or by reason of default) on such date is less than the amount that would otherwise be taken into account in respect of such borrowing for the purpose of this Article, the amount of such borrowing to be taken into account for the purpose of this Article shall be such lesser amount;

104.3.4 "audited balance sheet" means the audited balance sheet of the Company prepared for the purposes of the Statutes or, if an audited consolidated balance

sheet of the Company and its subsidiary undertakings (with such exceptions as may be permitted in the case of a consolidated balance sheet prepared for the purposes of the Statutes) has been prepared for those purposes for the same financial year, means that audited consolidated balance sheet in which event all references to reserves and profit and loss account shall be deemed to be references to consolidated reserves and consolidated profit and loss account respectively and there shall be excluded any amounts attributable to outside interests in subsidiary undertakings;

104.3.5 the Company may from time to time change the accounting convention on which the audited balance sheet is based, provided

that any new convention adopted complies with the requirements of the Statutes; if the Company should prepare its main audited balance sheet on the basis of one such convention, but a supplementary audited balance sheet or statement on the basis of another, the main audited balance sheet shall be taken as the audited balance sheet for the purposes of this Article; and

104.3.6 "the Group" means the Company and its subsidiary undertakings (if any) other than those subsidiary undertakings authorised or required to be excluded from consolidation in the Company's group accounts pursuant to section 229 of the Act.

104.4 The certificate of the Auditors as to the amount of the Adjusted Capital and Reserves at any time shall be

conclusive and binding on all concerned. Nevertheless the Board may act in reliance on a bona fide estimate of the amount of the Adjusted Capital and Reserves at any time and if in consequence the limit contained in this Article is inadvertently exceeded an amount of borrowings equal to the excess may be disregarded until the expiration of three months after the date on which by reason of a certificate of the Auditors or otherwise the Board became aware that such a situation has or may have arisen.

104.5 Notwithstanding the foregoing, no lender or other person dealing with the Company shall be concerned to see or inquire whether the limit imposed by this Article is observed and no borrowing incurred or security given in excess of such limit shall be invalid or ineffectual, except in the case of express notice to the lender or the recipient of the security at the time when the borrowing was incurred or the security given that the limit imposed by this Article had been or was thereby exceeded.

APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS

105. Number to retire by rotation

At every annual general meeting one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third shall retire from office but, if there are fewer than three Directors who are subject to retirement by rotation, they shall retire.

106. Identity of Directors to retire

Subject to the Statutes and these Articles, the Directors to retire by rotation on each occasion shall be those who have been longest in office

since their last appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board at start of business on the date of the notice convening the annual general meeting and no Director shall be required to retire or be relieved from retiring by reason of any change in the number or identity of the Directors after that time on the date of the notice but before the close of the meeting.

107. Retiring Director to remain in office until successor appointed

Subject to these Articles, the Company at the meeting at which a Director retires by rotation may fill the vacated office and in default, the retiring Director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the reappointment of the Director is put to the meeting and lost.

108. Eligibility for appointment as a Director

No person other than a Director retiring, whether by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless:-

108.1 he is recommended by the Board; or

108.2 not less than seven nor more than forty-two clear days before the day appointed for the meeting, notice executed by a member qualified to vote at the meeting (not being the person to be proposed) has been delivered to the Office of the intention to propose that person for appointment or reappointment stating the particulars which would, if he were so appointed or reappointed, be required to be included in the Company's register of Directors together with notice executed by that person of his willingness to be appointed or reappointed.

109. Power of the Company to appoint Directors

Subject to these Articles, the Company may by ordinary resolution appoint any person who is willing to act to be a Director, either to fill a vacancy on or as an addition to the existing Board, but so that the total number of Directors shall not at any time exceed any maximum number fixed by or in accordance with these Articles.

110. Power of the Board to appoint Directors

Without prejudice to the power of the Company in general meeting under

these Articles to appoint any person to be a Director, the Board may appoint a person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board, but so that the total number of Directors shall not at any time exceed any maximum number fixed by or in accordance with these Articles. Any Director so appointed shall hold office only until the next following annual general meeting and shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at the meeting. If not reappointed at such annual general meeting, he shall vacate office at the conclusion of the meeting.

111. Position of retiring Directors

Subject to these Articles, a Director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not reappointed or deemed to be reappointed, he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting.

112. Company's power to remove a Director and appoint another in his place

In addition to any power conferred by the Statutes, the Company may by an ordinary resolution remove any Director before the expiration of his period of office and may, subject to these Articles, by ordinary resolution appoint another person who is willing to act to be a Director in his place. Any person so appointed shall be treated, for the purposes of determining the time at which he or any other Director is to retire, as if he had become a Director on the day on which the person in whose place he is appointed was last appointed or reappointed a Director.

113. Vacation of office by Directors

Without prejudice to the provisions for retirement by rotation or otherwise contained in these Articles, the office of a Director shall be vacated if:-

113.1 he resigns his office by notice delivered to the Office or tendered at a meeting of the Board;

113.2 he becomes bankrupt or makes any arrangement or composition with his creditors generally;

113.3 he is or has been suffering from mental ill health or becomes a patient for any purpose of any statute relating to mental health and the Board resolves that his office is vacated;

113.4 without the permission of the Board, he is absent from meetings of the Board for 6 consecutive months (whether or not an alternate appointed by him attends) and the Board resolves that his office is vacated;

113.5 he ceases to be a Director by virtue of the Statutes or is prohibited by law from being a Director or is removed from office under these Articles;

113.6 his resignation is requested by all other Directors (provided those Directors are not less than three in number) by notice delivered to the Office or tendered at a meeting of the Board and, for this purpose, like notices each signed by a director shall be as effective as a single notice signed by all the Directors; or

113.7 he is appointed to the office for a fixed term and that term expires without him being reappointed.

114. Director not to retire on account of age

No person shall be disqualified from being appointed a Director, and no Director shall be required to vacate that office, by reason only of the fact that he has attained the age of seventy years or any other age nor shall it be necessary by reason of his age to give special notice under the Statutes of any resolution. Where the Board convenes any general meeting of the Company at which (to the knowledge of the Board) a Director will be proposed for appointment or reappointment who will have

attained the age of seventy years or more at the date for which the meeting is convened, the Board shall give notice of his age in years in the notice convening the meeting or in any document accompanying the notice, but the accidental omission to do so shall not invalidate any proceedings, or any appointment or reappointment of that Director, at that meeting.

DIRECTORS' INTERESTS

115. Contracts between a Director and the Company or a company in which the Company is interested

115.1 Subject to the Statutes, and provided that a Director has disclosed to the Board the nature and extent of his material interest, that Director notwithstanding his office:-

115.1.1 may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company (otherwise than as Auditor) and in either such case on such terms as to

remuneration (whether by way of salary, commission, participation in profits or otherwise) and otherwise as the Board may determine; any such remuneration shall be either in addition to or in lieu of any remuneration provided for, by or pursuant to any other Article;

115.1.2 may be a party to, or otherwise interested in, any contract with the Company or in which the Company is otherwise interested;

115.1.3 may be a director or other officer of, or employed by, or a party to any contract with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and

115.1.4 shall not, by reason of his office, be accountable to the Company for any remuneration or benefit which he derives from any such office or employment or from any such contract or from any interest in such body corporate and no such contract shall be liable to be avoided on the ground of any such interest or benefit.

For the purposes of this Article 115.1:-

115.1.5 a general notice given to the Board that a Director is to be regarded as having an interest of the nature and extent specified in the notice in any contract in which a specified person or class of persons is interested shall be deemed to be a disclosure that the Director has an interest in any such contract of the nature and extent so specified; and

115.1.6 an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as his interest.

115.2 The Board may cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such

manner in all respects as it thinks fit, including the exercise of either of such powers in favour of a resolution appointing the Directors, or any of them, to be directors or officers of the other company, or in favour of the payment of remuneration to the directors or officers of the other company.

115.3 Save as otherwise provided by these Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any matter in which he has to his knowledge, directly or indirectly, an interest (other than his interest in shares or debentures or other securities of, or otherwise in or through, the Company) or duty which (together with any interest of a person connected with him as described in Article 115.4) is material and, if he shall do so, his vote shall not be counted. A Director shall be entitled to vote on and be counted in the quorum in respect of any resolution concerning any of the following matters:-

115.3.1 the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;

115.3.2 the giving by the Company of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a

guarantee or indemnity or by the giving of security;

115.3.3 his subscribing or agreeing to subscribe for, or purchasing or agreeing to purchase, any shares, debentures or other securities of the Company or any of its subsidiary undertakings as a holder of securities, or his being, or intending to become, a participant in the underwriting or sub- underwriting of an offer of any such shares, debentures, or other securities by the Company or any of its subsidiary undertakings for subscription, purchase or exchange;

115.3.4 any contract concerning any company not being a company in which the Director owns one per cent. or more (as defined in Article 115.5 below), in which he is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise;

115.3.5 any contract concerning the adoption, modification or operation of a superannuation fund, retirement, death or disability benefit scheme or personal pension scheme which relates both to Directors and employees of the Company or of any of its subsidiary undertakings and which either:-

115.3.5.1 has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes; or

115.3.5.2 which does not accord to any Director as such any privilege or advantage not accorded to the employees to which such fund or scheme relates;

115.3.6 any contract for the benefit of employees of the Company or any of its subsidiary undertakings under which he benefits in a similar manner as the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom the contract relates; and

115.3.7 any contract concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors or for persons who include Directors.

115.4 A Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any company in which the Company is interested but, where proposals are under consideration concerning the appointment, or the settlement or variation of the terms or the termination of the appointment, of two or more Directors to offices or places of profit with the Company or any company in which the Company is interested, a separate resolution may be put in relation to each Director and in that case each of the Directors concerned shall be entitled to vote on and be counted in the quorum in relation to each resolution which does not concern either: (a) his own appointment or the settlement or variation of the terms or the termination of his own appointment; or (b) the

appointment of another Director to an office or place of profit with a company in which the Company is interested and in which the Director seeking to vote or be counted in the quorum is interested by virtue of owning of one per cent. or more (as defined in Article 115.5).

For the purposes of this Article 115.4, an interest of a person who is, for any purpose of the Statutes (excluding any statutory modification thereof not in force when this Article 115.4 becomes binding on the Company), connected (which word shall have the meaning given to it by section 346 of the Act) with a Director shall be treated as an interest of the Director and, in relation to an alternate director, an interest of his appointor shall be treated as an interest of the alternate director without prejudice to any interest which the alternate director has otherwise.

115.5 A company shall be deemed to be a company in which a Director owns one per

cent. or more if and so long as he is directly or indirectly the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company. For this purpose, there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder (if and so long as some other person is entitled to receive the income from such trust) and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder.

115.6 Where a company in which a Director owns one per cent. or more is materially interested in a contract, he shall

also be deemed to be materially interested in that contract.

115.7 References in this Article to a contract include references to any proposed contract and to any transaction or arrangement whether or not constituting a contract.

115.8 If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than the chairman of the meeting) to vote or be counted in the quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be referred to the chairman of the meeting and his ruling in relation to the Director concerned shall be conclusive except in a case where the nature or extent of his interest (so far as it is known to the Director) has not been fairly disclosed to the Board. If any question shall arise in respect of the chairman of the meeting, the question shall be decided by resolution of the Board (for which purpose the chairman shall be counted in the quorum but shall not vote on the matter) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the chairman (so far as it is known to the chairman) has not been fairly disclosed to the Board.

DIRECTORS' GRATUITIES AND PENSIONS

116. Directors' gratuities and pensions

The Board or any committee authorised by the Board may exercise all the powers of the Company to provide benefits, whether by the payment of gratuities, pensions, annuities, allowances, bonuses or by insurance or otherwise, for any Director or former Director who holds or who has held but no longer holds any executive office, other office, place of profit or

employment with the Company or with any body corporate which is or has been a subsidiary undertaking of the Company or a predecessor in business of the Company or of any such subsidiary undertaking, and for any member of his family (including a spouse and a former spouse) or any person who is or was dependent on him, and may (as well before as after he ceases to hold such office, place of profit or employment) establish, maintain, support, subscribe to and contribute to any scheme trust or fund for the benefit of all or any such persons and pay premiums for the purchase or provision of any such benefits. The Board or any committee authorised by the Board may procure any of these matters to be done by the Company either alone or in conjunction with any other person. No Director or former Director shall be accountable to the Company or the members for any benefit provided pursuant to this Article and the receipt of any such benefit shall not disqualify any person from being or becoming a Director.

PROCEEDINGS OF THE BOARD

117. Board meetings

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. A Director

may, and the Secretary on the requisition of a Director shall, convene a meeting of the Board.

118. Notice of Board meetings

Notice of a Board meeting shall be deemed to be properly given to a Director if it is given to him personally or by word of mouth or sent in writing to him at his last known address or any other address given by him to the Company for this purpose. A Director absent or intending to be absent from the United Kingdom may request the Board that notices of Board meetings shall during his absence be sent in writing to him at an address given by him to the Company for this purpose, but such notices need not be given any earlier than notices given to Directors not so absent and in the absence of any such request it shall not be necessary to give notice of a Board meeting to any Director who is for the time being absent from the United Kingdom. A Director may waive notice of any meeting either before or after the meeting.

119. Voting

Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote.

120. Quorum

The quorum necessary for the transaction of the business of the Board may be fixed by the Board and unless so fixed at any other number shall be two. Subject to these Articles, any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of the Board meeting if no other Director

objects and if otherwise a quorum of Directors would not be present.

121. Board vacancies below minimum number

The continuing Directors or a sole continuing Director may act notwithstanding any vacancies on the Board, but, if the number of Directors is less than the minimum number fixed by or in accordance with these Articles, the continuing Directors or Director may act only for the purpose of filling vacancies on the Board or of convening a general meeting of the Company. If there are no Directors or Director able or willing to act, then any two members may call a general meeting of the Company for the purpose of appointing Directors.

122. Appointment of chairman

The Board may appoint a Director to be the chairman of the Board and may at any time remove him from that office. Unless he is unwilling to do so, the Director so appointed shall preside at every meeting of the Board at which he is present. But if there is no Director holding that office, or if the Director holding it is unwilling to preside or is not present within five minutes after the time appointed for the meeting, the Directors present may appoint one of their number to be chairman of the meeting.

123. Competence of the Board

A meeting of the Board at which a quorum is present shall be competent to exercise all powers, authorities and discretions for the time being vested in or exercisable by the Board.

124. Participation in meetings by telephone

All or any of the members of the Board or any committee of the Board may participate in a meeting of the Board or that committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear and speak to each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum

accordingly. Such a meeting shall be deemed to take place where the largest group of those participating is assembled, or, if there is no such group, where the chairman of the meeting is.

125. Written resolutions

A resolution in writing signed by all the Directors entitled to receive notice of a meeting of the Board (if that number is sufficient to constitute a quorum) or by all the members of a committee of the Board shall be as valid and effectual as if it had been passed at a meeting of the Board or that committee duly convened and held and may be contained in one document or in several documents in like form each signed by one or more of the Directors or members of that committee. A resolution in writing may be evidenced by letter, telex, cable, electronic mail, facsimile or otherwise as the Board may from time to time resolve.

126. Registers

Subject to the Statutes, the Company may keep an overseas, local or other register in any place, and the Board may make and vary such regulations as it may think fit concerning the keeping of the register.

127. Company books

The Board shall cause minutes to be made in books kept for the purpose of recording:-

127.1 all appointments of officers made by the Board;

127.2 all proceedings at meetings of the Company, of the holders of any class of shares in the Company and of the Board and of committees of the Board, including the names of the Directors or members of a committee of the Board present at each such meeting.

Subject to the Statutes, any such minutes if purporting to be signed by the chairman of the meeting at which the appointments were made or proceedings held or by the chairman of the next succeeding meeting, shall be sufficient evidence of the facts therein stated without any further proof.

128. Validity of acts of the Board or a committee

All acts done by the Board or by a committee of the Board, or by a person acting as a Director or member of a committee of the Board shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director, member of a committee of the Board, or person acting as a Director, or that any of them were

disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if each such person had been duly appointed and was qualified and had continued to be a Director or member of the committee and had been entitled to vote.

SECRETARY

129. Appointment of Secretary

Subject to the Statutes, the Secretary shall be appointed by the Board at such remuneration and upon such terms as it thinks fit and any Secretary so appointed may be removed by the Board.

THE SEAL

130. Use of seal

130.1 The Seal shall only be used by the authority of the Board or of a committee authorised by the Board in that behalf. The Board or any such committee may determine who shall sign any instrument to which the Seal is affixed and unless otherwise so determined it shall be signed by one Director and the Secretary or by two Directors, and any instrument to which an official seal is applied need not, unless the Board for the time being otherwise decides or the law otherwise requires, be signed by any person.

130.2 Notwithstanding the provisions of Article 102, a committee authorised by the Board for the purposes of Article 130.1 may consist entirely or in any proportion of persons other than Directors. Except in relation to the provisions covering the proportion of members of a committee who must be Directors and the related quorum restrictions, the provisions of Article 102 shall apply to such a committee.

131. Execution as a deed without sealing

Where the Statutes so permit, any instrument signed by one Director and the Secretary or by two Directors and expressed to

be executed by the Company shall have the same effect as if executed under the Seal, provided that no instrument shall be so signed which makes it clear on its face that it is intended by the person or persons making it to have effect as a deed without the authority of the Board or of a committee authorised by the Board in that behalf.

132. Official seal

The Company may exercise the powers conferred by the Statutes with regard to having an official seal for use abroad, and such powers shall be vested in the Board.

DIVIDENDS

133. Company may declare dividends

Subject to the Statutes, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board.

134. Board may pay interim dividends and fixed dividends

Subject to the Statutes, the Board may pay interim dividends if it appears to the Board that they are justified by the financial position of the Company. If the share capital of the Company is divided into different classes, the Board may pay interim dividends on shares which confer deferred or non-preferred rights to dividends as well as on shares which confer preferential or special rights to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. The Board may also pay at intervals

settled by it any dividend payable at a fixed date if it appears to the Board that the financial position of the Company justifies the payment. If the Board acts in good faith, it shall not incur any liability to the holders of shares conferring preferred rights for any loss which they may suffer by reason of the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

135. Calculation and currency of dividends

Except in so far as the rights attaching to any share otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but (for the purposes of this Article only) no amount paid up on a share in advance of calls shall be treated as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly. Dividends may be declared or paid in any currency and the Board may agree with any member that dividends which may at any time or from time to time be declared or become due on his shares in one currency shall be paid or satisfied in another, and may agree the basis of conversion to be applied and how and when the amount to be paid in the

other currency shall be calculated and paid and for the Company or any other person to bear any costs involved.

136. Non-cash dividends

A general meeting declaring a dividend may, upon the recommendation of the Board, by ordinary resolution direct that

it shall be satisfied wholly or partly by the distribution of assets and, in particular, of paid-up shares or debentures of any other company and, where any difficulty arises concerning such distribution, the Board may settle it as the Board thinks expedient and in particular, may issue fractional certificates or authorise any person to sell and transfer any fractions or may ignore fractions altogether, and may fix the value for distribution of any assets and may determine that cash shall be paid to any member upon the basis of the value so fixed in order to secure equality of distribution and may vest any assets to be distributed in trustees as the Board may consider expedient.

137. Scrip dividends

Subject to the Statutes, the Board may, if authorised by an ordinary resolution of the Company, offer the holders of ordinary shares (subject to such exclusions or other arrangements as the Board may consider necessary or expedient in relation to any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange) the right to elect to receive new ordinary shares, credited as fully paid, instead of cash for all or part (as determined by the Board) of the dividend specified by the ordinary resolution. The following provisions shall apply:-

137.1 an ordinary resolution may specify a particular dividend or dividends (whether or not already declared), or may specify all or any dividends declared within a specified period, but such period may not end later than the fifth anniversary of the date of the meeting at which the ordinary resolution is passed;

137.2 the basis of allotment to each holder of ordinary shares shall be such number of new ordinary shares credited as fully paid as have a value as nearly as possible equal to (but not greater than) the amount of the dividend (disregarding any tax credit) which he has elected to forego. For this purpose, the "value" of an ordinary share shall be deemed to be whichever is the greater of its nominal value and the average of the middle market quotations for the Company's ordinary shares on the London Stock Exchange as derived from the Daily Official List on the day on which

the shares are first quoted "ex" the relevant dividend and the four subsequent dealing days or in such other manner as may be determined by or in accordance with the ordinary resolution. A certificate or report by the Auditors as to the amount of the value in respect of any dividend shall be conclusive evidence of that amount;

137.3 no fraction of an ordinary share shall be allotted and if any holder of ordinary shares would otherwise be entitled to fractions of a share, the Board may deal with the fractions as it thinks fit;

137.4 the Board shall not proceed with any election unless the Company has sufficient unissued shares authorised for issue and sufficient reserves or funds which may be capitalised to give effect to the election following the Board's determination of the basis of allotment;

137.5 on or as soon as practicable after announcing that the Board is to declare or recommend any dividend, the Board, if it intends to offer an election for that dividend, shall also announce that intention and having determined the basis of allotment, shall notify the

holders of ordinary shares in writing of the right of election offered to them, and shall send with, or following, such notification, forms of election and shall specify the procedure to be followed and place at which, and the latest date and time by which, duly completed forms of election must be lodged in order to be effective;

137.6 the dividend (or that part of the dividend in respect of which a right of election has been offered) shall not be payable on ordinary shares in respect of which an election has been duly made (the "elected shares") and instead additional ordinary shares shall be allotted to the holders of the elected shares on the basis of allotment so determined. For such purpose, the Board shall capitalise, out of any amount standing to the credit of any reserve or fund (including the profit and loss account), whether or not the same is available for distribution, as the Board may determine, a sum equal to the aggregate nominal amount of the additional ordinary shares to be allotted on that basis and apply it in paying up in full the appropriate number of unissued ordinary shares for allotment and distribution to the holders of the elected shares on that basis;

137.7 the additional ordinary shares so allotted shall be allotted as of the record date for the dividend for which the right of election has been offered and shall rank pari passu in all respects with the fully paid ordinary shares then in issue except that they will not rank for any dividend or other distribution entitlement which has been declared, made, paid or is payable by reference to that record date; and

137.8 the Board may establish or vary a procedure for election mandates whereby a holder of ordinary shares may elect concerning future rights of election offered to that holder under this Article until the election mandate is revoked following that procedure.

138. Right to deduct amounts due on shares from dividends

The Board may deduct from any dividend or other moneys payable in respect of a share to a member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in respect of shares of the Company.

139. No interest on dividends

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

140. Payment procedure

Any dividend or other moneys payable in respect of a share may be paid in cash or by cheque, warrant or other financial instrument, funds transfer system or by any other method as the Board may consider appropriate sent to the registered address of the person entitled (or, in the case of joint holders, to the registered address of the holder whose name stands first in the Register in respect of the share) or to such person and such address as the holder (or joint holders) may in writing to the Company direct. Such payment may be sent through the post or equivalent means of delivery or by such other means, including by electronic media, as the Board may decide. Every cheque, warrant or financial instrument shall be made payable to the person or persons entitled or to such person as the person or

persons entitled may in writing direct and payment of the cheque, warrant or financial instrument shall be a good discharge to the Company. Every such cheque, warrant or financial instrument shall be sent at the risk of the person entitled to the money represented thereby. If any such cheque, warrant or financial instrument has, or shall be alleged to have, been lost, stolen or destroyed, the Board may, on request of the person entitled, issue a replacement cheque, warrant or financial instrument subject to compliance with such conditions as to evidence and indemnity and the payment of out-of-pocket expenses of the Company in connection with the request as the Board thinks fit. Where any such dividend or other moneys is paid by any bank or other funds transfer system or such other means and to or through such person as the person or persons entitled may in writing direct, the Company shall have no responsibility for any sums lost or delayed in the course of any such transfer or where it has acted

on any such directions.

141. Receipt by joint holders

If several persons are registered as joint holders of any share, any one of them may give effectual receipts for any dividend or other moneys payable in respect of the share.

142. Where payment of dividends need not be made

The Company may cease to send any cheque or warrant through the post for any dividend or other moneys payable in respect of a share which is normally paid in that manner on that share if in respect of at least two consecutive dividends payable on that share the cheques or warrants have been returned undelivered or remain uncashed (or, following one such occasion, reasonable enquiries have failed to establish any new address of the holder) but, subject to these Articles, the Company shall

recommence sending cheques or warrants in respect of dividends or other moneys payable on that share if the holder or person entitled by transmission claims the arrears of dividend and does not instruct the Company to pay future dividends in some other way.

143. Forfeiture of unclaimed dividends

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, unless the Board otherwise resolves, be forfeited and revert to the Company.

CAPITALISATION OF PROFITS

144. Capitalisation of profits

144.1 Upon the recommendation of the Board, the Company may pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any undivided profits of the Company not required for paying any preferential dividend (whether or not they are available for distribution) or all or any part of any sum standing to the credit of any reserve or fund (whether or not available for distribution).

144.2 The Board may appropriate the sum resolved to be capitalised to the members who would have been entitled to it if it were distributed by way of dividend and in the same proportions and apply such sum on their behalf either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by them respectively, or in paying up in full unissued shares or debentures of the Company of a nominal amount equal to that sum, and allot the shares or debentures credited as

fully paid to those members, or as they may direct, in those proportions, or partly in one way and partly in the other; but for the purposes of this Article the share premium account, the capital redemption reserve, and any reserve or fund representing profits which are not available for distribution may only be applied in paying up in full unissued shares of the Company.

144.3 The Board may authorise any person to enter on behalf of all the members concerned into an agreement with the Company providing for the allotment to them respectively, credited as fully paid, of any shares or debentures to which they are entitled upon such capitalisation, any agreement made under such authority being binding on all such members.

144.4 If any difficulty arises concerning any distribution of any capitalised reserve or fund, the Board may settle it as the Board considers expedient and in particular may issue fractional certificates, authorise any person to sell and transfer any fractions or resolve that the distribution should be made as nearly as practicable in the correct proportion or may ignore fractions altogether, and may determine that cash payments shall be made to any members in order to adjust the rights of all parties as the Board considers expedient.

RECORD DATES

145. Power to choose record date

Notwithstanding any other provision of these Articles, the Company or the Board may fix any date as the record date for any dividend, distribution, allotment or issue and such record date

may be on or at any time before or after any date on which the dividend, distribution, allotment or issue is declared, paid or made.

ACCOUNTS

146. Records to be kept

The Board shall cause accounting records to be kept sufficient to give a true and fair view of the Company's state of affairs and to comply with the Statutes.

147. Copy of accounts to be sent to members

A printed copy of every profit and loss account and balance sheet, including all documents required by law to be annexed to the balance sheet

which is to be laid before the Company in general meeting, together with copies of the Directors' and of the Auditors' reports (or such documents which may be required or permitted by law to be sent in place) shall not less than twenty-one clear days before the date of the meeting be sent to every member (whether or not he is entitled to receive notices of general meetings of the Company), and to every holder of debentures of the Company (whether or not he is so entitled), and to the Auditors provided that if the Company is permitted by law to send to any member, to any holder of debentures of the Company or to the Auditors any summary financial statement in place of all or any of such profit and loss account and balance sheet or other documents, this Article shall impose no greater obligation on the Company than that imposed by law; but this Article shall not require a copy of those documents to be sent to any member or holder of debentures of whose address the Company is unaware or to more than one of the joint holders of any shares or debentures.

148. Inspection of records

No member in his capacity as a member shall have any right of inspecting any accounting records or other book or document of the Company except as conferred by law or authorised by the Board or by ordinary resolution of the Company.

NOTICES

149. Notices must be in writing

Any notice to be given to or by any person pursuant to these Articles shall be in writing except that a notice calling a meeting of the Board need not be in writing.

150. Service of notice

Any notice or other document (including a share certificate) may be served on or delivered to a member by the Company either personally or by sending it by post in a prepaid envelope addressed to the member at his registered address or by so addressing the envelope and leaving it at that address or by any other means authorised in writing by the member concerned. In the case of joint holders of a share, all notices or other documents shall be served on or delivered to the joint holder whose name stands first in the Register in respect of the joint holding and such service or delivery shall for all purposes be deemed sufficient service on or delivery to all the joint holders. A member whose registered address is not within the United Kingdom and who gives to the Company an address within the United Kingdom at which notices or other documents may be served on or delivered to him shall be entitled to have notices or other documents served on or delivered to him at that

address, but otherwise no such member shall be entitled to receive any notice or other documents from the Company.

151. When notice deemed served

Any notice or other document, if sent by the Company by post, shall be deemed to have been served or delivered on the day following that on which it was put in the post and, in proving service or delivery, it shall be sufficient to prove that the notice or document was properly addressed, prepaid and put in the post. Any notice or other document not sent by post but left by the Company at a registered address shall be deemed to have been served or delivered on the day it was so left. Any notice or other document served or delivered by the Company by any other means authorised in writing by the member concerned shall be deemed to have been served when the Company has carried out the action it has been authorised to take for that purpose. Any notice or other document to be given by the Company by advertisement shall be deemed to have been served on the day on which the advertisement appears.

152. Service of notice on person entitled by transmission

Where a person is entitled by transmission to a share, any notice or other document shall be served upon or delivered to him by the Company, as if he were the holder of that share and the address noted in the Register were his registered address. Otherwise, any notice or other document served on or delivered to any member pursuant to these Articles shall, notwithstanding that the member is then dead or bankrupt or that any other event giving rise to the transmission of the share by operation of law has occurred and whether or not the Company has notice of the death, bankruptcy or other event, be deemed to have been

properly served or delivered in respect of any share registered in the name of that member as sole or joint holder.

153. Record date for service

Any notice or other document may be served or delivered by the Company by reference to the Register as it stands at any time not more than fifteen days before the date of service or delivery. No change in the Register after that time shall invalidate that service or delivery. Where any notice or other document is served on or delivered to any person in respect of a share in accordance with these Articles, no person deriving any title or interest in that share shall be entitled to any further service or delivery of that notice or document.

154. Notice when post not available

If at any time postal services within the United Kingdom are suspended or curtailed so that the Company is unable effectively to convene a general meeting or a meeting of the holders of any class of shares in its capital by notice sent through the post, any such meeting may be convened by a notice advertised in at least one newspaper with a national circulation and in that event the notice shall be deemed to have been served on all members and persons entitled by transmission, who are entitled to have notice of the meeting served upon them, on the day when the advertisement has appeared in at least one such paper. If at least six clear days prior to the meetings the giving of notices by post to addresses throughout the United Kingdom has, in the Board's opinion, become practicable, the Company shall send confirmatory copies of the notice by post to the persons entitled to receive them.

WINDING-UP

155. Distribution in kind

If the Company commences liquidation, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Statutes:-

155.1 divide among the members in kind the whole or any part of the assets of the Company (whether the assets are of the same kind or not) and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members; or

155.2 vest the whole or any part of the assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall determine,

but no member shall be compelled to accept any assets upon which there is a liability.

156. Power of sale

The power of sale of the liquidator shall include a power to sell wholly or partly for shares or debentures or other obligations of another company, either then already constituted or about to be constituted, for the purpose of carrying out the sale.

INDEMNITY

157. Officer's indemnity

Subject to the Statutes, the Company may indemnify any Director or other officer against any liability. Subject to those provisions, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company and the Auditors shall be indemnified out of the assets of the Company against any liability incurred by him as a Director, other officer of the Company or as Auditor in defending any proceedings (whether civil or criminal) in which judgment is given in his favour or he is acquitted or in connection with any application under the Statutes in which relief is granted to him by the court.

158. Power to insure

Subject to the Statutes, the Board may purchase and maintain insurance at the expense of the Company for the benefit of any person who is or was at any time a Director or other officer or employee of the Company or of any other company which is a subsidiary or subsidiary undertaking of the Company or in which the Company has an interest whether direct or indirect or who is or was at any time a trustee of any pension fund or employee benefits trust in which any employee of the Company or of any such other company or subsidiary undertaking is or has been interested indemnifying such person against any liability which may attach to him or loss or expenditure which he may incur in relation to anything done or alleged to have been done or omitted to be done as a Director, officer, employee or trustee.

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NEW ENGLAND POWER SERVICE COMPANY
25 Research Drive
Westborough, Massachusetts 01582

SERVICE CONTRACT

[Standard Form of Service Contract - Re-executed annually]

New England Power Service Company (hereinafter called Service Company) is a company engaged primarily in the rendering of services to companies in the New England Electric System holding-company system. Service Company will also render services from time to time to other associate companies within the National Grid Group PLC system. The organization, conduct of business and method of cost allocation of the Service Company are designed to meet the requirements of Section 13 under the Public Utility Holding Company Act of 1935 and the rules and regulations promulgated thereunder to the end that services performed by the Service Company for said associate companies will be rendered to them at cost, fairly and equitably allocated. Services will be rendered by Service Company only upon receipt from time to time of specific or general request therefor. Said requests may always be modified or cancelled by you at your discretion. The parties hereto agree as follows:

1. The Service Company agrees to furnish you upon the terms and conditions herein set forth such of the services described in Schedule 1 hereto as you may from time to time request. Service Company will also furnish, if available, such services not described in Schedule 1 as you may request. Notwithstanding the foregoing the Service Company shall not furnish under this agreement any engineering, construction, or maintenance services for a nuclear generating plant.

2. The Service Company has and will maintain a staff trained and experienced in the provision of services of a general and administrative nature. In addition to the services of its own staff, Service Company will, after consultation with you concerning services to be rendered pursuant to your request, arrange for services of non-affiliated experts, consultants, accountants and attorneys.

3. All of the services rendered under this agreement will be at actual cost thereof. Direct charges will be made for services where a direct allocation of cost is possible. The methods of determining such costs and the allocation thereof are set forth in Schedule II hereto. These methods are reviewed annually and more fre-

quently, if appropriate. Such methods may be modified or changed by Service Company without the necessity of an amendment of this agreement provided that in

each instance all services rendered hereunder will be at actual cost thereof, fairly and equitably allocated, and all in accordance with the requirements of the Public Utility Holding Company Act of 1935 and the rules and regulations and orders thereunder. You will be advised from time to time of any material changes in such methods.

4. Bills will be rendered during the first week of each month covering amounts due for the month calculated on an estimated basis using the actual expenses incurred to the extent possible during the second previous month. This estimated amount would be adjusted on the bill to be rendered by the conclusion of the following month. Any amount remaining unpaid after fifteen days following receipt of the bill shall bear interest thereon from the date of the bill at an annual rate of 2% above the lowest interest rate then being charged by the First National Bank of Boston on 90 day commercial loans. Services will be performed hereunder for not more than one year commencing January 1, 1999, and continuing through December 31, 1999, unless terminated at an earlier date by either party giving thirty days' written notice to the other of such termination at the end of any month.

5. This agreement will be subject to termination or modification at any time to the extent its performance may conflict with any federal or state law or any rule, regulation or order of a federal or state regulatory body having jurisdiction. The agreement shall be subject to approval of any federal or state regulatory body whose approval is a legal prerequisite to its execution and delivery or performance.

NEW ENGLAND POWER SERVICE
COMPANY

By: _____
Treasurer

Accepted_____, 19__

_____

By _____

SCHEDULE I
Description of Services Available from
New England Power Service Company

Accounting:

The keeping of accounts and collateral activities, including billing, payroll and customer relations; preparation of reports and preservation of records.

Auditing:

Periodic audits by Service Company auditors and the furnishing of reports and recommendations.

Corporate and Corporate Records:

Cooperation with attorneys, officers and special counsel of associate companies on corporate matters, financing, regulation, contracts, claims and litigation. Services in connection with stockholders' and directors' meetings and keeping of corporate records.

Employee Relations:

Service re labor relations, personnel, wage and salary schedules, employee training and safety and medical programs.

Engineering:

Civil, mechanical, electrical, and other engineering services, technical advice, design, installation, supervision, planning, research, testing, operation of communications, including microwave, and operation and maintenance of specialized technical equipment.

Executive and Administrative:

Consultation and services in management and administration of all aspects of electric utility business.

Information Systems:

Maintenance and operation of information systems and equipment for accounting, engineering, administration and other functions.

Insurance:

Development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities; property inspections and valuations for insurance.

Intellectual Property:

Filing applications, owning, licensing, and holding licenses for copyrights, patents, servicemarks, and trademarks for associated companies.

Properties:

Services re acquisition and disposition of properties; cooperation with attorneys of associate companies in title examinations and conveyancing; maintenance of property records; and making property inventories and valuations.

Power Supply:

Planning and other services for supply of electric power, and negotiation of contracts therefore.

Public Information and Relations:

Services re information to and relations with the public, including customers, security holders, employees, financial analysts, rating agencies and investment firms.

Purchasing and Stores:

Services re purchase and storing of materials, supplies and equipment.

Regulation:

Analysis of laws, rules and regulations and recommendations for action hereunder; handling of matters with regulatory and governmental authorities; preparation of applications and registrations.

Systems:

Establishing of accounting and other procedures and standards.

Taxes:

Service re federal, state and municipal taxes, preparation of returns and handling of audits and claims by taxing authorities.

Treasury and Statistical:

Services re financing of associate companies, both short and long-term, determination of capital needs, and preparation of financial and statistical reports.

SCHEDULE II

Determination of Cost of Service and Allocation Thereof

Cost of service will be determined in accordance with the Public Utility Holding Company Act of 1935 and the rules and regulations and orders thereunder, and will include all costs of doing business incurred by the Service Company.

Records will be maintained for each Department and Division of the Service Company in order to accumulate all costs of doing business and to determine the cost of service. These costs will include wages and salaries of employees and related expenses such as insurance, taxes, pensions and other employee welfare expenses, and rent, light, heat, telephone, supplies, and other housekeeping costs. In addition, records will be maintained of general administrative expenses, which will include the costs of operating the Service Company as a corporate entity.

Charges for services rendered and related expenses and non-personnel expenses (e.g., use of automotive equipment, etc.) will be billed directly to the serviced companies, either individually or, when the services performed are for a group of companies, by means of an equitable allocation formula. Each formula will have an appropriate basis such as customers, meters, employees, plant investments, inventories or operating revenues.

Charges for services will be determined from the time sheets of employees and will be computed on the basis of each employee's hourly rate plus a percentage factor to cover related expenses and general administrative expenses. Records of such related expenses and general administrative expenses will be maintained and subjected to periodic review.

Out-of-pocket expenses which are incurred for the services companies will be billed at cost. Charges for non-personnel expenses, such as for use of automobiles, trucks and heavy equipment, will normally be computed on the basis of costs per hour or per mile.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW ENGLAND POWER COMPANY	)	
MASSACHUSETTS ELECTRIC COMPANY	)	
THE NARRAGANSETT ELECTRIC COMPANY	)	
NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION	)	Docket No. EC99-_____
NEW ENGLAND HYDRO-TRANSMISSION CORPORATION	)	
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.	)	
ALLENERGY MARKETING COMPANY, L.L.C.	)	
NGG HOLDINGS LLC	)	

JOINT APPLICATION OF NEW ENGLAND POWER COMPANY, MASSACHUSETTS ELECTRIC COMPANY, THE NARRAGANSETT ELECTRIC COMPANY, NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION, NEW ENGLAND HYDRO-TRANSMISSION CORPORATION, NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC., ALLENERGY MARKETING COMPANY, L.L.C. AND NGG HOLDINGS LLC FOR APPROVAL OF MERGER AND RELATED AUTHORIZATIONS

APPLICATION, ATTACHMENTS AND VERIFICATIONS

Edward Berlin, Esq.
Kenneth G. Jaffe, Esq.
Scott P. Klurfeld, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116
(202) 424-7500

Paul K. Connolly, Jr., Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
260 Franklin Street
Boston, MA 02110
(617) 439-9500

Thomas G. Robinson, Esq.
New England Power Company
25 Research Drive
Westborough, MA 01582
(508) 389-2877
Attorneys for New England Power Company and Affiliated Applicants

Samuel Behrends IV, Esq.
Mary A. Murphy, Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
1875 Connecticut Ave., N.W., Suite 1200
Washington, D.C. 20009
(202) 986-8000
Attorneys for NGG Holdings LLC

March, 1999

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW ENGLAND POWER COMPANY, et al.	)	Docket No. EC99-_____

JOINT APPLICATION OF
NEW ENGLAND POWER COMPANY, et al.
FOR APPROVAL OF MERGER AND RELATED AUTHORIZATIONS

I. INTRODUCTION

Pursuant to Section 203 of the Federal Power Act ("FPA"),(1) and Part 33 of the Commission's Regulations,(2) New England Power Company ("NEP"), its affiliates holding jurisdictional assets(3) (collectively, the "NEES Companies"), and NGG Holdings LLC ("NGG")(4) submit this Application seeking the Commission's approval and related waivers or authorizations to effectuate the merger of NGG into New England Electric System ("NEES"). NEES is the existing holding company for the NEES Companies and NGG is an indirect wholly-owned subsidiary of The National Grid Group plc ("National Grid"). Through the Merger, NEES, which

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(1) 16 U.S.C. ss. 824b (1994).

(2) 18 C.F. R. ss. 33.1 et seq. (1998).

(3) These include the following: Massachusetts Electric Company ("Massachusetts Electric"); The Narragansett Electric Company ("Narragansett"); New England Electric Transmission Corporation; New England Hydro-Transmission Corporation; New England Hydro-Transmission Electric Company, Inc.; and AllEnergy Marketing Company, L.L.C. (which holds no physical facilities for the generation or transmission of electricity but does hold a power marketing certificate (see 82 FERC P. 61,179 (1998)).

(4) All the applicants together are referred to jointly as "Applicants."

will be the surviving entity, and the NEES Companies will become indirect subsidiaries of National Grid.(5)

This Application includes all the information and exhibits required by Part 33 of the Commission's regulations and the Commission's Merger Policy Statement.(6) As demonstrated below, the Merger easily satisfies the criteria established by the Commission. Accordingly, the Applicants respectfully request the Commission approve this Application without condition, modification or evidentiary, trial-type hearing. The parties are attempting to close the Merger expeditiously and thus seek approval by May 31, 1999.

II. EXECUTIVE SUMMARY

The Applicants request that the Commission approve the Merger pursuant to Section 203 of the FPA. The Merger will combine the skills and experience of NEES, which through its wholly-owned utility subsidiaries is a major provider of electric transmission and distribution services in the Northeast, with the complementary talents and resources of National Grid, which is the sole provider of electric transmission services in England and Wales. The Merger will allow the NEES Companies' customers and all users of transmission services in the Northeast to benefit from the application of National Grid's skill in delivering high-quality, low-cost transmission service, developed in the competitive market in the United Kingdom, to the emerging competitive

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(5) While not applicants, NEES and National Grid join this Application for purposes of supporting the approvals sought by the Applicants.

(6) Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592, Docket No. RM96-6-000, 61 Fed. Reg.

68,595 (Dec. 30, 1996), III FERC Stats. & Regs., Regulations Preambles P. 31,044 ("Merger Policy Statement").

market in the Northeast. The merged company will provide an excellent base for further consolidation of regional transmission and distribution operations, which has already commenced with the proposed merger of NEES and Eastern Utilities Associates ("EUA").(7) And, through their enhanced resources and capabilities, the merged company will be better able to take advantage of other business opportunities in the United States and abroad.

Included with the Application are the required exhibits, as well as an affidavit of Dr. Henry J. Kahwaty, Senior Managing Economist at the Law and Economics Consulting Group (included as Attachment 1), demonstrating that the Merger will not have any adverse impact on competition. The Application shows that the Merger is in the public interest, satisfying each of the three tests established in the Merger Policy Statement: (1) it does not adversely affect competition in any market; (2) it does not increase customers' rates; and (3) it does not impair the effectiveness of regulation.

A. The Merger Will Not Adversely Affect Competition.

The Merger will not have an adverse effect on competition. Indeed, as demonstrated by the affidavit of Dr. Kahwaty, the NEES Companies and National Grid and its related companies do not have facilities or sell products in any common geographic markets. With the exception of NEES Global, which does some consulting work outside of the United States, the NEES Companies operate exclusively in the United States, selling electricity, transmission, distribution and related energy services. National Grid and its subsidiaries operate in the United Kingdom and

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(7) The NEES-EUA merger, which was announced on February 1, 1999, will be the subject of a separate filing before this Commission. Appropriate amendments to this Application will also be filed at that time to reflect the change in control for the EUA companies that would result from the completion of the NEES-National Grid Merger.

other countries outside the United States.(8) Because the Applicants do not conduct business in the same geographic markets, there can be no adverse impact on competition. Moreover, the Merger will permit National Grid to make its extensive experience operating in a competitive environment available to the electricity market in the Northeast, helping to move the market in a more competitive direction.

B. The Merger Will Not Subject Customers to Increased Rates.

The Merger will not increase customers' rates. In fact, it will yield customer savings through improved efficiency and enhanced operations of NEES's existing companies. These savings will be both direct, in terms of reduced costs for transmission and distribution services, and indirect by producing improvements in the transmission and distribution network. Transmission network improvements will increase the access of competitive power suppliers to the market, which in turn will help lower power supply costs. And, further savings will be expected from future consolidations in New England, such as the recently announced merger of NEES with EUA, discussed below.

The Merger will generate certain costs, however, in the form of an acquisition premium and transaction costs. The Applicants, however, commit to exclude the premium and the transaction costs from rates, unless and until permitted to include them by specific order of the appropriate regulatory authority. Such rate treatment will only be granted by the regulatory authorities if offsetting benefits from the Merger are demonstrated, and thus rates will not increase even if these items are included in the operating companies' accounts. Consequently, the

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(8) National Grid owns a small non-utility company in the United States, Teldata, Inc., which offers automatic meter reading and related services. The ownership of this company does not have any impact on the competition analysis.

Merger will not have any adverse effect on the rates paid by wholesale or transmission customers of the NEES Companies (or the retail customers of its distribution affiliates).

C. The Merger Will Not Impair the Effectiveness of Federal or State Regulation.

The Merger will not adversely affect either federal or state regulation. With respect to federal regulation, NEES will remain a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA").(9) There will be no change in the relationship among the NEES system of companies as a result of the Merger, and hence there will be no impact on federal regulation for transactions among those companies. National Grid, in its capacity as a holding company above NEES, will also register under PUHCA and be subject to regulation by the Securities and Exchange Commission ("SEC"). To avoid any impact on federal regulation from this change, the Applicants commit to be subject to the Commissions's policy regarding intra-corporate transactions for those transactions involving the sale of non-power goods and services between National Grid, any of its subsidiaries or affiliates, and the NEES operating companies.

With respect to state regulation, the structure of the NEES Companies will not be changed. Each state commission that currently has authority over the NEES operating companies will continue to have authority over the rates, services and operations of those companies. In addition, in each of the states in which the NEES Companies provide retail service, the appropriate state regulatory commission will be requested to state to the SEC that the state commission has adequate authority and resources to protect customers and will continue to exercise that authority after the Merger. To the extent required by state law, these applications

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(9) 15 U.S.C. ss. 79 et seq. (1994).

will also seek approval from the responsible state agency. These applications will provide state regulators with the opportunity to deal directly with any concerns they may have regarding the Merger. The Merger, accordingly, will not impair state regulation.

Because the Merger satisfies all of the requirements of Section 203 of the FPA, the Commission's regulations and the Merger Policy Statement, the Commission should find that the Merger is consistent with the public interest and approve the Application by May 31, 1999, without modification or condition and without holding a trial-type hearing.

III. DESCRIPTION OF THE PARTIES TO THE MERGER

A. The NEES System of Companies

1. NEES

NEES is a registered public utility holding company headquartered in Westborough, Massachusetts. Its subsidiaries are engaged in the transmission and distribution of electricity and the marketing of energy commodities and services. The electricity delivery companies serve approximately 1.3 million customers in Massachusetts, Rhode Island, and New Hampshire. Other NEES subsidiaries offer telecommunications and other services. NEES does not directly own any facilities subject to Commission jurisdiction.

2. NEP

NEP, a wholly-owned subsidiary of NEES, is a Commission-regulated public utility company organized and operated under the laws of the Commonwealth of Massachusetts. It operates approximately 2,400 miles of transmission facilities. NEP has recently disposed of

effectively all its non-nuclear generating assets,(10) but still holds minority, non-operating interests in three nuclear generating companies with retired nuclear facilities (Yankee Atomic, Connecticut Yankee, and Maine Yankee) and in three other operating nuclear units (Vermont Yankee, Millstone 3, and Seabrook). NEP has agreed to attempt to divest these nuclear entitlements as required by its restructuring settlements approved by this Commission and the state commissions regulating its affiliates.

3. Affiliates of NEP

a. Distribution companies

(1) Massachusetts Electric

Massachusetts Electric is a wholly-owned subsidiary of NEES and provides electric energy to approximately 960,000 retail customers in 146 cities and towns in the Commonwealth of Massachusetts. Massachusetts Electric's service area covers approximately 43 percent of the Commonwealth.

(2) Narragansett

Narragansett is a wholly-owned subsidiary of NEES. Narragansett is the largest electric utility company in Rhode Island and provides service to approximately 325,000 retail customers across a service territory that covers 27 cities and towns.

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(10) NEP continues to own a 9.3 percent share in a single oil-fired generating unit, which it is actively attempting to sell. See Attachment 1 at P. 5, note 3.

(3) Granite State Electric Company

Granite State Electric Company ("Granite State") is a wholly-owned subsidiary of NEES operating in New Hampshire. It is engaged in the purchase, distribution and sale of electric energy at retail. Granite State provides service to approximately 36,000 customers in 21 communities.

(4) Nantucket Electric Company

Nantucket Electric Company ("Nantucket Electric") is a wholly-owned subsidiary of NEES operating in the Commonwealth of Massachusetts. Nantucket Electric is engaged in the distribution of electric energy at retail to approximately 10,000 customers on Nantucket Island. The company's service area

covers the entire island.(11)

b. Transmission Companies

(1) New England Electric Transmission Corporation

New England Electric Transmission Corporation is a wholly-owned subsidiary of NEES and operates a direct current/alternating current converter terminal and related facilities for the first phase of the Hydro-Quebec and New England interconnection and six miles of high-voltage direct current transmission line in New Hampshire.

(2) New England Hydro-Transmission Corporation

NEES owns 50.4338 percent of the common stock of New England Hydro-Transmission Corporation. New England Hydro-Transmission Corporation operates 121 miles of high-voltage

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(11) Both Granite State and Nantucket Electric support the transaction, but are not listed as applicants because neither owns any jurisdictional facilities.

direct current transmission line in New Hampshire for the second phase of the Hydro-Quebec and New England interconnection, extending to the Massachusetts border.

(3) New England Hydro-Transmission Electric Company, Inc.

NEES owns 50.4338 percent of the common stock of New England Hydro-Transmission Electric Company, Inc. which operates a direct current/alternating current terminal and related facilities for the second phase of the Hydro-Quebec and New England interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts.

c. Energy Marketer -- AllEnergy Marketing Company, L.L.C.

NEES, through its subsidiary, NEES Energy, Inc., owns 100 percent of the voting securities of AllEnergy Marketing Company, L.L.C. ("AllEnergy"). AllEnergy is a Commission-certificated power marketer and is engaged in the sale of electric energy, natural gas and heating oil to commercial, industrial and residential consumers in competitive markets in the Northeast, as well as offering related value-added services. AllEnergy also markets propane, fuel oil and other liquid fuels through its subsidiary, Texas Fluids. In addition, AllEnergy sells fuel oil through its PAL and Griffith operating divisions, which were recently acquired by the Company.

d. Other Companies

NEES owns equity in the following companies: NEES Global, which owns a 100 percent equity interest in New England Water Heater Co., Inc. (providing rental, service, sales and installation of water heaters) and which also provides consulting services to utilities in the United States, Canada and elsewhere; New England Power Service Company (providing support services to NEES and its subsidiaries); NEES Communications, Inc. (providing telecommunication and

information-related products and services); Granite State Energy, Inc. (marketing electricity to New Hampshire customers participating in that state's pilot program for retail choice) and Metrowest Realty LLC (owning certain properties occupied by NEES subsidiaries).

B. The National Grid System of Companies

1. National Grid

National Grid is a holding company incorporated in England and Wales. It owns all the shares of The National Grid Company plc, a corporation that is the world's largest privately owned independent electric transmission company. The National Grid Company owns, operates and maintains the high voltage network in England and Wales, which connects power stations with distribution networks. The National Grid Company also is responsible for scheduling and dispatching generation to meet demand second-by-second and manages and controls the software systems to do so. Additionally, The National Grid Company owns and operates interconnectors that enable electricity to be transferred between the England and Wales market and Scotland and France. National Grid currently has almost no assets in the U.S.,(12) none in markets served by the NEES Companies or their utility affiliates, nor is National Grid engaged in any activity in any U.S. utility markets.

2. Electric Market Service Subsidiaries

a. Energy Settlement and Information Services Limited

Energy Settlement and Information Services Limited, incorporated in England and Wales, is a wholly-owned subsidiary of National Grid. It operates the computer systems needed to

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(12) See note 8, above.

calculate prices and payments due as a result of the daily trading of power

across England and Wales.

b. Energy Pool Funds Administration Limited

Energy Pool Funds Administration Limited, incorporated in England and Wales, is a wholly-owned subsidiary of National Grid. Under a contract with the England and Wales power pool, it manages the transfer of funds in payment for energy traded.

c. Datum Solutions Limited

Datum Solutions, also a wholly-owned subsidiary of National Grid, provides specialized metering services in the United Kingdom at entry and exit points of the transmission system, and more widely to customers in the competitive market.

d. Teldata, Inc.

Teldata, Inc., a wholly-owned subsidiary of National Grid, is based in the United States and provides the same type of specialized metering services as Datum Solutions offers.

3. Telecommunications Affiliate - Energis

Energis is a telecommunications company primarily focused on the business marketplace. Energis mainly uses fiber optics installed in a substantial part of National Grid Company's existing infrastructure and controls over 3,125 route miles of fiber optic cable in the United Kingdom. Energis also has a capacity sharing agreement with Scottish Telecom. National Grid, through a subsidiary, NGG Telecom Ltd., retains a 48.7 percent economic interest in Energis.

4. National Grid Overseas Limited

a. This subsidiary of National Grid is a 41.25 percent partner in Citelec, S.A., which owns a substantial share in, and is the registered operator for, the Transener electric transmission network in Argentina, representing 95 percent of the Argentine high voltage system.

b. This same subsidiary holds one-half of a partnership owning interests totaling approximately 80 percent in a company -- Copperbelt Energy Corporation -- that supplies electricity to the mines in Zambia through long-term contracts.

c. The subsidiary has recently been selected as a joint venture partner for a 30-year concession to build, own, operate and maintain a 400-mile transmission line in

India.

d. A consortium, of which 50 percent is owned by National Grid, will construct a major new communications network in Brazil, intended to cover the major population centers of that country within three years.

5. NGG

NGG, a Massachusetts limited liability company, is a wholly-owned indirect subsidiary of National Grid, which was formed for the express purpose of merging into NEES and effectuating the transaction.

6. Other Companies

National Grid also owns an insurance company, National Grid Insurance, which provides insurance services to National Grid and its subsidiaries, National Grid (USA) Inc., which was formed to research potential investments in the United States for National Grid, several intermediate holding companies that own certain of the above-listed companies, as well as other companies formed to hold various assets of National Grid.

IV. DESCRIPTION OF THE MERGER

A. Goals and Benefits of the Merger

As is explained in more detail in the filings with the state commissions,(13) the Merger will produce benefits by bringing together the core skills of National Grid with the focused transmission and distribution business of NEES. National Grid has proven expertise and nine years of experience in operating a transco in a fully competitive power market. It also has experience operating a transmission network in a competitive market with an independent system operator ("ISO").(14) It has demonstrated an ability to improve system performance in both environments through investing in and managing complex transmission networks and sophisticated software systems to control the networks in real time. The skills developed and lessons learned in the competitive markets in both the transco and ISO environments, whether or not directly applicable to the Northeast, will be of great benefit to NEES, NEPOOL and the ISO New England in approaching and resolving the same types of issues that National Grid has already

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(13) See Exhibit G. State filings not included with this Application will be provided under separate cover when filed.

(14) See Attachment 1 at P. 14.

faced in these other markets. It should be emphasized that this new company will be an independent provider of transmission and distribution services, as NEES has divested all of its generation assets (other than small interests in one oil-fired plant and in a few nuclear plants, all of which it is also planning to divest) and National Grid has no such assets.(15) This combination of experience, expertise and focus, which no other company in the United States offers, will benefit customers, employees and shareholders.

Customers, while continuing to receive service from the existing NEES Companies at rates among the lowest in the region, will benefit from the Merger in several ways.

First, customers will benefit from savings and efficiency gains as integration possibilities are realized. Over time, National Grid's significantly larger scale, both financial and operational, will enhance the combined company's ability to be at the leading edge of developments in transmission, distribution and information system technology, and in capital markets. This will permit the combined company to provide customers with high quality transmission and distribution services at reasonable costs.

Second, the NEES operating companies will be able to apply National Grid's skills to improve overall transmission and distribution system operations. This will provide more electricity suppliers with access to customers, thereby increasing competition. This, in turn, should reduce customers' power supply costs.

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(15) National Grid's articles of incorporation prohibit companies that trade in the England and Wales electricity market from owning more than a one percent (1%) interest in the shares of National Grid. They also prohibit officials associated with generation companies from being directors of the entity in the National Grid family of companies that has the transmission license or such entity's holding company.

Finally, the merged entity, with its independence from generation that allows it to focus on transmission and distribution services, will have the resources and incentive to maximize transmission and distribution opportunities. The Applicants are aware of the Commission's interest in proposed regional transmission organizations and believe their combination is fully consistent with that concept. The combination offers the experience and resources that can be important tools in pursuing greater regional integration.

The proposed merger of NEES and EUA, discussed below in Section IV.B., is an indication of that capability. NEES and National Grid both believe that the

EUA merger will lead to significant additional customer benefits by reducing duplication and by expanding to more customers the superior service and lower costs that the NEES/National Grid merged entity can offer.

For employees, the Merger will increase opportunities for growth. These opportunities are both in the United States, as the merged company pursues its intention to expand operations, and abroad as the possibilities of employment with the National Grid system of companies become available to NEES employees.

The Merger also will generate significant shareholder benefits. NEES's shareholders will receive a cash payment for their shares. This payment includes a significant premium whether viewed in terms of market value (125% of the value on the day before the Merger was announced) or book value (approximately 200% of the value on September 30, 1998). National Grid's shareholders benefit as well, because the diversification and expansion of resources will produce a combined entity well positioned to compete effectively in the future.

In sum, the Merger partners believe that the combined resources and experience of the two companies will produce a stronger, more competitive company that will be able to expand its operations and business in the United States, while pursuing opportunities elsewhere, producing significant benefits to customers, employees and shareholders.

B. Procedural Status of the Merger

The Merger Agreement (attached as Exhibit H) establishes that NEES will merge with NGG, with NEES continuing as the surviving corporation. NEES's outstanding shares will be canceled upon completion of the Merger, and its shareholders will receive in return a cash payment of $53.75 (subject to upward adjustment). The total purchase price is approximately $3.2 billion. Each 1% of interest in NGG will be converted into a share of the surviving company. The end result of the Merger will be to establish a new layer of holding company above NEES, with NEES being a wholly-owned subsidiary of National Grid.

As is virtually always done in United Kingdom cross-border transactions, there will be one or more intermediate entities, themselves wholly-owned, directly or indirectly, by National Grid, between National Grid and NEES. This type of structure is utilized by United Kingdom companies with foreign subsidiaries to avoid losing United Kingdom tax relief for foreign taxes paid on profits repatriated to the United Kingdom, and to minimize taxes on the repatriation of foreign subsidiary profits. The structure will have no impact on the control of NEES nor will the structure affect the financial integrity of NEES or its relationship with National Grid. NEES will remain a registered public utility holding company under PUHCA and will be wholly-owned by National Grid, which itself will register as a public utility holding company. National Grid's other utility subsidiaries operating in the United Kingdom and elsewhere outside the United States will

seek foreign utility company status under PUHCA. Applicants will inform the Commission of the final structure of the transaction in their compliance letter to be filed at the closing of the transaction.

The NEES corporate headquarters will remain in Massachusetts, and NEES and its operating subsidiaries will retain their separate corporate status and names following the merger.(16) The president and chief executive officer of NEES will continue in those positions and he will join the board of National Grid, as an executive director. One of NEES's outside directors will also join the board of National Grid.

The Boards of Directors of both NEES and National Grid have approved the Merger, as shown in Exhibit A. The completion of the Merger is subject to certain conditions, including those involving regulatory and shareholder approval, which are now being sought.

NEES is also engaged in additional merger activity. On February 1, 1999, the merger of NEES with EUA was announced. EUA is a Boston-based public utility holding company whose subsidiaries include electric transmission and distribution utilities in southeastern Massachusetts and northern and south coastal Rhode Island. Under the merger plan, NEES will acquire all the outstanding shares of EUA. EUA's operating subsidiaries will be merged into the NEES operating companies, with the president and chief executive officer of NEES becoming the president and chief executive officer of the combined company. The combined company will serve 1.6 million electricity customers in 228 New England communities.

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(16) There may be some changes in the location or corporate status of some of the operating companies as a result of the merger of NEES and EUA and the subsequent consolidation of their operating companies.

The Merger with EUA is not contingent upon the completion of the Merger with National Grid addressed in this Section 203 Application. But the merger with EUA has the full support of National Grid. A separate Section 203 Application addressing the NEES/EUA merger will be filed in the near future, as well as any necessary amendments to this Application to reflect that filing.

V. THE MERGER IS CONSISTENT WITH THE PUBLIC INTEREST

Section 203(a) of the FPA provides, in pertinent part, that

> No public utility shall sell, lease, or otherwise dispose

> of . . . its facilities subject to the jurisdiction of the Commission . . . or by any means whatsoever, directly or indirectly, merge or consolidate such facilities or any part thereof with those of any other person, or purchase, acquire, or take any security of any other public utility, without first having secured an order of the Commission authorizing it to do so . . . . After notice and opportunity for hearing, if the Commission finds that the proposed disposition, consolidation, acquisition, or control will be consistent with the public interest, it shall approve the same.(17)

The statute thus requires the Commission to approve a merger if it finds the merger is in the public interest. In the Merger Policy Statement, the Commission established that the following issues need to be examined to determine if a merger is in the public interest: (1) the effect of the merger on competition; (2) the effect of the merger on rates; and (3) the effect of the merger on regulation. As is demonstrated in this Application and supporting materials, the Merger will not have an adverse effect in any of the three areas. Consequently, the Merger is in the public interest and the Commission should approve it promptly.

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(17) 16 U.S.C. ss. 824b(a) (1994) (emphasis added).

A. The Merger Will Have No Adverse Effect on Competition.

The affidavit of Dr. Henry Kahwaty establishes that the Merger raises no competitive issues. Dr. Kahwaty explains that NEES and National Grid do not compete in any relevant geographic markets, with the NEES Companies' transmission and distribution activities taking place in the United States and National Grid's comparable activities in the United Kingdom or other foreign markets.(18) The companies do not provide electric generation service in any overlapping geographic area. NEES has sold nearly all its generation assets, and is attempting to sell the remainder, and National Grid does not own or control any such assets.(19) With respect to transmission, the facilities of each are separated by thousands of miles, with no interconnections.(20) Moreover, transmission over NEES's facilities is governed by existing open access-transmission tariffs of both NEP and NEPOOL, further assuring there can be no concerns regarding transmission market power.(21) Because there are no common facilities or sales of relevant products in common geographic markets, the Merger will not change the current structure of the market or reduce the number of competitors. The Merger presents no competitive concerns at all.

In fact, the Merger should have a positive impact on competition. National Grid has experience operating in a regime where it is required by

statute to "facilitate competition in the

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(18) Attachment 1 at P. P. 4-9, 13, 15. See Section III and note 8, above.

(19) Attachment 1 at P. 9. See also note 15, above.

(20) Attachment 1 at P. 8.

(21) Id. at P. 13.

supply and generation of electricity."(22) It has had nine years of experience fulfilling such a role, offering open access on non-discriminatory terms to its transmission system and scheduling competitive sources of generation to meet demand. This experience makes it well placed to contribute to the development of a competitive electricity market in the Northeast.(23)

In the Merger Policy Statement the Commission stated that where there are no competitive concerns presented

> it will not be necessary for the merger applicants to perform the screen analysis or file the data needed for the screen analysis . . . [since] [i]n these cases, the proposed merger will not have an adverse competitive impact (i.e., there can be no increase in the applicants' market power unless they are selling relevant products in the same geographic markets) so there is no need for a detailed data analysis.(24)

The Commission's proposed revision to its merger rules indicates that it intends to adhere to this policy.(25) In the NOPR, the Commission stated that if an applicant affirmatively demonstrates that the "merging entities do not operate in the same geographic market," the applicants "need not provide the full competitive screen analysis."(26) The affidavit of Dr. Kahwaty

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(22) Electricity Act, 1989, Ch. 29 (Eng.).

(23) See Attachment 1 at P. P. 14-15.

(24) Merger Policy Statement at 68,597. Dr. Kahwaty's affidavit explains that this conclusion of the Commission is fully consistent with the procedures used in the Horizontal Merger Guidelines, jointly issued by the Department of Justice and Federal Trade Commission. See Attachment 1 at P. 11.

(25) Notice of Proposed Rulemaking, Revised Filing Requirements Under Part 33 of the Commission's Regulations, Docket No. RM98-4-000, 63 Fed. Reg.

20,340 (April 24, 1998), III FERC Stats. and Regs., Regulations Preambles P. 32,528 ("NOPR").

(26) Id. at 20,348-49.

affirmatively demonstrates that there is no competitive overlap.(27) This is the paradigm of a case in which no competitive screen analysis or further information under Appendix A to the Commission's merger guidelines is required. The Merger thus satisfies the first test of the Commission's Merger Policy Statement.

B. The Merger Will Have No Adverse Effect on Rates.

The Merger Policy Statement makes clear that the Commission's concern regarding the effect on rates is with wholesale and transmission ratepayer protection.(28) There will be no change in the NEES Companies that would have an adverse effect on wholesale or transmission rates. There will be no adverse effect on wholesale rates because, with the divestiture of almost all of its generation assets (and plans to sell the remainder), NEP makes only extremely limited wholesale sales, and the arrangements that are currently in place will continue to govern such sales.(29) With respect to transmission rates, the NEES Companies will retain ownership of their transmission systems, with access provided through currently effective open-access transmission tariffs. In this

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(27) Attachment 1 at P. 15. The affidavit also demonstrates that there are no vertical or potential competition issues involved in the Merger. See Attachment 1 at P. P. 12 and 13.

(28) Merger Policy Statement at 68,599.

(29) NEP retains its existing wholesale requirements tariff and associated service agreements with its former large wholesale customers, but only to provide a mechanism to allow the recovery of certain costs that it is permitted to recover from those customers as a consequence of various restructuring settlements. See, e.g., Restructuring Settlement Agreement, Massachusetts Dept. of Pub. Utilities, Docket Nos. 96-100 and 96-25, copy available at www.nees.com/new/settlmnt.htm.

situation, there is no need for the imposition of any incremental layer of protection for ratepayers.(30)

There will be an acquisition premium and transaction costs associated with the Merger, but there will be no request in this Application to recover these items through rates.(31) The acquisition premium and transaction costs may be pushed down to the operating companies.(32) Under state law governing the operating companies, recovery of the acquisition premium and transaction costs may be gained upon a showing of countervailing savings or other benefits.(33) Similar principles govern recovery for the operating companies subject to the Commission's jurisdiction.(34) Neither the acquisition premium nor transaction costs will be put into rates at

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(30) See, e.g., New York State Electric & Gas Corp., et al., 86 FERC P. 61,020, slip op. at 9 (1999) (no additional protection needed for transmission customers where no change in ownership of transmission facilities). MidAmerican Energy Co. and MidAmerican Energy Holdings Co., 85 FERC P. 61,354 (1998) (no additional protection needed for transmission customers if held harmless from costs).

(31) See Testimony of M.E. Jesanis, at 17. Because the merger will not involve the combination of utilities with similar organizations and functions, there will be limited transition costs. See Enron Corp. and Portland General Corp., 78 FERC P. 61,179, 61,739 (1997).

(32) See Section VI, below.

(33) See, e.g., Northern Indiana Public Service Co. - Bay State Gas Co. Acquisition, Docket D.T.E. 98-31 (Mass. D.T.E. 1998); Eastern Enterprises - Essex Gas Co. Acquisition, Docket D.T.E. 98-27 (Mass. D.T.E. 1998); Mergers and Acquisitions, Docket D.T.E. 93-167-A (Mass. D.P.U. 1994); Valley Gas Co., Docket No. 2276, pp. 18-20 (Rhode Island PUC, Oct. 18, 1995).

(34) See, e.g., Arkla Energy Resources, 61 FERC P. 61,004 (1992); Minnesota Power & Light Co. and Northern States Power Co., 43 FERC P. 61,104, 61,342 (1988); United Gas Pipe Line Co., 25 FPC 26 (1961), reversed and remanded on other grounds sub nom., Willmut Gas and Oil Co. v. FPC, 299 F.2d 111 (D.C. Cir. 1962). Applicants recognize that Commission policy would ordinarily not allow recovery in wholesale or

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either the state or federal level without separate approval by the appropriate regulatory agency finding that the offsetting benefits test has been satisfied. Consequently, there can be no adverse effect on rates.

The fact that no additional ratepayer protection is needed is confirmed by looking at the only structural change effectuated by the Merger -- imposing a new holding company layer over NEES. In similar cases, the Commission has found

that no ratepayer protection is needed other than requiring the utility to hold ratepayers harmless from the costs associated with the transaction.(35) As explained above, the Applicants have, consistent with this policy, agreed that no acquisition premium or transaction costs will be included in rates without specific regulatory approval, which will be granted only if there are offsetting savings. Ratepayers will be held harmless. The second test is satisfied.

C. The Merger Will Have No Adverse Effect on Regulation.

In the Merger Policy Statement, the Commission stated that its analysis would address two aspects to determine whether a merger would impair effective regulation. The first is whether the merger would transfer authority from the Commission to the SEC. If no such transfer would occur, or if the applicants were to commit to abide by the Commission's policies with respect to intra-system transactions within the holding company structure, the test would be

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(34)(continued...)

transmission rates of an acquisition premium for this kind of transaction. Accordingly, Applicants will not request recovery of the acquisition premium or transaction costs in rates subject to the Commission's jurisdiction absent a change in policy from the Commission

(35) See. e.g., Central Maine Power Co., 84 FERC (P.) 51,030, 61,134 (1998). See also Atlantic City Electric Co., 80 FERC (P.) 61,126 (1997).

satisfied. Otherwise, a hearing on the effect of the proposed transaction on effective regulation by the Commission would be required. The second part of the test is whether the affected states would have authority to act on the merger or request Commission review.(36) If the states have authority to act on the merger or do not otherwise request Commission review, the Commission will find that there would be no adverse effect on state regulation, and will not set the issue for hearing. The Merger of NEES and National Grid satisfies both aspects of this test and hence would not impair effective regulation at the federal or state level.

1. Federal Regulation

NEES is currently a registered holding company under PUHCA and consequently there will be only a very limited impact on the federal regulatory structure as a result of the Merger. Although the Merger places a new holding company layer over NEES, the relationship of NEES to its subsidiaries remains unchanged. Accordingly, the current federal regulatory controls over NEES and its subsidiaries are unaffected.(37)

National Grid, which will become a registered holding company under PUHCA will be subject to SEC regulation. To avoid any change in the pre-existing scope of federal regulation, Applicants hereby make the following commitment: with respect to any transaction involving the

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(36) Merger Policy Statement at 68,603-04; see American Electric Power Co. and Central and Southwest Corp., 85 FERC (P.) 61,201, 61,819 (1998).

(37) One additional positive feature of the Merger with respect to federal regulation should be noted. National Grid has had practical experience in operating under performance-based regulation, both in terms of an index standard applicable to transmission rates, and a sliding-scale "profit sharing" formula with respect to the costs of managing the transmission system, and ensuring system security and quality of supply on a daily basis. This experience should be useful as the Commission examines changes in regulation to deal with the newly developing competitive market.

sale of non-power goods and services between any of the NEES Companies and National Grid or any of its subsidiaries or affiliated companies, the NEES Companies agree to be subject to the Commission's policy on intra-corporate transactions. Because his commitment assures that the Commission will have the appropriate oversight over such sales of non-power goods and services involving the new layer of affiliate transactions resulting from the Merger, there will be no adverse effect on federal regulation from the Merger.(38)

2. State Regulation

With respect to state regulation, there will not be any change as a result of the Merger. The Merger does not change the corporate existence, financing, operations or service of the NEES Companies, but only imposes the new holding company layer on top of the existing holding company. Each of the NEES operating companies regulated by a state before the Merger will continue to be subject to plenary state regulatory jurisdiction after the Merger.

In addition to the fact that the Merger will not affect state regulatory control, it is contemplated that filings will be made with those state commissions that require or request them. These filings will provide full information regarding the transaction and provide the affected states with an opportunity to evaluate any impact on state regulation associated with the transaction. State concerns, if any, will be addressed directly in the state or as part of the proceedings before

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(38) In addition, National Grid will make available upon request of the

Commission all publicly available financial information and related books and records (including shareholder information, interim and annual reports, and annual results). To the extent that National Grid files additional financial information with the Office of Electricity Regulation in the United Kingdom, it will also make that information available to the extent such information is subject to release to the public under the applicable rules and regulations of the Office of Electricity Regulation. Moreover, National Grid will make available upon request information necessary to support the pricing for the sales of goods and services between the National Grid system of companies and the NEES Companies.

the SEC or this Commission. Accordingly, there will be no adverse effect on state regulation as a result of the Merger.

VI. ACCOUNTING TREATMENT

In accordance with the Merger Policy Statement,(39) proper accounting principles will be applied to the Merger. The proposed merger transaction will be accounted for using the purchase method of accounting because the necessary conditions to apply pooling of interest accounting are not met by the structure of this business combination.(40) The purchase method has been approved by the Commission when the pooling of interests method is not appropriate.(41) The acquisition premium recorded under the purchase method of accounting may be pushed down to the NEES operating companies. Recording the acquisition premium on the acquired companies' books is consistent with SEC guidance,(42) and the Commission has approved it previously.(43)

The NEES Companies expect to achieve savings and efficiencies for their customers as a result of this Merger, and anticipated mergers with other electric systems, including the recently

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(39) Merger Policy Statement at 68,604.

(40) The method cannot be used if a substantial amount of assets have been disposed of within a five-year period prior to the announcement of the transaction. NEES disposed of its non-nuclear generation assets last year, and hence the criteria required for use of the "pooling of interests" method is not met.

(41) MidAmerican Energy Co., 85 FERC at 62,370; PG&E Corp. and Valero Energy Corp., 80 FERC (P.) 61,041 (1997); Enron Corp., 78 FERC at 61,739-40; Entergy Services, Inc. and Gulf States Utils. Co., 65 FERC (P.) 61,332, 62,532-40 (1993).

(42) See APB Opinion No. 16.

(43) See El Paso Electric Co. and Central and South West Services, Inc., 68 FERC (P.) 61,181, 61,918-19 (1994); Entergy Services, 65 FERC at 62,537.

announced merger agreement between NEES and EUA. As discussed above in Section V.B., to the extent the acquisition premium and transaction costs are pushed down, the retail operating companies plan to seek permission from state authorities to recover the acquisition premium and transaction costs in rates when it can be demonstrated that such savings and efficiencies have been achieved. The operating companies subject to the Commission's jurisdiction will seek rate recovery only if Commission policy changes to permit such recovery.

Finally, consistent with Commission policy, Applicants will submit their proposed accounting entries to the Commission for approval within six months after the Merger is consummated.(44) This submission will provide all accounting entries necessary to reflect the Merger, along with appropriate narrative explanations describing the bases for the entries.

VII. INFORMATION REQUIRED OF APPLICANTS BY SECTION 33.2 OF THE COMMISSION'S REGULATIONS

A. The exact name and address of the principal business office.

The address of the principal business office to be used for the NEES companies is:

New England Power Company
25 Research Drive
Westborough, MA 01582

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(44) MidAmerican Energy Co., 85 FERC at 62,370; 18 C.F.R. Pt. 101, Electric Plant Instruction No. 5 and Account 102, P. B (1998).

The address of NGG's principal business office is:

NGG Holdings LLC
c/o The National Grid Group plc
National Grid House
Kirby Corner Road
Coventry CV4 8JY
United Kingdom

B. Name and address of the person authorized to receive notices and communications in respect to application.

For the NEES Companies:

Edward Berlin, Esq.
Kenneth G. Jaffe, Esq.
Scott P. Klurfeld, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007-5116
Telephone: 202-424-7500
Facsimile: 202-424-7643
eberlin@swidlaw.com
kgjaffe@swidlaw.com
spklurfeld@swidlaw.com

Thomas G. Robinson, Esq.
New England Power Company
25 Research Drive
Westborough, MA 01582
Telephone: 508-389-2877
Facsimile: 508-389-2463

For NGG:

Jonathan M.G. Carlton
National Grid [USA] Inc.
2 Oliver Street
Boston, MA 02109
Telephone: 617-946-2104
Facsimile: 617-946-2111

Paul J. Connolly, Jr., Esq.
LeBoeuf, Lamb, Greene
& MacRae, LLP
260 Franklin Street
Boston, MA 02110
Telephone: 617-439-9500
Facsimile: 617-439-0341

Samuel Behrends IV, Esq.
Mary A. Murphy, Esq.
LeBoeuf, Lamb, Greene
& MacRae, LLP
Suite 1200
1875 Connecticut Ave., N.W.
Washington, D.C. 20009
Telephone: 202-986-8000
Facsimile: 202-986-8147

C. Designation of the territories served by counties and states.

NEP provides transmission service through facilities located in Massachusetts, Rhode Island, New Hampshire and Vermont. It also continues to provide very limited wholesale electric service to a few customers.

Narragansett provides retail electric service in 27 municipalities in Bristol, Kent, Newport, Providence and Washington Counties in Rhode Island.

Massachusetts Electric provides retail electric service in 149 municipalities in Berkshire, Bristol, Essex, Franklin, Hampden, Hampshire, Middlesex, Norfolk, Suffolk and Worcester Counties in Massachusetts.

Granite State provides retail electric service in 23 municipalities in Cheshire, Grafton, Hillsborough, Rockingham and Sullivan Counties in New Hampshire.

Nantucket Electric provides retail electric service in the County of Nantucket in Massachusetts.

New England Electric Transmission Corporation, New England Hydro-Transmission Corporation, and New England Hydro-Transmission Electric Company, Inc. provide high-voltage transmission service in New Hampshire or Massachusetts.

AllEnergy sells electric power and other energy products as a marketer throughout the Northeast and elsewhere in the United States.

None of the other affiliates of the Applicants provides electric sales or transmission service at retail or wholesale in the United States.

D. A general statement briefly describing the facilities owned or operated for transmission of electric energy in interstate commerce or the sale of electric energy at wholesale in interstate commerce.

NEP is engaged in the wholesale sale and transmission of electric energy in interstate commerce. NEP owns 2,283 miles of transmission lines that are used to transmit power in New England. As described above in Section III, NEP owns minority, non-operating interests in certain nuclear generating facilities and a very small minority interest in one oil-fired plant.

Narragansett owns 337 miles and Massachusetts Electric owns 81 miles of transmission facilities that are controlled by NEP under integrated facilities agreements.

Three other NEES subsidiaries own and operate a total of approximately 139 miles of transmission facilities that comprise part of the transmission intertie between New England and Hydro Quebec: New England Electric Transmission Corporation, New England Hydro-Transmission Corporation and New England Hydro-Transmission Electric Company, Inc.

NEES, as stated above, is a registered holding company and, as such, is subject to regulation by the SEC. NEES does not directly own any facilities subject to the Commission's jurisdiction.

No other Applicant or affiliated company owns jurisdictional facilities.

E. Whether the application is for disposition of facilities by sale, lease, or otherwise, a merger or consolidation of facilities, or for purchase or acquisition of securities of a public utility, also a description of the consideration, if any, and the method of arriving at the amount thereof.

The Merger involves the acquisition by National Grid of NEES as described in Section IV of the Application, above. A copy of the Merger Agreement is included as Exhibit H to this Application.

F. A statement of facilities to be disposed of, consolidated, or merged, giving a description of their present use and of their proposed use after disposition, consolidation, or merger. State whether the proposed disposition of facilities or plan for consolidation or merger includes all the operating facilities of the parties to the transaction.

The Merger includes all of the operating facilities of Applicants, including all franchises, permits and operating rights owned by them and their subsidiaries. Following the Merger, all jurisdictional facilities will be operated in substantially the same manner as they are currently operated.

G. A statement (in the form prescribed by the Commission's Uniform System of Accounts for Public Utilities and Licensees) of the cost of the facilities involved in the sale, lease, or other disposition or merger or consolidation. If original cost is not known, an estimate of original cost based, insofar as possible, upon records or data of the applicant or its predecessors must be furnished, together with a full explanation of the manner in which such estimate has been made, and a description and statement of the present custody of all existing pertinent data and records.

See Exhibit C to this Application.

H. A statement as to the effect of the proposed transaction upon any contract for the purchase, sale, or interchange of electric energy.

The Merger will not have any known effect on the rights, interests or obligations of the parties to contracts for the purchase, sale, transmission or interchange of electric energy involving NEES, the NEES Companies or National Grid.

I. A statement as to whether or not any application with respect to the transaction or any part thereof is required to be filed with any other Federal or State regulatory body.

The following are the other regulatory approvals or filings that are contemplated being made and copies are included with this Application as Exhibit G or will be provided upon filing:

1. NEES and National Grid will file an application with the SEC for approval of the Merger pursuant to PUHCA.

2. NEP, as holder of minority interests in several nuclear facilities as described above, will file an application with the Nuclear Regulatory Commission for approval because the Merger may constitute an indirect transfer of control under the Atomic Energy Act of 1954.

3. NEES and National Grid will submit to the Federal Trade Commission and the Department of Justice the information required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976. In addition, NEES and National Grid will make a filing as required by the Exxon-Florio Amendment.(45)

4. Informational filings have been or will be made as requested or required with the state commissions in which the NEES Companies make retail deliveries. To the

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(45) 50 U.S.C. App. ss. 2170

extent not provided with this Application, these filings will be provided under separate cover.

5. NEP will file requests for approval of the Merger with the Connecticut Department of Public Utility Control and the Vermont Public Service Board.

J. The facts relied upon by applicants to show that the proposed disposition, merger, or consolidation of facilities or acquisition of securities will be consistent with the public interest.

See Section V of this Application, above.

K. A brief statement of franchises held, showing date of expiration if not perpetual.

Only the retail distribution affiliates of NEES have franchises. The franchises of those companies that are Applicants are listed below.

Massachusetts Electric Company has non-exclusive franchise rights to serve in the following cities and towns located in the Commonwealth of Massachusetts: Adams, Alford, Amesbury, Andover, Athol, Attleboro, Auburn, Ayer, Barre,

Belchertown, Bellingham, Berlin, Beverly, Billerica, Blackstone, Bolton, Boxford, Brimfield, Brookfield, Charlemont, Charlton, Chelmsford, Cheshire, Clarksburg, Clinton, Douglas, Dracut, Dudley, Dunstable, East Brookfield, East Longmeadow, Egremont, Erving, Essex, Everett, Florida, Foxborough, Franklin, Gardner, Gloucester, Goshen, Grafton, Granby, Great Barrington, Groton, Hamilton, Hampden, Hancock, Hardwick, Harvard, Haverhill, Hawley, Heath, Hingham, Holbrook, Holland, Hopedale, Hubbardston, Lancaster, Lawrence, Leicester, Lenox, Leominster, Lowell, Lynn, Malden, Manchester, Marlborough, Medford, Melrose, Mendon, Methuen, Milford, Millbury, Millville, Monroe, Monson, Montery, Mt. Washington, Nahant, Nantucket, New Braintree, Newbury,

Newburyport, New Marlborough, New Salem, North Adams, Northampton, North Andover, Northborough, Northbridge, North Brookfield, Norton, Oakham, Orange, Oxford, Palmer, Paxton, Pepperell, Petersham, Phillipston, Plainville, Quincy, Randolph, Rehoboth, Revere, Rockport, Rowe, Royalston, Rutland, Salem, Salisbury, Saugus, Seekonk, Sheffield, Shirley, Shutesbury, Southborough, Southbridge, Spencer, Stockbridge, Sturbridge, Sutton, Swampscott, Tewksbury, Topsfield, Tyngsborough, Upton, Uxbridge, Wales, Ware, Warren, Warwick, Webster, Wendell, Wenham, Westborough, West Brookfield, Westford, Westminster, West Newbury, West Stockbridge, Weymouth, Wilbraham, Williamsburg, Williamstown, Winchendon, Winthrop, Worcester and Wrentham.

Narragansett has retail exclusive electric distribution franchises in the State of Rhode Island, including the cities and towns of Barrington, Bristol, Charlestown, Coventry, Cranston, East Greenwich, East Providence, Exeter, Foster, Glocester, Hopkinton, Johnston, Little Compton, Narragansett, North Kingstown, North Providence, Providence, Richmond, Scituate, Smithfield, South Kingstown, Tiverton, Warren, Warwick, Westerly, West Greenwich and West Warwick.

L. A form of notice suitable for publication in the Federal Register, which will briefly summarize the facts contained in the application in such way as to acquaint the public with its scope and purpose.

A form of notice suitable for publication in the Federal Register is attached to this Application, both in hard copy form and on diskette.

VIII. EXHIBITS REQUIRED PURSUANT TO SECTION 33.3 OF THE COMMISSION'S REGULATIONS

Pursuant to Section 33.3 of the Commission's regulations, the following Exhibits are submitted, which are attached to and included with this Application:

Exhibit A.	Copies of All Resolutions of Directors.
Exhibit B.	Statement of Intercorporate Relationships.

Exhibit C.	Statements A and B, FERC Form No. 1.
Exhibit D.	Statement of All Known Contingent Liabilities.
Exhibit E.	Statement C, FERC Form No. 1.
Exhibit F.	Analysis of Retained Earnings.
Exhibit G.	Copies of All Applications Filed with Other Federal and State Regulatory Bodies and Certified Copies of Each Order Relating Thereto, Where Applicable.
Exhibit H.	Copies of All Contracts with Respect to the Merger.
Exhibit I.	Map.

IX. PROCEDURAL MATTERS

The facts and analysis provided in this Application demonstrate that the Merger will not have an adverse effect on competition, rates or regulation. The transaction easily satisfies all requirements of Section 203 of the FPA and thus is in the public interest. Consequently, Applicants, NEES and National Grid respectfully request that the Commission approve the Merger by May 31, 1999, on the basis of the facts and analysis set forth in this Application and without hearing.

X. CONCLUSION

For the foregoing reasons, Applicants, NEES and National Grid respectfully request that the Commission: (1) approve the Merger under Section 203 of the FPA, (2) grant any other authorizations, approvals or waivers necessary or appropriate to allow this Application to be accepted for filing and granted; and (3) issue such approvals, authorizations and waivers expeditiously, without condition, modification or trial-type hearing.

Respectfully submitted,

Edward Berlin, Esq.
Kenneth G. Jaffe, Esq.
Scott P. Klurfeld, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300

Washington, D.C. 20007-5116
(202) 424-7500

Paul K. Connolly, Jr., Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
260 Franklin Street
Boston, MA 02110
(617) 439-9500

Thomas G. Robinson, Esq.
New England Power Company
25 Research Drive
Westborough, MA 01582
(508) 389-2877

Samuel Behrends IV, Esq.
Mary A. Murphy, Esq.
LeBoeuf, Lamb, Greene & MacRae, LLP
1875 Connecticut Ave., N.W., Suite 1200
Washington, D.C. 20009

(202) 986-8000

Attorneys for New England Power
Company and Affiliated Applicants Attorneys for NGG Holdings LLC

[FORM OF NOTICE]

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW ENGLAND POWER COMPANY	)	
MASSACHUSETTS ELECTRIC COMPANY	)	
THE NARRAGANSETT ELECTRIC COMPANY	)	
NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION	)	Docket No. EC99-_____
NEW ENGLAND HYDRO-TRANSMISSION CORPORATION	)	
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY, INC.	)	
ALLENERGY MARKETING COMPANY, L.L.C.	)	
NGG HOLDINGS LLC	)	

NOTICE OF FILING

Take notice that on March 10, 1999, New England Power Company ("NEP"), its affiliates holding jurisdictional assets (Massachusetts Electric Company, The Narragansett Electric Company, New England Electric Transmission Corporation, New England Hydro-Transmission Corporation, New England Hydro-Transmission Electric Company, Inc., and AllEnergy Marketing Company, L.L.C.) (collectively, the "NEES Companies") and NGG Holdings LLC ("NGG"), submitted for filing an application under Section 203 of the Federal Power Act (16 U.S.C. ss. 824b) and Part 33 of the Commission's Regulations (18 C.F.R. ss. 33.1 et seq. (1998)) seeking the Commission's approval and related authorizations to effectuate the merger of New England Electric System ("NEES") the parent company of the NEES Companies, with NGG, a wholly-owned subsidiary of The National Grid Group plc ("National Grid"). NEES will be the surviving entity in the Merger and, through the Merger, it and the NEES Companies will become subsidiaries of National Grid, which, among other things, is the owner and operator of the electric transmission network in England and Wales.

The Application states that it includes all the information and exhibits required by Part 33 of the Commission's regulations and the Commission's Merger Policy Statement, and that the Merger Application easily satisfies the criteria set forth in the Commission's Merger Policy Statement. The Application requests that the Commission grant approval without condition,

modification or an evidentiary, trial-type hearing. The Application states that

the parties are seeking to close the Merger expeditiously and thus the Applicants have requested Commission approval by May 31, 1999.

The Applicants have served copies of the filing on the state commissions of Connecticut, Massachusetts, New Hampshire, Rhode Island and Vermont.

Any person desiring to be heard or to protest said application should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426 in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. 385.211 and 18 C.F.R. 385.214). All such motions or protests should be filed on or before _____. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make the protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

Millstone Unit No. 3	)	NRC License No. NPF-49 (Docket No. 50-423)
Seabrook Unit No. 1	)	NRC License No. NPF-86 (Docket No. 50-443)

Application of New England Power Company for
Transfer of Control of Licenses

I. INTRODUCTION.

New England Power Company ("NEP"), pursuant to Section 184 of the Atomic Energy Act of 1954, as amended, and Section 50.80 of the Commission's Rules, 10 C.F.R. ss. 50.80 (1998), and to the procedures described in 10 C.F.R. Part 2, Subpart M (1998), hereby seeks prior Commission approval for transfer of control of certain ownership licenses, to the extent that such approval is required solely to reflect a change in upstream economic ownership of the parent company of the licensee, NEP. NEP is a minority, non-operating ownership licensee of Unit 3 of the Millstone commercial nuclear facility located in Waterford, Connecticut and a non-operating ownership licensee of Unit 1 of the Seabrook commercial nuclear facility located in Seabrook, New Hampshire. NEP is not licensed to use, possess or operate either plant.

NEP is a subsidiary of New England Electric System ("NEES"), a Massachusetts business trust. NEES owns all of NEP's common stock, and 99.71% of its voting securities. The other .29% of those securities are owned by the public in the form of preferred stock with common voting rights. Under the proposed transaction, NEES will become a wholly-owned, indirect subsidiary of The National Grid Group plc, a public limited company incorporated under the laws of England and Wales ("National Grid"). NEP will remain a subsidiary of NEES. Thus, NEP

will become an indirect subsidiary of National Grid. Further details of the transaction are described elsewhere in this Application.

NEP owns a 12.2% interest in Millstone 3. Through subsidiaries, Northeast Utilities ("NU") owns a 68% interest in Millstone 3, and NU is the licensed operator.1 Millstone 3 is a 1,150 MW pressurized water reactor which began commercial operation in May 1986.

NEP owns a 9.9% interest in Seabrook. Seabrook is operated by North Atlantic Energy Service Corporation ("North Atlantic").2 Seabrook is a 1,150 MW pressurized water reactor which began commercial operation in 1990.

The proposed transaction will not change anything about the direct

ownership, operation, management, license terms or conditions, or performance of Millstone 3 or Seabrook. NEP will continue to be a licensee, and the license granted to NEP will not change hands.3 NEP will

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1 The remaining licensee-owners, with their proportionate interests, are: Connecticut Light & Power Company (52.9%), Western Massachusetts Electric Company (12.2%), Massachusetts Municipal Wholesale Electric Company (4.8%), Montaup Electric Company (4%), United Illuminating Company (3.7%), Public Service Company of New Hampshire (2.8%), Central Maine Power Company (2.5%), Central Vermont Public Service Corporation (1.7%), Chicopee Electric Light Department (1.35%), Connecticut Municipal Electric Energy Cooperative, Inc. (1.1)%, Vermont Electric Generation & Transmission Cooperative, Inc. (0.35%), Fitchburg Gas & Electric Company (0.2%), Lyndonville (Village of) Electric Department (0.04%). (The figures add up to slightly less than 100% due to rounding.)

2 The remaining owners are North Atlantic Energy Corporation (35.9%), United Illuminating Company (17.5%), Great Bay Power Corporation (12.1%), Massachusetts Municipal Wholesale Electric Company (11.6%), Connecticut Light & Power Company (4.1%), Canal Electric Company (3.5%), Montaup Electric Company (2.9%), New Hampshire Electric Cooperative, Inc. (2.2%), Taunton Municipal Light Plant (0.1%), Hudson Light & Power Department (0.1%). (The figures add up to 99.9% due to rounding.)

3 For that reason, NEP is not seeking a license amendment. As the Commission stated in its recent Final Rule regarding license transfers, "[a]mendments to a license are required only to the extent that the ownership or operating authority of a licensee, as reflected in the license itself, is changed by the transfer." Streamlined Hearing Process for NRC Approval of License Transfers, 63 Fed. Reg. 66721, 66727 (1998) (to be codified at 10 C.F.R. Parts 2 and 51) ("Streamlined Process Final Rule.") Because NEP remains the licensee, and NEES remains the owner of NEP, the ownership as reflected in the license itself remains unchanged. NEP has no operating authority, and the transfer will not change that. Thus, no license amendment or transfer should be required, other than a transfer of control.

remain obligated to perform all of its current obligations under the license, including decommissioning funding, and there will be no change in NEP's rights or duties under the license, ownership agreements regarding the facilities, or any other applicable law or document regarding those rights and obligations. The only change will involve the acquisition of NEP's ultimate parent by a subsidiary of National Grid. As further described below, the transaction will not affect the common defense and security, or the public health and safety, or result in the license being held by a foreign entity, or result in the licensee being owned, controlled, or dominated by a foreign entity. For those reasons and others described below, the Commission should approve the transaction without delay under procedures established to expedite approval of license transfers.

II. SUMMARY OF APPLICATION AND REASONS FOR PROPOSING THE TRANSFER.

The transaction is an important part of the transition to a fully competitive environment in New England. Pursuant to legislation adopted in Massachusetts, and to a Settlement Agreement which was approved by the Federal Energy Regulatory Commission ("FERC") and the Massachusetts Department of Telecommunications and Energy ("MDTE") in 1997, that state is committed to full competition at the retail level.4 Competition will be accomplished by separating

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4 Similar legislation was enacted in Rhode Island and New Hampshire, incorporated into settlement agreements with NEP's affiliates and approved by FERC.

generation from transmission to create a regime of independent transmission companies. Under that legislative mandate, NEES has committed to the divestiture of all generating facilities, including its interests in all nuclear plants, to the extent practicable.

NEP owns the second largest transmission system in New England. National Grid is the world's largest privately owned independent transmission company and has nine years of experience operating in a competitive electric market environment. Transmission independence is an essential component of the competitive regime already in place in New England. The merger will enhance NEP's transmission system and the necessary resources to expand transmission and maximize transmission opportunities.

The transaction will have no effect whatsoever on the operation, personnel, financial status, physical condition, environmental effects, business plan, decommissioning capability, or control of Millstone 3 or Seabrook. No license is being transferred to anyone. NEP will remain the licensee for these two plants. As a minority, non-operating licensee, NEP's primary obligations are to contribute money and take electricity. The mere fact that a larger, financially stable company will now have an economic interest in NEP will not detract from NEP's ability to meet those obligations.

NEP and National Grid are aware of the prohibition, in Section 103 of the Atomic Energy Act, 42 U.S.C. ss. 2011, et seq. (1994) ("AEA"), against issuance of a license to any alien or any corporation which is "owned, controlled, or dominated" by a foreign entity. The transaction will fully comply with that prohibition.

As noted above, NEP will remain the licensee. NEP is a U.S. entity and will not be owned directly by a foreign entity. It will be owned by NEES, a U.S. entity, after NEES' merger with

NGG Holdings LLC, a U.S. entity, ("NGG Holdings"), which is a wholly-owned indirect subsidiary of National Grid. Both literally and as a legal matter, the licensee will be owned directly by a U.S. entity. The transfer of (indirect) control of NEP's ownership will not effect any transfer of control over those nuclear activities implicated by the prohibitions against foreign control and domination.

As a non-operating owner with small minority interests, NEP itself does not control any nuclear facility. Moreover, a negation action plan will be instituted, as follows. First, all activity by NEP under the license (the limited activity associated with its minority ownership interest) will be controlled by a Special Nuclear Committee of the Board of Directors of NEP ("Nuclear Committee"). The Nuclear Committee will consist entirely of U.S. citizens. With three exceptions discussed below, the Nuclear Committee will have sole discretion regarding all issues of plant operation, budget and expenditures, health and safety matters, matters affecting national security, compliance with the AEA and this Commission's orders, and all other matters regarding NEP's license obligations, to the extent these may be involved in NEP's actions as an NRC licensee.5

National Grid will not have legal or practical authority to control the actions of the Nuclear Committee. Neither National Grid nor any other foreign entity may remove a Director of the Nuclear Committee except for causes specified herein. The Applicants will promptly inform

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5 As explained below, NEP's activities as a licensed minority co-owner do not generally entail substantive matters of safety or national security within the NRC's purview (other than funding a share of safe operation and decommissioning expenses). Nevertheless, the Nuclear Committee is being established to remove any doubt about compliance with Section 103 of the AEA. See, Standard Review Plan on Foreign Ownership, Control or Domination, 64 Fed. Reg. 10, 166 (March 2, 1999) ("SRP").

the Commission of the withdrawal or removal of any such Director and of the identity of the replacement. A majority of the Committee members will be Independent Directors, who cannot be influenced by National Grid or NEP through an employment relationship or in any other manner. Second, Nuclear Committee members will be obligated to report any attempt to influence their votes contrary to the national interest, and will be protected by the Commission's employee protection regulations to a greater extent than required by law. Under those circumstances, all decisions affecting NEP's participation in Millstone 3 or Seabrook will be made entirely by U.S. citizens who have full independence from any foreign influence.6

Therefore, as described above, NEP in its role as a licensee will not be owned, controlled or dominated by any foreign interest. Both the letter and the purpose of the AEA prohibition will have been preserved, and nothing in the AEA should serve as a bar to approval of this transaction.

Finally, the transaction will, if anything, enhance NEP's ability to contribute its minority share of facility operational expenses, and will not have any negative effect on the ability to decommission Millstone 3 or Seabrook, or on the funds available for such decommissioning. NEP's portion of the decommissioning fund is funded fully commensurate with the schedule approved by the respective regulatory agencies. Under the relevant regulatory regimes, funds for decommissioning are collected by NEP through non-bypassable charges set forth in mandatory contract termination charges paid to NEP by its affiliated distribution utilities. Those distribution utilities, in turn, are allowed to collect funds for decommissioning through non-bypassable charges

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6 The Applicants are aware of the recently-issued SRP regarding foreign ownership or control. The Applicants have attempted to provide all relevant information required by that SRP to assist the Commission in determining that any foreign control has been sufficiently mitigated. Nonetheless, should the Commission require further information, the Applicants will be glad to provide such information upon request.

to their retail customers. For purposes of decommissioning, NEP provides assurances equivalent to those offered by an "electric utility" pursuant to 10 C.F.R. ss. 50.75. Thus, NEP will have access to a broad base of consumers to ensure that adequate funds are available. Nothing about this transaction will affect that regulatory mechanism, and the merger will not have a negative effect on decommissioning.

For the reasons described above, the Commission should approve the transaction according to the streamlined schedule and procedures adopted in its recent rule.7 That rule was adopted to expedite approval of transfers which have "no direct or immediate impact on the requirements for day-to-day operations at a licensed facility,"8 as is the case here. By publishing that rule, the Commission has reacted well to the need for "timely and effective resolution of requests for transfers" in a rapidly changing competitive environment. As the parties have a target date of November 1, 1999 to close the transaction and because the New England region will benefit substantially from an experienced transmission provider in the marketplace, the Commission should approve the application without delay under those expedited procedures.

III. DESCRIPTION OF THE PARTIES AND THE TRANSACTION.

A. NEES and NEP.

NEES is a public utility holding company formed in 1947 as a Massachusetts

business trust, with its headquarters in Westborough, Massachusetts. NEES is a registered holding company under the Public Utility Holding Company Act of 1935, 15 U.S.C. ss. 79 (1994) et seq.

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7 Streamlined Process Final Rule, supra.
8 Id. at 66722.

Through its subsidiaries, NEES principally is engaged in the transmission, distribution, and sale of electricity, and the marketing of energy commodities and services, serving roughly 1.3 million customers in Massachusetts, New Hampshire and Rhode Island. Through agreements with the state utility commissions with jurisdiction over its subsidiaries, NEES has divested itself of substantially all of its fossil and hydroelectric generating facilities, and will endeavor to divest itself of its ownership interests in nuclear facilities, including the facilities at issue here. The company now is focused almost exclusively on the transmission, distribution and sale of electricity, rather than on generation.

NEP is a wholly-owned subsidiary of NEES, which owns all of NEP's common stock, although NEP itself was created first, in 1916. In the past, NEP's primary role had been to generate and transmit electricity for sale to its affiliates, which are electric distribution companies described below. With the sale of substantially all of its fossil and hydroelectric generation, NEP's principal focus will be the transmission of electricity. NEP's integrated system consists of approximately 2,400 miles of transmission lines, 118 substations, and 7 pole or conduit miles of distribution lines. These facilities are spread throughout Connecticut, Massachusetts, Rhode Island, New Hampshire, Maine and Vermont.

In addition to its interests as a minority licensee in Millstone 3 and Seabrook, NEP is a shareholder in Vermont Yankee Nuclear Power Corporation ("VYNPC"). NEP owns 20% of the outstanding shares of that company, which in turn is the licensee for the Vermont Yankee nuclear power facility, an operating commercial nuclear plant. VYNPC is the sole licensee of that facility. NEP also owns 30% of the outstanding shares of Yankee Atomic Electric Company, which is the owner and licensee of Yankee Nuclear Power Station, a commercial nuclear facility

which has ceased operations. NEP owns 20% of the outstanding shares of Maine Yankee Atomic Power Company, which is the owner and licensee of the Maine Yankee nuclear facility, which has ceased operations. NEP owns 15% of the Connecticut Yankee Atomic Power Company, which is the owner and licensee of the Connecticut Yankee nuclear facility, which also has ceased operations. NEP is not a licensee of any of these facilities. No applications for transfer of control of the licenses of those facilities is necessary because given the minority ownership

shares that are involved, the transaction will not result in any transfer of control over any license or licensee.

NEES' electric distribution company affiliates include Granite State Electric Company ("Granite State"), which serves approximately 36,000 customers in New Hampshire; Massachusetts Electric Company ("MECo"), which serves approximately 960,000 customers in an area covering roughly 43% of the Commonwealth of Massachusetts; The Narragansett Electric Company ("Narragansett"), which serves approximately 325,000 customers in an area covering about 80% of the state of Rhode Island; and Nantucket Electric Company, which serves approximately 10,000 customers on Nantucket Island. Each of these companies originally entered into a long-term, all-requirements power purchase contract with NEP. Although those contracts have been amended recently, the purchasers under those contracts remain liable to pay charges to NEP which include, among other things, amounts sufficient to pay each purchasers' share of NEP's decommissioning liability for the nuclear facilities in which NEP holds an interest. These contracts are further described in Part VI of this Application.

NEES owns NEES Energy, Inc., a power marketing subsidiary which owns AllEnergy Marketing Company, LLC, and New England Electric Transmission Corp., which owns and operates a portion of an electric interconnection between Hydro-Quebec and New England.

NEES also owns a 53.9% interest in New England Hydro Transmission Corporation and New England Hydro Transmission Electric Company, which own and operate facilities in connection with the second phase of that interconnection, including high-voltage transmission lines. NEES also owns New England Power Service Company, which has contracted with NEES to provide, at cost, a variety of administrative and consulting services; NEES Global, which provides consulting and independent power development services to non-affiliates domestically and internationally; New England Water Heater Company; and NEES Communications, Inc, which provides telecommunications and information-related products and services.

NEES also is engaged in additional merger activity. On February 1, 1999, the NEES Board of Directors approved the merger of NEES with EUA. EUA is a Boston-based public utility holding company whose subsidiaries include electric transmission and distribution utilities in southeastern Massachusetts and northern and south coastal Rhode Island.

Under a plan approved by the Board of Directors, NEES will acquire all the outstanding shares of EUA. EUA's operating subsidiaries will be merged into the NEES operating companies, with the president and chief executive officer of NEES becoming the president and chief executive officer of the combined company. The combined company will serve 1.6 million electricity customers in 228 New England communities.

The merger with EUA is not contingent upon the completion of the merger

with National Grid, but the merger with EUA has the full support of National Grid. A separate Application addressing the NEES/EUA merger will be filed in the near future. To the extent that the NRC approves the transfer of EUA licenses to NEES, and the National Grid acquisition of NEES is completed, the NRC's approval of the EUA transaction should accurately reflect the foreign

ownership of NEES, to the extent discussed herein. The applicants assume that, if and when the NRC approves the EUA application for transfer, the NRC will base its approval on the assumption that National Grid will ultimately own the NEES companies (and EUA) to the extent discussed herein. If the NRC approves the EUA transfer on that basis, it will avoid the need for yet another application reflecting National Grid's ultimate ownership of EUA.

For the twelve months ended September 30, 1998, the operating revenues of NEP, the licensee, equaled approximately $1,481,068,000. It should be noted that this figure may not be completely representative of future revenues as these revenues were received prior to divestiture. Further information concerning NEES and its subsidiaries is contained in NEP's most recent Form 10-Q filed with the Securities Exchange Commission, attached as Exhibit A to this Application, and in NEES' most recent Annual Report to Shareholders, attached as Exhibit B-1 to this Application.

B. National Grid and Its Subsidiaries.

National Grid and its subsidiaries were created as a result of the privatization and restructuring of the British electric system. In 1990, the Central Electricity Generating Board which owned and operated the vast majority of electric generation and transmission facilities in England and Wales, was split into three competing generation companies and an independent transmission company, National Grid. As a result, National Grid is the only transmission company in England and Wales and now owns 4,300 miles of overhead transmission lines, and 400 miles of underground cables operating predominantly at voltages of 400 kV and 275 kV and approximately 300 substations, all in England and Wales, as well as interconnections with Scotland and France. In addition, through subsidiaries, National Grid has acquired interests in

transmission systems in Argentina and Zambia, described below. These assets make National Grid the largest privately-owned transmission company in the world.

The principal functions of National Grid in the competitive British power supply network are to provide transmission services on a for-profit, non-discriminatory basis, and to maintain and make all needed improvements to facilitate trades on that system; to procure ancillary services on the transmission system; to match demand and supply; to manage the daily system of half-hourly bids for competing generators; and to calculate market prices and make the payments due from each day's energy trading. Having performed these

functions for nine years, National Grid is the most experienced provider of independent transmission and market management services in the world.

In addition to its principal operating subsidiary National Grid Company, National Grid also owns Energy Settlement and Information Services Limited, which calculates prices and payments within the England and Wales electricity market; Energy Pool Funds Administration Limited, which manages the transfer of funds in payment for the energy traded; and Datum Solutions, which provides metering services. Through its affiliate Citilec, which National Grid jointly owns with Perez Companc, National Grid both acts as the operator and owns a substantial interest in Transener, the primary transmission system which serves Argentina. In a partnership with CINergy Global, National Grid has acquired nearly 80 % of Copperbelt Energy Corporation, buying, selling and transmitting electricity to meet the needs of the copper mining region in Zambia. National Grid has been selected as a joint venture partner for construction of a 600-mile transmission line for the Karnataka Electricity Board in India. National Grid owns 50% of a consortium which will construct a major new communications network in Brazil and finally,

National Grid also owns a 48.7% economic interest in Energis, a telecommunications company in the U.K.

The two largest shareholders of National Grid are HSBC Investment Bank plc, a Hong Kong bank which owns 11.6% of National Grid's issued share capital, and the Prudential Corporation Group of Companies, which owns 6.1%. Those figures, which were derived from National Grid's Annual Report attached as Exhibit C, are constantly changing. No shareholder has the right to elect or appoint a director of National Grid, nor any other right which would give it control over that company.

Including an exceptional profit related to the creation of Energis, National Grid reported a profit of (pound)574.8 million in 1998, roughly equivalent to $954,168,000. Further details concerning National Grid may be found in the Annual Report to Shareholders for the previous two years, attached hereto as Exhibit C.

C. The Transaction.

As a preface to the transaction, National Grid formed NGG Holdings, a wholly-owned indirect subsidiary organized in Massachusetts. NGG Holdings will then merge with and into NEES. NEES will be the surviving entity from that merger, will continue to be known as New England Electric System, and will maintain its status as a U.S. entity, domiciled in the U.S. and subject to all applicable U.S. law. Following the merger, NEES will be a wholly-owned, indirect subsidiary of National Grid. Due to the geographic scope of its electric subsidiaries, National

Grid will register as a public utility holding company as described in the Public Utility Holding Company Act of 1935.9

NEP, the licensee, will continue to be a subsidiary of NEES, as will the other current NEES subsidiaries described above. Thus, direct ownership of NEP will continue to reside in a U.S. company, NEES.

NEES' outstanding shares will be cancelled as a result of the merger. In exchange, NEES shareholders will receive a cash payment of $53.75 per share, subject to upward adjustment. Each one percent interest in NGG Holdings will be converted into a share of NEES, the surviving company. Further details of the transactions are set forth in the Capital Merger Agreement, attached as Exhibit D.

NEES' corporate headquarters will remain in Massachusetts. The President and Chief Executive Officer of NEES, Richard P. Sergel, a U.S. citizen, will remain in those positions, and will join the Board of National Grid.

The transaction has been approved by the Board of Directors of each respective parent, but remains subject to the approval of shareholders of both National Grid and NEES. In addition to the NRC, the transaction must be approved by FERC and the Vermont Public Service Board ("VPSB"). The New Hampshire Public Utility Commission ("NHPUC") has discretion to review the transaction, or not to review it. While the express approval of the MDTE, the Maine Public Utilities Commission ("MPUC"), and the Rhode Island Public Utility Commission ("RIPUC") are not required, the parties actively will seek support from those agencies. Finally, the transaction is

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9 The transaction also may involve several intermediate companies or partnerships, all of which, if non-U.S. companies, would be U.K. or Irish companies, and all of which will be controlled by National Grid.

subject to review by the Antitrust Division of the Justice Department and the Federal Trade Commission under the Hart - Scott -Rodino Antitrust Improvements Act of 1976. National Grid and NEES hope to obtain all necessary approvals discussed above in calendar year 1999, and close the transaction by early 2000.

IV. THE TRANSACTION MEETS ALL OF THE REQUIREMENTS GOVERNING LICENSE TRANSFERS.

This transaction does not involve an actual transfer of a license, but merely a change in the upstream economic ownership of the licensee. While the Commission has deemed such mergers to constitute a transfer of control (or indirect transfer), it also has recognized that such transactions do not involve many of the issues associated with an actual transfer to a new licensee. As the Commission held in its recent Streamlined Process Final Rule, specifically

referring to transfers of an interest held by a minority, non-operating owner:

> Although other requirements of the Commission's licensing provisions may also be addressed to the extent relevant to the particular transfer action, typical NRC staff review of such applications consists largely of assuring that the ultimately licensed entity has the capability to meet financial qualification and decommissioning funding aspects of NRC regulations. These financial capabilities are important over the long term, but have no direct or immediate impact on the requirements for day-to-day operations at a licensed facility.

Streamlined Process Final Rule, 63 Fed. Reg. at 66722.

As will be shown below, the licensed entity will remain fully capable of meeting its license obligations, and nothing about the merger will detract from that capability. In addition, before discussing the foreign ownership issue, the Application will show that the transfer meets all other requirements associated with license transfers.

A. The Merger Will Not Affect Operation of the Millstone 3 or Seabrook Facilities, and Thus Will Not Affect the Public Health or Safety, Common Defense and Security or the Human Environment.

NEP is merely the owner of a 12.2% interest in the Millstone 3 facility and a 9.9% interest in the Seabrook facility. It does not participate in day-to-day operations of the facility, nor does it have authority to make decisions on behalf of the facility. As will be discussed in more detail below, NEP's rights as a minority owner of the Millstone 3 facility are limited by the Sharing Agreement executed in 1973, attached hereto as Exhibit E. As that Agreement states, the Lead Participants have sole responsibility for the operation of the plant in accordance with good utility practice. NEP is not, and has never been, a Lead Participant in Millstone 3. NEP, although a member of the Seabrook Executive Committee, similarly has limited rights.

Nothing about the merger will change those facts. While NEP has been active in pursuing a civil court action regarding the past operation of Millstone 3,10 NEP will have precisely the same interest after the merger. The Lead Participants will retain the same responsibility for the facilities operations and nothing about the merger will adversely affect that operation.

B. The Licensee Will Continue to Be Qualified, Both Technically and Financially, to Meet All of Its NRC Obligations.

NEP will continue to have an interest in Millstone 3 and Seabrook. At all times, NEP has fulfilled each of its financial and other obligations regarding the facilities. As a minority licensee, NEP is and will remain capable of meeting those obligations, including its obligations to

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10 New England Power Co. v. Northeast Utils., Dkt. No. 97-1716 (Worcester Superior Ct., MA, filed Aug. 7, 1997). New England Power, Western Massachusetts Electric Company and Connecticut Light and Power Company also are engaged in arbitration.

contribute necessary funds for decommissioning.11 NEP has ongoing, assured sources of revenue which will be adjusted to meet decommissioning requirements. These revenue sources consist primarily of contracts with NEP's distribution company affiliates, which have been approved by FERC and the relevant state commissions.

Nothing about the merger will dilute the financial resources of NEP. Neither the Millstone 3 facility nor the Seabrook facility, nor any other NEP asset will be pledged as security or otherwise encumbered as a result of the transaction. NEP's Price-Anderson indemnity agreement and the amount of nuclear insurance will not be affected by the merger. NEP merely is becoming a member of a corporate aggregation with a greater total capitalization. Thus, NEP will remain financially stable and able to fulfill all of its obligations under the license.

There is no basis presented for the NRC to conduct an antitrust review of this transfer of control. Under Section 105(c) of the AEA, the NRC does not have antitrust review authority after an operating license has been issued unless there has been a significant change in the licensee's activities. As the NRC does not construe transfers of control, as distinguished from direct license transfers, as triggering antitrust reviews under Section 105(c)(2), no antitrust review is required. See NRC NUREG-1574.

Moreover, antitrust considerations will be taken into account through other agency's review of this transaction. The transaction also has to be approved by the FERC and will be the subject of proceedings before various state commissions. Those agencies have developed

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11 NEP's contributions to the Millstone 3 decommissioning fund and the Seabrook decommissioning fund, which are funded on schedule, are discussed in more detail in Section VI of this Application.

significant expertise and resources in analyzing the effects of a merger on competition, and will not approve a merger that has a detrimental effect.12

FERC and the Department of Justice analyze mergers using the Herfindahl - Hirschman Index ("HHI"). That test measures the increase in concentration in the affected market, which occurs when two companies that own generation serving the same market are combined. The transaction will pass all of the traditional tests

for determining whether a merger unduly will increase market share. National Grid does not serve the same geographic market as NEES, and in any event, does not own any generation. Moreover, NEP is divesting itself of almost all generation and will endeavor to divest its nuclear facilities to the extent possible. Under those circumstances, there will be zero increase in market share or in concentration as a result of this transaction. The FERC itself recognizes that, when merging partners do not own generation or sell similar products in the same market, there is no need for an HHI study, and no issue raised as to the effect on competition.13 The same is true here.

Thus, the NRC may rely upon FERC to make a finding upon competitive issues in the future. Alternatively, because there is clearly no negative effect on competition, the NRC could make such a finding itself, without waiting for other agencies. The introduction of National Grid will enhance the competitive environment, and the transaction should be approved on that basis.

C. The Identity, Business Address, and Relevant Personnel of the Licensee and of the Facility Will Not Be Affected by the Merger.

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12 Inquiry Concerning the Commissioner's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592, III FERC Stats. & Regs. P. 31,044 (1996), order on reconsideration, Order No. 592-A, 79 FERC P. 61,321 (1997).

13 Id.

As noted above, both NEES and NEP will maintain their present headquarters. The headquarters addresses of NEES, and of National Grid, are listed below:

New England Electric System	The National Grid Group plc
25 Research Drive	Kirby Corner Road
Westborough, Massachusetts 01582	Coventry, England CV4 8JY

The officers and directors of each company, and of the licensee, both at present and as expected following the merger, are listed in Exhibit F.

As NEP has no responsibility or authority regarding the employees at Millstone 3 or Seabrook, the merger will not affect the size or performance of the workforce at either site. As with all other aspects of the merger, there will be no effect on the day-to-day operations of either nuclear facility, and no operational concerns which would delay NRC approval of the transaction.

D. Offsite Radiological Emergency Response Planning.

The requested transfer will have no effect on existing, approved arrangements for offsite radiological emergency preparedness for Millstone 3 or Seabrook.

E. Construction/Completion Dates

Millstone 3 is a complete facility and licensed to operate pursuant to Facility Operating License No. NPF-49. There are no proposals to construct or alter Millstone 3. Similarly, Seabrook Unit 1 is a complete facility and licensed to operate pursuant to Facility Operating License No. NPF-86. There are no proposals to construct or alter Seabrook Unit 1.

F. Regulatory Agencies

NEP is subject to the regulatory jurisdiction of VPSB, 112 State Street, Drawer 20, Montpelier, VT 05620-2601, the NHPUC, 8 Old Suncook Road, Concord, NH 03301- 7319, the MDTE, 100 Cambridge Street, Rm. 1200, Boston, MA 02202, the RIPUC, 100 Orange Street, Providence, RI 02903, the MPUC, 18 State Home Station, Augusta, ME 04333-0018, the Connecticut Public Utility Control Department, 10 Franklin Square, New Britain, CT 06051, and the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426. The following trade and news publications circulate in the area in which Millstone 3 and Seabrook are located: Union Leader, Manchester, New Hampshire, Foster's Daily Democrat, Dover, New Hampshire, Boston Globe, Boston, Massachusetts, New London Day, New London, Connecticut, The Hartford Courant, Hartford, Connecticut and Norwich Bulletin, Norwich, Connecticut.

This application for transfer of control does not contemplate any construction or alterations to the Millstone 3 or Seabrook Unit 1 facilities or the operations thereof. In addition, the application does not involve a request for any change in the design or operation of the Millstone 3 or Seabrook Unit 1 facilities, nor any change in the terms and conditions of the existing licenses or technical specifications. Consequently, the requirements of Section 50.34 of the NRC's regulations are inapplicable and are not addressed in this application. 10 C.F.R. ss. 50.34 (1998).

V. THE TRANSACTION WILL COMPLY WITH ALL RESTRICTIONS GOVERNING FOREIGN OWNERSHIP, CONTROL AND DOMINATION.

A. The Transaction Is Consistent With the Statute and With Commission Precedent. Section 103 (d) of the Atomic Energy Act reads in pertinent part as follows:

> No [commercial] license may be issued to an alien or any corporation or other entity if the [Nuclear Regulatory] Commission knows or has reason to believe it is owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government. In any event, no license may be issued to any person within the United States if, in the opinion of the [Nuclear Regulatory] Commission, the issuance of

> a license to such person would be inimical to the common defense and security or to the health and safety of the public.

42 U.S.C. ss. 2133 (1994).

This restriction is reflected in the Commission's rules at 10 C.F.R. ss.ss. 50.38 and 50.40(c) (1998). As a result of this transaction, NEP, a U.S. entity, will remain as the licensee. Thus, no license will be held by or owned directly by any alien. Moreover, as will be shown below, the transaction will not effect any indirect transfer of control over any nuclear activities implicated by the foreign control and domination prohibition.

From the beginning, application of the foreign ownership prohibition has been "given an orientation toward safeguarding the national defense and security." See, e.g., General Electric Company and Southwest Atomic Energy Associates, 3 AEA 99 (1966) ("SEFOR"). National defense and security (or the statutory term, common defense and security) entail such matters as protection of classified information and materials, assuring adequate supplies of Special Nuclear Material ("SNM") for defense needs, nuclear materials physical protection, control, and accounting, and possible also physical security of facilities.14

For that reason, control of the facility itself, as well as access to SNM or Restricted Data, have been paramount concerns. Thus, the foreign control prohibition has concentrated on whether "an alien has the power to direct the actions of a licensee," and has sought to prevent

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14 See Siegel v. AEC, 400 F.2d 778 (D.C.Cir. 1968).

situations where "the will of one party is subjugated to the will of another," where the party who will ultimately control the facility is an alien. SEFOR, 3 AEC at 99.

The practical focus of the prohibition has been reflected in the recent SRP, which creates the framework to approve this transaction. Under Section 3.2 of that SRP, the essential guideline reads as follows:

> Where an applicant that is seeking to acquire a 100% interest in the facility is wholly owned by a U.S. company that is wholly owned by a foreign company, the applicant will not be eligible for a license, unless the Commission knows that the foreign parent's stock is "largely" owned by U.S. citizens. . . . If the applicant is seeking to acquire less than a 100% interest, further consideration is required.

64 Fed. Reg. 10166, 10168 (1999).

Neither National Grid, NEES, nor NEP is seeking to acquire a 100% interest in any licensed facility. As discussed herein, NEP owns interests of only 12.2% in Millstone 3 and 9.9% in Seabrook. Those interests do not give NEP any right to control or even influence the operation of either facility, nor do they permit any access to SNM or Restricted Data. NEP is currently attempting to sell those interests. For those reasons, the transaction complies with the guidelines announced in the SRP.

The SRP notes that, when a foreign entity seeks to acquire less than a 100% interest in a licensed facility, then "further consideration is required." Id. This consideration should focus on conditions designed to eliminate foreign control of the facility. The ordinary corporate (or other business organization) indicia of control, as defined in SEFOR, can be overcome by conditions or special provisions which effectively prevent control from being exercised. As in General

Atomic,15 and Babcock and Wilcox Company,16 these conditions have been considered sufficient to overcome what would otherwise have been ultimate legal control. Thus, the Commission has considered important such matters as the citizenship of directors and nuclear officers and, in difficult cases, the creation of special committees or boards.

Allowing foreign ownership of entities which own only part of a licensed facility is consistent with all prior Commission precedent. The one case in which foreign ownership was initially denied, Cintichem,17 involved foreign investment in an entity which owned and controlled 100% of a licensed facility.18 Because NEP only owns a 12.2% interest in Millstone 3 and a 9.9% interest in Seabrook, Cintichem is inapposite. The remaining cases follow the pattern established in General Atomic and B&W, in which the primary focus is on control of the actual facility. 19 As neither NEP nor National Grid has any control of any licensed facility, allowing the transaction will be consistent with prior precedent and with the considerations established in the SRP.

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15 AEC Director of Regulation letter approving transfer (1973) ("General Atomic").

16 NRC Executive Director for Operations memo to Commission (1982) ("B&W").

17 NRC Chairman Palladino letter to Subcommittee on Nuclear Regulation, Senate Committee on Environment and Public Works (1983).

18 Cintichem was legislatively overruled by section 109 of the NRC Fiscal Years 1984- 1985 Authorization Act, Public Law 98-553, 98 Stat. 2825 (1984).

19 See Commonwealth Edison Company, 4 AEC 231 (1969).

B. Nothing In This Transaction Violates the Letter or the Purpose of Section 103d.

1. The license itself will not be held by an alien.

As noted, NEP will continue as the licensee, and so there is no prohibited ownership by an alien.

2. The nature of the facilities, the transaction, and of the licensee, and the nationality of the foreign investor, should remove any concerns about foreign control or domination.

The foreign ownership restriction was enacted as part of the initial AEA in 1954. At that time, the group of nations possessing nuclear technology was extremely limited. It could not have been known whether nuclear power reactors would necessarily involve classified information, weapons usable fissile material or scarce source or SNM. While the legislative history of the foreign ownership restriction is sparse,20 it seems clear that the need to protect certain nuclear technology and sensitive and scarce SNM from foreign access was vital during the early stages of the Cold War.

However, Millstone 3 and Seabrook do not involve sensitive technology, or scarce SNM. Both plants are Westinghouse pressurized water reactors, using technology which is commercially available in numerous countries, including Great Britain.21 No significant restricted data22 or other

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20 See, e.g., Katherine Palmer, The Nuclear Regulatory Commission and Foreign Ownership of Commercial Nuclear Power Plants in the U.S., 28 Duq. L. Rev.295, 298 (1990).

21 Indeed, British Energy's most modern nuclear power plant, Sizewell B, contains a more modern Westinghouse pressurized water reactor.

22 The NRC defines "Restricted Data" to mean "all data concerning (1) design, manufacture or utilization of atomic weapons; (2) the production of special nuclear material; or (3) the use of special nuclear material in the production of energy," except for data which has been declassified or removed from the Restricted Data category. 10 C.F.R. ss. 50.2 (1998).

national security classified information is involved. Within the group of nations engaged in the commercial production of nuclear power, there is nothing secret about the technology of Millstone 3 or Seabrook. The Millstone 3 and Seabrook plants use (and are licensed only to use) low-enriched uranium as fuel, and the SNM which is produced (reactor grade plutonium) is bound up with the

highly retroactive spent fuel, and cannot be processed or separated under the license. No foreign entity will be granted unescorted access to protected or vital plant areas, or access to any Safeguards Information. Indeed NEP does not need, or have, such access.

Moreover, the ultimate foreign interests involved are British. Great Britain is a signatory to the Treaty on Non-Proliferation of Nuclear Weapons, and having a British company as the ultimate parent of NEP, which itself only has a small minority interest in Millstone 3 and Seabrook, will not implicate national security. As the Department of Energy, in a study also adopted by the Department of State, has concluded:

> The United Kingdom is a party to the Treaty on the Non-Proliferation of Nuclear Weapons, and is a longstanding ally of the United States, a Member of NATO, and otherwise has an important foreign policy relationship with the United States. The Government of the United Kingdom is stable, militarily secure, supports the International Atomic Energy Agency safeguards, and adheres to the Nuclear Supplier's guidelines.

Proposed Agreement Between the United States and Japan Concerning the Peaceful Uses of Nuclear Energy, H.R. Doc. No. 100-128, at 398 (1987).

The former Secretary of Energy more recently reaffirmed that conclusion with respect to the members of the European Atomic Energy Community ("EURATOM"), including the United

Kingdom.23 As a complying member of NATO, EURATOM, and the International Atomic Energy Agency, and a longstanding ally which already has access to this technology, the United Kingdom and its citizens do not pose a threat to nuclear security under either Section 103d or Section 104d of the AEA. Under those circumstances, allowing British investment in a minority interest in a plant will not implicate any of the common defense and security interests which the restriction seeks to protect.

3. NEP itself has no control or domination of the plant, so that allowing foreign upstream investment in NEP will not transfer any such control to foreign hands.

In addition, British interests will not control Millstone 3 or Seabrook because NEP does not control either plant. As a 12.2% owner of Millstone 3, NEP is merely an Associate Participant in the plant. Under the Sharing Agreement, dated September 1, 1973, as amended, owners are divided into two categories: Lead Participants, all of whom are subsidiaries of Northeast Utilities ("NU"); and nine Associate Participants, including NEP.24 As NU owns 68% of the interest in the plant, it is clear that NU controls and dominates the plant, as a legal and practical matter.

According to the Sharing Agreement, the Lead Participants have "sole

responsibility for, and are fully authorized to act for the other Participants with respect to" the design, construction, and engineering of the plant, as well as for "any modifications or additions at any time made to the

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23 O'Leary, Hazel R., Determination and Judgement Under Section 131 of the Atomic Energy Act Regarding Advance Consent Arrangement in the Agreement for Cooperation in the Peaceful Uses of Nuclear Energy Between the European Atomic Energy Community and the Untied States of America, (Sept. 8, 1995).

24 Sharing Agreement, supra, at 5.

Unit," in accordance with good utility practice.25 Associate Participants like NEP merely are provided with notice and an "opportunity to comment" on such changes -- if there is time.26 The costs of those additions or changes are shared by all Participants.

The Lead Participants also have "sole responsibility for, and are fully authorized to act for the other Associate Participants with respect to, the operation and maintenance of the Unit."27 Once again, the Associate Participants have an opportunity to comment, but those comments should "not be allowed to delay any phase of operation, maintenance or fuel procurement or any repair or replacement or to affect the sole discretion of the Lead Participants in making decisions on such changes."28 The Lead Participants are expressly authorized to execute all contracts regarding the facility,29 procure and maintain all insurance,30 collect money from NEP and other Associate Participants,31 establish and modify and manage the decommissioning fund,32 and procure fuel and manage the fuel cycle.33 The Associate Participants do have the right to an audit, the right to receive quarterly reports, and the right to receive "such information relating [to the

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25 Id. at 8.
26 Id. at 9.
27 Id. at 10.
28 Sharing Agreement at 11.
29 Id. at 13.
30 Id. at 14.
31 Id. at 17.
32 Sharing Agreement at 29-32.
33 Id. at 36-37.

plant] as the [Associate] Participants may reasonably request."34 If there is any Restricted Data at the plant, National Grid will not ask to see it.

NEP does have certain fundamental economic rights in the Sharing

Agreement, including the right that decisions made by NU must be in accordance with good utility practice for the benefit of all Participants. NEP believes that in the past these rights have been violated, and is pursuing its remedies both in arbitration and in court. See New England Power Co. v. Northeast Utils., Dkt. No. 97-1716 (Worcester Superior Ct., MA filed Aug. 7, 1997). Other than those economic rights, all NEP has is the right to pay its share of costs, receive periodic reports, make reasonable requests for information, and comment about operations -- all without affecting NU's "sole discretion" to determine the manner in which the plant is operated. In all respects, NU controls and dominates this plant. NU, not NEP, has control over access to plant vital and protected areas, the development and implementation of physical protection and safeguards, and access to any protected Safeguards Information. Thus, there is no possibility that an investment in an indirect subsidiary by a U.K. company would allow British citizens to control the facility or to have access to sensitive material, facilities, or information.

Similar limits on NEP's authority are found in the Agreement for Joint Ownership Construction and Operation of New Hampshire Nuclear Units, dated May 1, 1973, as amended, ("JOA") and the Managing Agent Operating Agreement dated June 29, 1992, as amended, ("MAOA") regarding Seabrook, which are attached hereto as Exhibit G. NEP, an original Participant in Seabrook and a member of the 5-member Executive Committee, holds its interest as

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34 Id. at 12.

a tenant-in-common.35 The Executive Committee is subject to the control and direction of the Participants (the other shareholders of Seabrook) and its actions may be modified by written agreement of the Participants owning 51% or more of the ownership shares.36 It was not the intent of the Participants to "grant to the Executive Committee, any responsibility for management of the . . . operation and maintenance of the Units."37 The Executive Committee's responsibilities include: providing direction to and overseeing the function of the Disbursement Agent; conducting a search and making recommendations to the Participants with respect to a new Managing Agent; reviewing and approving or modifying the Managing Agent's budget, subject to an override vote by the Participants.38 The Managing Agent, North Atlantic Energy Service Corporation, performs the engineering, operational and other professional services and responsibilities. The Managing Agent has complete responsibility for day-to-day management of the operation of Seabrook.39

The role of decision making regarding Seabrook rests with the Participants. By exercising a vote representing 51% of the voting shares, the Participants dictate the ultimate decisions at the plant. Each Participant has the right to access all information related to the facility except that protected by law, restricted by contract with third parties or deemed commercially sensitive by an

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35 JOA at 3.
36 Id. at 93.
37 JOA at 98.
38 Id. at 96-97; MAOA at 37.
39 MAOA at 9-10.

affiliate or affiliates of the operator.40 Any Participant may request an audit of the accounts and records of the Managing Agent.41 Each Participant has the right to visit the plant, tour facilities, inspect project records and observe plant activities, except as provided by law.42

As to budgetary matters, the Managing Agent must provide a quarterly report43 and a budget. Each Participant may vote on the budget and a 51% vote of the ownership interests is required to approve the budget.44 Similarly, discretionary actions of the Executive Committee as they pertain to budgetary matters may be overridden by a vote of the Participants owning 51% of the ownership shares.45

Finally, Participants, by a vote of 51% or more, may approve or disapprove the Managing Agent's selection of a senior on-site Manager for the plant, and policies regarding significant governmental affairs and public relations.46 NEP only has a 9.9% interest in Seabrook. Notwithstanding its position on the Executive Committee, NEP does not have the ability to dictate decisions and policies respecting the facility. That power only may be exercised by 51% of the voting shares of the Participants.

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40 MAOA at 27.
41 Id. at 29.
42 Id. at 30.
43 Id. at 18-25.
44 MAOA at 35.
45 Id. at 37.
46 Id. at 11.

Given NEP's 12.2% interest in Millstone 3 and its 9.9% interest in Seabrook and the limited rights which NEP enjoys, it is clear that National Grid will, after the transfer, have no control over (no power to direct or subjugate) any plant activities or any other matters implicated by the prohibition in Section 103d. NEP and National Grid have taken significant steps to ensure that British interests do not share in any of the limited rights which NEP has under the Sharing Agreement with respect to Millstone 3 and the JOA and MAOA with respect to Seabrook. These steps are described below.

C. The Proposed Transaction Will Comply with the Letter and the Purpose

of the Foreign Ownership Restriction.

1. The licensee will continue to be owned by a U.S. company.

As a technical matter, the statute requires that a licensee not be "owned ... by an alien, a foreign corporation, or a foreign government." 42 U.S.C. ss. 2133(d) (1994). NEP will continue to be the licensee. NEP will continue to be owned by NEES, a U.S. entity. Thus, as a matter of law, the licensee will be owned by a U.S. company, and the strict letter of the law will be honored.

It is true that NEES itself will be owned indirectly by a British company. It also is true that, on occasion, courts and agencies have "pierced the corporate veil," and looked through the ownership of a company all the way to the ultimate parent when the purpose of a statute or other circumstances so warrant it. Here, NEP will continue to be owned by a U.S. company, NEES. Unless a specific reason is provided, the Commission is not required to look past this parent to an ultimate parent. There is no reason at this time to believe such an occasion will arise.

The convention of honoring the corporate veil, unless some reason to pierce the veil emerges, is consistent with Commission precedent. The word "owned" (as it is used in sections

103d and 104d) cannot be read in its broadest sense to include any and all downstream shareholders or owners of the licensee. Otherwise, the foreign ownership of the general partner Scallop Nuclear, Inc., in General Atomic, and the foreign domicile of the ultimate parent company McDermott International in B&W, would have been prohibited. Yet, in both cases the transfer was approved, with appropriate conditions. Federal courts twice have declined to pierce the corporate veil of companies holding NRC licenses. In Tennessee Valley Auth. v. Exxon Nuclear Co., Inc., 753 F.2d 493 (6th Cir. 1985), the Sixth Circuit held in favor of Tennessee Valley Authority ("TVA") in the latter's contractual dispute with Exxon Nuclear Company Inc. ("Exxon Nuclear"). The circuit court affirmed the district court's decision to treat Exxon Nuclear and its parent company as separate corporate entities for the purposes of its contractual dispute with TVA. The court stated:

> At no time has it been intimated that Exxon Nuclear is a mere instrumentality of Exxon [Corporation] or that it is anything other than a separate and viable corporate entity . . . If TVA attempted to enforce the contract provisions against Exxon [Corporation], this Court would not have the authority to pierce the corporate veil and hold Exxon [Corporation] liable on the contract. By the same token, Exxon [Corporation] cannot benefit by the provisions of a contract of its subsidiary.47

Furthermore, in Lowell Staats Mining Co., Inc. v. Pioneer Uravan, Inc., the Tenth Circuit refused to pierce the corporate veil of another NRC-licensed company, Pioneer Uravan, Inc. ("Uravan"), holding that the plaintiff, Lowell

Staats Mining Company, Inc., had failed to prove that the defendant Uravan was an alter ego or instrumentality of its corporate parents, Pioneer Corporation and Pioneer Nuclear, Inc.48

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47 Id. at 498.
48 878 F.2d 1259, 1264-1265 (10th Cir. 1989).

Thus, as to the literal meaning of the ownership requirement in the statute, the Commission certainly has discretion to honor the corporate form, and to recognize that NEES remains the owner of the licensee for purposes of the foreign ownership prohibition. The Commission also has discretion to pierce the corporate veil. In the present case, there is no reason to pierce the corporate veil. As discussed below and throughout this Application, allowing benign foreign investment, subject to restrictions, is perfectly consistent with the intentions of the statute. Under these carefully limited circumstances, the transaction will not frustrate any statutory purpose. Therefore, as other Commissions have done where no statutory purpose is threatened, the Commission should honor the corporate form and hold that NEES (a U.S. entity) is the owner of NEP, so that the transaction complies with the literal language of the statute.

2. A negation action plan will be put in place to provide further assurance that the licensee will not be controlled or dominated by any foreign interest.

a. NEP will create a special nuclear committee of the board of directors, composed entirely of U.S. citizens.

NEP will create a Special Nuclear Committee of the Board of Directors, referred to herein as the Nuclear Committee, which will have sole discretion over all nuclear issues with three exceptions discussed herein. The Nuclear Committee, shall consist of directors composed entirely of United States citizens.

As discussed in the amended Bylaws of NEP, attached hereto as Exhibit H, the Nuclear Committee will report to the NEP Board of Directors on a quarterly basis, but for informational purposes only. With the exception of three basic decisions unrelated to the operation of the

plants, the Nuclear Committee will be authorized to act on behalf of NEP as to all matters relating to Millstone 3 and Seabrook, as well as the other nuclear units in which NEP has an interest.

Prior to the closing, NEES, as sole shareholder of NEP, will take whatever actions are necessary to adopt the amended Bylaws of NEP. The amended Bylaws

will become effective upon closing of the merger. The Shareholders' Resolution adopting the amendments to the NEP Bylaws will acknowledge that the merger is in the best interest of the shareholders, that the delegation of nuclear authority to the Nuclear Committee will facilitate obtaining approval for the merger, and that the Nuclear Committee shall have the same authority to act on behalf of NEP as to nuclear matters as the Board of Directors has regarding other matters. That Resolution, and the Bylaws, will remove any question regarding the legal authority of the Nuclear Committee to act on behalf of NEP and its shareholders.

b. With three exceptions, the Nuclear Committee will have sole discretion over all nuclear matters on behalf of NEP.

As discussed in Section 7 of the amended Bylaws, the Nuclear Committee will have sole discretion to act on behalf of NEP as to all matters relating to the operation, maintenance, contribution of capital, decommissioning, fuel cycle and other matters relating to the Millstone 3, Seabrook and the other nuclear facilities in which NEP has an interest. However, there will be three exceptions, in which the full NEP Board of Directors (which may include British citizens) shall be authorized to act on behalf of NEP, after consultation with the Nuclear Committee.

Those exceptions are as follows:

- The right to vote as to whether or not to close the facility and begin decommissioning, and as to whether to seek relicensing;

- The right to decide to sell, lease or otherwise dispose of NEP's interest in the facility; and

- The right to take any action which is ordered by this Commission or any other agency or court of competent jurisdiction.

These three rights are essential to protect the economic and legal interests of National Grid. Because these rights will be limited very carefully as described in the amended Bylaws, and are subject to Commission review under the AEA, there is no possibility of detriment to the national interest due to foreign control.

The decision as to whether to begin decommissioning illustrates the limited nature of the NEP Board's rights. Assume, for example, that the Commission orders Millstone 3 or Seabrook to cease operations pending certain major repairs. The Participants then would have to decide whether to close the plant permanently and begin decommissioning, or whether to make the repairs and attempt to restart the facility. As to that decision, the full NEP Board of Directors will have the right to act on behalf of NEP. However, once that decision has been made, all rights regarding the execution of the decision will revert to the Nuclear Committee. If the Participants decide to seek decommissioning, the Nuclear Committee will have the sole discretion to act on

behalf of NEP regarding the decommissioning plan, any alterations to the plan, the budget for decommissioning, all ordinary and extraordinary expenditures regarding decommissioning, and all other aspects of the decommissioning process. Alternatively, if the Participants decide to attempt repairs and restart, the Nuclear Committee will have all of NEP's rights regarding the scope, budget, actual expenditures, auditing and other matters involved in the repair and restart. As discussed above, these rights generally amount to the right to ask questions and make comments

regarding NU's conduct at the facility. Even those limited rights will be entrusted entirely to the Nuclear Committee composed of U.S. citizens.

Perhaps more importantly, each of the decisions listed above ultimately will be subject to Commission approval. The decision to repair and restart would require Commission approval prior to restarting. Relicensing also would require Commission approval. Selling or leasing the plant would require Commission approval of a license transfer under Section 50.80. The final right reserved to the full NEP Board merely requires the Board to act in accordance with the directives of this Commission or other agencies or courts of competent jurisdiction. Under those circumstances, every decision which is reserved to the full NEP Board, and which thus may involve some foreign participation, is subject to review and approval by this Commission before the decision may be carried out. Thus, there is no possibility that foreign influence will be detrimental to the national or public interest.

c. Only the Nuclear Committee would have access to sensitive information.

There are no Restricted Data involved in the Millstone 3 or Seabrook design, technology, or operation. As explained, NEP has no rights of access or possession over any special nuclear material, no rights of unescorted access to protected or vital plant areas, and no rights to see protected Safeguards Information. Nonetheless, as described in Section 9 of the amended Bylaws, only the Nuclear Committee shall have such access to Safeguards Information or protected or vital plant areas, and each Committee member who sees Safeguards Information is prohibited from revealing such data to any foreign citizen. It is not anticipated that any such access would be needed, given NEP's limited ownership rights and obligations.

Although there is SNM contained in the fresh and spent fuel, it is in the form of low-enriched uranium and plutonium. The low-enriched uranium cannot be used for a nuclear explosive. The plutonium cannot be separated from the highly radioactive fission products in the spent fuel under the license, and cannot be used for a nuclear explosive while bound up in the spent fuel. Even if weapons-sensitive materials were involved, it is difficult to imagine a British citizen obtaining access to such material by virtue of being a minority owner or

its partner, or through any other means derived from its upstream investment. The complexities, illegalities, and logistics would seem to be prohibitive. Thus, the concerns regarding access to SNM or sensitive information are not at issue regarding these facilities.

Therefore, as regards foreign access to Restricted Data and SNM, such access would be impossible as a practical matter and as a legal matter, and concerns about such access should not prevent the Commission from approving this transaction.

d. The Nuclear Committee will be free from any foreign control or influence, direct or indirect.

As stated in the amended Bylaws, the Nuclear Committee of U.S. citizens will report to the full NEP Board for informational purposes, but will have no obligation to act in accordance with directives of the full NEP Board or of any British entity connected with National Grid. With the exception of the three decisions described above reserved to the full Board, the Nuclear Committee will have complete independence from any direct foreign influence.

In addition, NEP has taken extraordinary steps to avoid any indirect foreign influence which might affect the Nuclear Committee. Each Committee member will be appointed to a fixed term, and may be removed during that term only for specific causes named in Section 2 of the

amended Bylaws. This is designed to prevent any foreign citizen from threatening to remove any member for taking actions which may be contrary to foreign interests. Moreover, as required by Section 10 of the amended Bylaws, any member of that Committee is both empowered and obligated to report to the NRC any action by a foreign citizen which the member believes is designed to unduly influence his or her behavior to the detriment of the national interest.

In the event that there is a vacancy on the Nuclear Committee, NEP immediately will inform the Commission as to the identity of the replacement who will be a U.S. citizen. Thus, whenever a member of the Nuclear Committee is removed or withdraws for any reason, the new member must be a U.S. citizen.

Finally, as to each member of the Nuclear Committee, the Applicant agrees to extend the protection afforded by the Commission's "whistle blower" regulations, contained in 10 C.F.R. ss. 50.7 even more than required by law. Those regulations prevent any licensee from discriminating against any employee for engaging in "protected activity," such as informing government agencies as to possible non-compliance with the terms of the license or the statute. While those regulations would not normally apply to the Nuclear Committee, NEES and NEP are willing to expand the scope of normal whistle blower protection. NEES and NEP hereby agree that the phrase "protected activity", as applied to the Nuclear Committee, shall include any action or decision made pursuant to the amended Bylaws, including any votes cast by a member. Thus, were NEES or NEP to

discriminate against any member as a consequence of their actions on the Nuclear Board, including their votes and decisions, those companies would be subject to the serious scrutiny and appropriate remedies. Under those circumstances, the Nuclear Committee

members will be completely free from any foreign influence regarding their actions on the Committee.

e. The commitments made herein may not be changed without Commission approval, except upon occurrence of two possible events.

Both National Grid and NEP are committed to the limits placed on foreign ownership described herein. Those commitments will be legally binding, both by operation of the amended Bylaws, and because they will be conditions imposed by the Commission as part of this license transfer proceeding. To ensure further that these limitations remain in place, NEP and National Grid hereby commit that the amendments to the NEP Bylaws creating the Nuclear Committee will not be removed or relaxed without express approval of the Director of Nuclear Reactor Regulation. These conditions will be enforceable by the NRC as a condition of the order approving the indirect transfer; no order amending the NEP ownership license should be needed.

There are, however, two circumstances in which NEP may remove or relax these restrictions. First, if the foreign ownership restriction of the statute is repealed or amended, NEP shall have the right to amend its Bylaws accordingly, after informing the Commission. Second, if NEP should sell its interest in Millstone 3 or Seabrook to another party with NRC approval, such as a U.S. owner, these restrictions should no longer be necessary.

NEP and National Grid believe that the corporate structure and related commitments made herein are more than sufficient to protect the national interest. Given the limited rights which NEP possesses regarding these plants, and the conditions imposed herein, the Commission can and should find that NEP as a licensee will not be controlled or dominated by a foreign

citizen, and that the transfer will not be inimical to the national interest, the public interest or national security.

D. The Commission Has Authority to Approve this Transaction, Consistent with the Statute and with Its Own Precedent.

As the Commission has done before, it may approve this transaction and allow foreign investment without contravening the foreign ownership restriction of the statute. The transaction complies with the literal language of the statute. The licensee will be owned by NEES, a U.S. entity, and the Commission

has discretion to honor the corporate form and determine that NEES is the owner for purposes of the statutory restriction. As to nuclear matters, neither the licensee nor NEES will be controlled or dominated by a foreign entity, within the meaning of the statute, because of the restrictions discussed above. The transaction also will comply with the intent of the statute, in that U.S. interests will be protected at all times by the restrictions described in this Application. Thus, even if there were no precedent regarding this issue, the Commission would be justified from a legal and policy perspective in allowing this transfer.

There is precedent on this issue, and the Commission has approved foreign ownership of nuclear facilities under circumstances which present national security issues far more serious than in this case. In General Atomic, Gulf Oil Corporation sought to transfer several nuclear facilities to General Atomic, a partnership owned 50% by Gulf and 50% by Scallop Nuclear, a Delaware Corporation owned (through several tiers) by Royal Dutch Petroleum, a Dutch company, and Shell Transport and Trading, a British company. The assets transferred involved three TRIGA research reactors, and the Barnwell spent fuel reprocessing facility. The TRIGA reactors involved experimental technology, and the Barnwell plant was designed to produce SNM (plutonium, a

weapons-usable material). Nonetheless, the Commission allowed the transfer, subject to conditions very similar to those adopted herein. Those conditions included the following:

- The President and any officers having direct responsibility for the control, and any employees having direct custody of, special nuclear materials must be U.S. citizens;

- A separate department of General Atomic must be created, to be responsible for special nuclear material, and must report directly to the President;

- The President must have direct responsibility for ensuring that the business is conducted in a manner consistent with the national interest; and

- These conditions must apply to the partnership and any entities under its control, and may not be changed without approval of the Director of Regulation of the AEC or his successor.

General Atomic, supra.49

E. The Transfer Will Not Be Inimical to The Common Defense and Security.

In Exxon Nuclear/Kraftwerk Union AG,50 the Commission approved a transfer of licenses for special nuclear materials, when a German corporation bought a controlling interest in Exxon Nuclear. Because that case involved SNM, rather

than a Section 103 license, the Section 103 prohibition against foreign ownership did not apply, but the relevant statute included language requiring the Commission to find that the transfer was not "inimical to the common defense", the

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49 The Commission's Office of Executive Legal Director reached a contrary conclusion in the Cintichem case. That case dealt with a proposed transfer of an isotope-producing research reactor to a corporation ultimately owned by a Swiss parent. However, that case involved very sensitive highly enriched uranium fuel and targets over 90%, whereas the present case involves a common commercial reactor with no such material. Moreover, the foreign-owned licensee would control the facility, which is not the case here. See OELD Legal Analysis, "Legal Questions of Foreign Control and Domination Raised By Proposed Transfer of Facility License No. R-81 from Union Carbide to Cintichem, Inc." (1983).

50 Letter from NRC to Exxon Nuclear Re: Approval of Materials License Transfer (Oct. 28, 1996).

same language that appears at the end of the foreign ownership prohibition in Section 103. The Commission approved the license transfer on condition that Exxon Nuclear divest itself of two companies which had contracts of a classified nature with the Department of Energy, and transfer any intellectual property rights regarding centrifuge and other sensitive technology back to Exxon, the U.S. company. In addition, Exxon Nuclear promised that it would not acquire any Restricted Data, classified information or sensitive nuclear technology. Finally, the Commission stressed that Exxon Nuclear would remain a Delaware corporation subject to U.S. law, that its current directors (all U.S. citizens) would remain in place, and that Germany was a signatory to the NonProliferation Treaty and a member of EURATOM.

All of the relevant conditions in the prior cases are present here, and more. Neither Millstone 3 nor Seabrook involves sensitive nuclear technology, or classified national security information. National Grid will not be granted access to Safeguards Information or be granted unescorted access to plant protected or vital areas. In General Atomic, the Commission required a separate division to be responsible for management of the material at issue; NEP has set up a separate Nuclear Committee to be responsible for all nuclear operation. In both cases, the Commission insisted that licensed activity be controlled by U.S. citizens. NEP will do just that with the Nuclear Committee, with the three exceptional decisions discussed above -- and the three exceptional decisions are all controlled by the NRC. In Exxon/Kraftwerk, the Commission required the licensee to remain incorporated in the U.S., subject to U.S. law. The licensee, NEP, will remain incorporated and domiciled in the U.S., as will its parent, and both will be subject to U.S. law. In that same case, the Commission stressed that the nation involved was a signatory to the Non-Proliferation Treaty and a member of EURATOM. The United Kingdom meets both of

those requirements. Also in Exxon/Kraftwerk, the Commission insisted that the U.S. citizen directors remain in place. Members of NEP's Nuclear Committee of the Board will always be U.S. citizens. Finally, as in both cases, the Applicant has committed to adhere to all of these limitations, barring repeal of the prohibition or sale to a U.S. entity. In addition to having all of the commitments made in those cases, the Applicant has taken additional precautions to ensure that the members of the Nuclear Committee are not subject to undue foreign influence, by agreeing to whistle blower-level protection for those Committee members.

For these reasons, the Commission can and should hold that NEP is not owned, controlled or dominated by a foreign entity, and that the transaction will not be inimical to the common defense and security. Such a conclusion would be consistent with the language of the statute, the Commission's own precedent, and the protection of the national interest.

VI. THE TRANSFER WILL NOT AFFECT THE DECOMMISSIONING FINANCIAL ASSURANCES REQUIRED BY THE NRC AND WILL NOT BE DETRIMENTAL TO THE FINANCIAL HEALTH OF THE LICENSEE.

On September 22, 1998, the NRC issued a Final Rule in its Financial Assurance Requirements for Decommissioning Nuclear Power Reactors, 63 Fed. Reg. 50465 (1998) (to be codified at 10 C.F.R. Parts 30 and 50). The Commission concluded that the proper solution was to clarify the applicability of external sinking funds and other mechanisms contained in 10 C.F.R. ss. 50.75. 63 Fed. Reg. at 50465. In furtherance of this resolution, the NRC established "non-bypassable charges" as a defined term and modified its Final Rule to reflect that such charges should be available to the licensee as part of the funds for decommissioning deposited in an

external sinking fund. 63 Fed. Reg. at 50466. As set forth in 10 C.F.R.ss.50.2 (1998), non- bypassable charges are defined as:

> . . . those charges imposed over an established period by a Government authority that affected persons or entities are required to pay to cover costs associated with the decommissioning of a nuclear power plant. Such charges include, but are not limited to, wire charges, stranded cost charges, transition charges, exit fees, other similar charges, or the securitized proceeds of a revenue stream.51

The NRC also amended its provision regarding the use of an external sinking fund, one of the methods used to provide financial assurance. Specifically, the NRC provided that an external sinking fund may be the exclusive mechanism relied upon for providing financial assurance for decommissioning even if the licensees' source of revenues for the external sinking fund is a non-bypassable charge. 10 C.F.R. ss. 50.75 (e)(1)(ii)(B) (1998).

Under the NRC's Final Rule, electric utilities are allowed to choose from among three options of providing financial assurances. These options include: prepayment, an external sinking fund and a surety method, insurance or other guarantee method. The NRC's recent Final Rule, which amended its provision relating to external sinking funds, allowed an external sinking fund to be the exclusive mechanism relied upon for providing financial assurance for decommissioning for a licensee which is no longer an "electric utility," if the licensees' source of revenues for the external sinking fund is a non-bypassable charge. In that sense, the financial assurance provided by the non-bypassable change is equivalent to that provided by the traditional rate regulation applicable to an "electric utility." Information relating to the decommissioning funding of

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51 As the definition states, the non-bypassable charges enumerated in Section 50.2 are not intended to be all-inclusive. Indeed, in its Final Rule, the NRC stated: "[it] believes it would be encroaching upon the responsibilities of other regulators if it were to establish a single method for cost recovery." 63 Fed. Reg. 50467. Similarly, the NRC rejected the suggestion that the definition be revised to replace the phrase "governmental authority" with "regulatory authorities," noting that "governmental authorities" was more inclusive and would allow actions by non-regulatory authorities such as state legislatures. Id.

Millstone 3 and Seabrook as well as the calculation of the NRC formula amount for decommissioning is set forth in Exhibit I.

A. The Financial Assurances Required by the NRC's Recent Rulemaking Are Already in Place Regarding NEP, and Will Not Be Affected by the Merger.

Under the terms of this transaction, decommissioning responsibility will remain with NEP. Pursuant to settlement agreements approved by or entered into with the state commissions of Massachusetts, Rhode Island and New Hampshire, its customers in those states, and the FERC, NEP will be permitted to recover decommissioning costs through non-bypassable charges of a nature that meet the NRC's new requirements set forth in its Final Rule.

On February 26, 1997, the agency then known as the Massachusetts

Department of Public Utilities ("MADPU") approved a revised amended settlement submitted by NEP's affiliates MECo and Nantucket Electric Company (jointly "the Distribution Companies"), NEP and others, which related to electric restructuring issues for the Distribution Companies and included provisions of a wholesale rate stipulation and agreement. Re Massachusetts Elec. Co., D.P.U. 96-25C Mass. Dep't of Pub. Utils., Feb. 26, 1997. Subsequently, the Distribution Companies and NEP submitted an amended offer of settlement to MADPU for approval.

Under the terms of the amended settlement agreement at MADPU, the Distribution Companies sought approval of retail delivery rates which, among other things, included an access charge designed to recover costs associated with termination of the all-requirements contracts the Distribution Companies had with NEP. As in the original settlement agreement, the Distribution Companies would terminate their all-requirements contract with NEP and NEP would collect a contract termination charge ("CTC"), which would enable it to recover its stranded costs. The

CTC would be collected through an access charge applied to all KWHs delivered to consumers in the Distribution Companies' service area who receive distribution service, whether or not they were current customers. The settlement also provided that the Distribution Companies would enter into a network integration transmission service agreement with NEP for transmission service under NEP's open access transmission tariff. The network integration transmission service agreement incorporates the CTC provision. In the event the Distribution Companies are denied the ability to recover CTC from their customers in the access charge for distribution service, NEP is authorized to collect the unrecovered balance as a surcharge on any rate paid for transmission service to the Distribution Companies' service areas.

Under the amended settlement, the CTC contains a fixed component which recovers the Distribution Companies' allocated share of NEP's investment in plant, materials, supplies and the final fuel core for Millstone 3 and Seabrook. The variable component recovers 80% of the operations and maintenance expenses and property taxes for the units. The variable component also would recover the Distribution Companies allocated share of 100% of NEP's costs for nuclear decommissioning and site restoration costs, excluding only any net incremental decommissioning costs caused by continuing to operate the units beyond March 1, 1998. The MADPU concluded that the modifications to the calculation of the variable and fixed components were consistent with its restructuring principles and approved the amended settlement agreement, and approved the use of the CTC to recover all decommissioning costs. Nothing in the merger will adversely effect the terms and conditions of the MADPU order on the ability of any NEES company to meet its decommissioning obligations.

On May 28, 1997, NEP submitted to the FERC an amended wholesale

stipulation and agreement, containing substantially the same mechanism. On November 26, 1997, the FERC approved the wholesale settlement agreement. New England Power Co., 81 FERC P. 61,281 (1997), reh'g denied, 83 FERC P. 61,265 (1998).

NEP entered into a similar settlement agreement with its customer, Narragansett. Narragansett purchased all of its energy requirements from NEP pursuant to long-term all-requirements contracts regulated by FERC.

On May 30, 1997, Narragansett, NEP, and the RIPUC entered into a settlement agreement whereby Narragansett and NEP terminated the long-term, all-requirements contract. The settlement established a CTC from NEP to Narragansett that includes recovery of Narragansett's allocated share of NEP's decommissioning and site restoration costs. The FERC approved the settlement agreement, New England Power Co., 81 FERC P. 61,281 (1997), reh'g denied, 83 FERC P. 61,265 (1998), and the RIPUC has approved a charge from Narragansett to its customers that recovers the CTC costs billed to Narragansett by NEP.

On February 3, 1998, and subsequently amended in July 1998, Granite State filed an offer of settlement before the NHPUC to resolve electric restructuring issues related to retail choice in its service territory. The settlement provided that, pursuant to a separate wholesale rate settlement, which was approved by the FERC,52 the long-term all-requirements contract between NEP and its affiliate Granite State would be terminated and that Granite State would pay contract termination charges. The February 3, 1998 settlement provided that Granite State would be permitted to recover in retail rates stranded cost charges, which would recover the contract

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52 New England Power Co., 83 FERCP. 61,085 (1998).

termination charges paid by Granite State to NEP. Id. The stranded costs would apply to all kilowatt-hours delivered by Granite State or its successors or assigns in Granite State's service area regardless of whether or not they were currently Granite State's customers. The contract termination charges provide for the recovery of Granite State's allocated share of NEP's nuclear decommissioning expenses. The settlement also provided for the decommissioning and divestiture of NEP's interests in nuclear facilities, including Seabrook, and NEP's commitment to an accelerated level of decommissioning funding. On October 7, 1998, the NHPUC approved the amended offer of settlement in Order No. 23,041.

Pursuant to the settlements entered into with the Distribution Companies, Narragansett, and Granite State, which were approved or entered into by the state commissions and FERC, NEP is assured that it will collect through non-bypassable charges its decommissioning costs. These non-bypassable charges

are of the exact nature that the NRC outlined as meeting its concerns in its Final Rule. Therefore, adequate decommissioning funds are assured, and the license transfer in this transaction will not produce a detrimental effect on NEP's recovery of decommissioning costs.

VII. CONCLUSION.

The introduction of National Grid into the competitive New England market is a significant step in maximizing the benefits of competition. Those benefits should not be delayed, because the next year could be very important in determining the future structure of the market. Fortunately, the Commission has anticipated the need to act expeditiously, with the passage of the

streamlined procedures for approving license transfers. NEP respectfully requests approval of this transfer of control pursuant to the expedited schedule envisioned by those rules.

This transaction will have no effect whatsoever on the operation, performance, workforce, funding for operation or decommissioning, or any other aspect of either Seabrook or

Millstone 3. The licensee will continue to be NEP, which remains qualified to be a licensee. The transfer will have no adverse effect on NEP's financial stability, or upon its ability to meet its licensing obligations.

The transfer will not result in any transfer of a license, or result in NEP being "owned by a foreign entity, and the transfer will not be inimical to the common defense and security." The Commission has full legal authority to allow the transaction by treating NEES and NEP as the separate corporate entities that they are, and by ruling that the extraordinary restrictions described herein will prevent NEP from being "controlled or dominated" by foreign interest, for purposes of the ownership restriction. The lack of Restricted Data or SNM at the plants, the commitment by NEP to sell its nuclear interests, the benign nationality of the foreign investor, and the minority share and concomitant lack of control by NEP of either facility, should make this an appropriate case to approve controlled foreign investment in U.S. nuclear facilities. For these reasons, the Commission should approve the Application expeditiously. Respectfully submitted,

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Edward Berlin, Esq.
Scott P. Klurfeld, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW, Suite 300
Washington, DC 20007-5116
(202) 424-7500

Samuel Behrends IV, Esq.
Mary A. Murphy, Esq.
Yvonne M. Coviello, Esq.
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Avenue, NW, Suite 1200
Washington, DC 20009

(202) 986-8000

Thomas G. Robinson, Esq.
New England Power Company
25 Research Drive
Westborough, MA 01582
(508) 389-2877

Attorneys for New England Power Company

Paul K. Connolly, Jr., Esq.
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
260 Franklin Street
Boston, MA 02110
(617) 439-9500

Attorneys for NGG Holdings LLC

March 15, 1999

[Logo] NEES

National Grid
[Logo]

March 8, 1999

Mary L. Cottrell, Secretary
Department of Telecommunications

and Energy
100 Cambridge Street, 12th Floor

Boston, MA 02202

Re: New England Electric System and The National Group plc Merger: Information Filing

Dear Secretary Cottrell:

As announced on December 14, 1998, The National Grid Group plc (National Grid) has agreed to acquire all of the common shares of NEES for $53.75 per share subject to adjustment for the date of closing. Because NEES and National Grid are both holding companies, the merger does not require the approval of the Department of Telecommunications and Energy (Department). However, an essential element in the review by the Securities and Exchange Commission (SEC) which must approve the merger under the Public Utility Holding Company Act of 1935 (35 Act) will be certifications from the relevant state regulatory commissions regarding each commission's jurisdiction and resources over the operating companies in their state. Specifically, the SEC will want the Department to certify in a manner similar to that required in ss. 33(a)(2) of the 35 Act that the Department has the authority and resources to protect ratepayers, including in particular, matters such as rates, financings, affiliate transactions and financial integrity and that the Department intends to exercise its authority.

In our view, the Department has the existing authority and resources to protect Massachusetts Electric Company and Nantucket Electric Company's (together "Mass. Electric") customers in each of the areas in which the SEC wants assurances. The proposed merger will not affect the Department's jurisdiction or authority over Mass. Electric in any way. For instance, the Department will continue to have full jurisdiction over Mass. Electric Company's and Nantucket Electric Company's rates under ss.ss. 93 and 94; the companies' financings will still be subject to approval under ss. 14; affiliate transactions will be subject to Department review and approval under ss.ss. 76A, 85 and 94B; the Department also retains general supervisory authority over the companies with the ability to make all inquires needed to assure itself that the "safety and convenience" of the public is protected. Nor will the merger adversely affect the Department's

resources to protect Mass. Electric's customers. To eliminate any concerns the Department may have with regard to the acquisition premium and its allocation, we agree that neither the above requested certification nor the approval of the merger by the SEC under the 35 Act and any allocation of the acquisition premium to Mass. Electric resulting from SEC's jurisdiction over the merger will have any pre-emptive effect on the Department's consideration of the amounts, if any, of the acquisition premium it will allow in rates in any future proceeding by Mass. Electric seeking recovery of such acquisition premium in their retail delivery rates. As a result, for ratemaking purposes, the Department will have complete authority to establish the appropriate allocation of the acquisition premium to Mass. Electric and the amount of the recovery of that premium in Mass. Electric's rates.1/

Additionally, since we want the Department to have a full understanding of the merger and its benefits to ratepayers we are making an informational filing describing the transaction and National Grid.

The filing includes testimony by Michael E. Jesanis, Chief Financial Officer of NEES, who describes the transaction and its associated benefits for NEES customers. Mr. Jesanis also addresses the accounting for the transaction and summarizes the regulatory approvals that are necessary for its implementation. Roger Urwin, Transmission Managing Director for National Grid, describes National Grid's accomplishments in operating the transmission systems in the U.K. and abroad. Peter G. Flynn, President of New England Power Company, describes the relevance of National Grid's experience to the issues now being faced by the New England Power Pool and the New England Independent System Operator.

In addition to the acquisition by National Grid, NEES announced on February 1, 1999 an agreement to acquire Eastern Utilities Associates. That transaction is independent of the NEES-National Grid transaction, but represents a significant step in National Grid's plan to play an important role in the regulated transmission and distribution business in New England and the Northeast. National Grid has consented to the NEES-EUA transaction and the relationship of the two transactions are discussed in Mr. Jesanis' testimony. As he explains, our plan is to

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1/A simple example will illustrate the effect of this commitment. If Mass. Electric were allocated $100 of acquisition premium following this transaction, the Department would be free to disallow its recovery either on the grounds that the $100 was not reasonably allocated to Mass. Electric or that Mass. Electric had not demonstrated sufficient offsetting savings to warrant recovery. Thus, the Department would have the authority to limit Mass. Electric's recovery of the acquisition premium to $80 if the Department determined $80 was a reasonable

allocation, even though Mass. Electric had demonstrated that $150 of savings had been produced by the transaction.

consolidate Eastern Edison and Mass. Electric into a single company with customers served at Mass. Electric's lower rates. The NEES-EUA transaction will be submitted to the Department in a separate filing. Together the NEES-EUA and NEES-National Grid transactions are necessary to allow us to provide high quality, low cost delivery service to Massachusetts retail customers following electric utility restructuring.

Very truly yours,

Thomas G. Robinson
Attorney for New England Electric System
25 Research Drive
Westborough, MA 01582

Paul K. Connolly, Jr.
Attorney for The National Grid Group plc
LeBoeuf, Lamb, Greene & MacRae
260 Franklin Street
Boston, MA 02110

cc: George B. Dean, Esq.
Robert F. Sydney, Esq.

The name "New England Electric System" means the trustee or trustees for the time being (as trustee but not personally) under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby

referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

[Logo] NEES

NATIONAL GRID
[Logo]

March 18, 1999

Thomas B. Getz
Executive Director and Secretary
New Hampshire Public Utilities Commission
Concord, New Hampshire 03301

Re: National Grid/New England Electric System Merger:
Representation of No Adverse Effect Pursuant to RSA 369:8, II

Dear Mr. Getz:

Enclosed please find an original and eight copies of the affidavit of Lawrence J. Reilly, President of Granite State Electric Company ("Granite State"), pursuant to RSA 369:8, II, representing on behalf of Granite State that the proposed merger between Granite State's parent company, New England Electric System ("NEES"), with The National Grid Group plc ("National Grid") will have no adverse effect upon Granite State. Specifically, Mr. Reilly states that the merger will not adversely affect Granite State's rates, terms, service or operations, nor affect the Commission's authority to regulate Granite State and protect its customers. Peter G. Flynn, President of New England Power Company ("NEP"), submits a similar affidavit for that company. Although NEP's rates, terms, service and operations are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"), NEP is a public utility operating in New Hampshire and subject to the Commission's authority with respect to financing approvals. The affidavits of Messrs. Reilly and Flynn are supported by supplemental materials included herewith, including the testimony of Michael E. Jesanis, Chief Financial Officer of NEES, Roger Urwin, Transmission Managing Director for National Grid, and Mr. Flynn.

On December 14, 1998, NEES announced its agreement to merge with National Grid. NEES is a registered utility holding company organized under Massachusetts law and subject to the authority of the Securities and Exchange Commission ("SEC") under the Public Utility

Holding Company Act of 1935 ("Holding Company Act"); and National Grid is a holding company incorporated in England and Wales. Under the agreement, National Grid would acquire all of the common shares of NEES for $53.75 per share subject to adjustment for the date of closing; and NEES would merge with a National Grid

subsidiary established for the purpose of effectuating the merger, with NEES being the surviving entity, wholly-owned by National Grid. The acquisition affects only the ownership of NEES stock, and would have no effect on the ownership or outstanding financial obligations of NEES' operating company affiliates, including Granite State or NEP. Because the merger involves only the acquisition of NEES stock, RSA 369:8, II provides for streamlined treatment upon the submission by Granite State and NEP to the Commission of a written representation at least 30 days prior to the closing of the merger that "the transaction will not adversely affect the rates, terms, service, or operation of [Granite State or NEP]."

As set forth in the affidavit of Mr. Reilly, the proposed merger agreement will in no way adversely affect Granite State, nor affect the Commission's jurisdiction or authority with respect to the rates and service provided by Granite State. The Commission will continue to have full jurisdiction over Granite State's rates (RSA 374:2, 374:3 and 378:7); its financings will still be subject to Commission approval (RSA 369:1 and 369:7); affiliate transactions will be subject to Commission jurisdiction (RSA 366:3 and 374-F:3, IV); and the Commission retains its general authority over Granite State with the ability to make all inquiries needed to assure itself that the service provided is reasonably safe and adequate, and in all other respects just and reasonable (RSA 374:1 and 374:2).

Similarly, as Mr. Flynn's affidavit indicates, the merger will not affect the Commission's authority with respect to NEP. Although the rates, terms, service and operations of NEP are subject to the plenary authority of the FERC, the Commission's existing authority over NEP's financings is in no way altered by the merger. Furthermore, as Mr. Flynn explains in his prepared testimony, under FERC's merger policy, the merger may not adversely affect competition, subject customers to increased rates, nor impair the effectiveness of state or federal regulation. Thus it is clear that NEP's rates, terms, service and operations will not be adversely affected by the merger.

The foregoing facts also facilitate a certification that has been requested by the SEC. As explained in the filing, the transaction is subject to formal regulatory review by the SEC. An essential element in the SEC's analysis will be certifications from the relevant state regulatory commissions, including this Commission, regarding each commission's jurisdiction and resources over the retail operating companies in its respective state. Specifically, the SEC will want this Commission to certify that it has the authority and resources to protect Granite State's ratepayers,

including in particular, with respect to matters such as rates, financings, affiliate transactions, and financial integrity, and that the Commission intends to exercise its authority. Thus, the commitments in Mr. Reilly's testimony and the facts presented by this transaction should allow the Commission to make the

certification requested by the SEC. To eliminate any concerns the Commission may have with regard to the acquisition premium and its allocation, we agree that neither the above requested certification to the SEC, nor the approval of the merger by the SEC under the Holding Company Act and any allocation of the acquisition premium to Granite State resulting from SEC's approval of the merger will have any pre-emptive effect on the Commission's consideration of the amounts, if any, of the acquisition premium it will allow in rates in any future proceeding by Granite State. As a result, for ratemaking purposes, the Commission will have complete authority to establish the appropriate allocation of the acquisition premium to Granite State and the amount of the recovery of that premium in Granite State's rates.1/

In addition to the foregoing commitments and representations of no adverse effect, the materials which supplement the affidavits of Messrs. Reilly and Flynn support the conclusion that the proposed merger agreement is consistent with the Commission's public interest standard governing mergers, and will in fact produce substantial benefits for New Hampshire customers. Accordingly, we respectfully request that the Commission accept the representations of no adverse effect pursuant to RSA 369:8, II; and with respect to Granite State, advise the SEC that the Commission has determined that it has the authority and resources to protect retail customers, including with respect to matters such as rates, financings, affiliate transactions and the financial

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1/A simple example will illustrate the effect of this commitment. If Granite State were allocated $100 of acquisition premium following this transaction, the Commission would be free to disallow its recovery either on the grounds that the $100 was not reasonably allocated to Granite State or that Granite State had not demonstrated sufficient offsetting savings to warrant recovery. Thus, the Commission would have the authority to limit Granite State's recovery of the acquisition premium to $80 if the Commission determined $80 was a reasonable allocation, even if Granite State had demonstrated that $150 of savings had been produced by the transaction. Likewise, as Mr. Flynn points out, NEP has committed at the FERC to hold customers harmless from any acquisition premium or transaction costs associated with the merger; and NEP would seek recovery of any such costs only to the extent of demonstrated savings, and only to the extent such recovery was allowed by the FERC.

integrity of Granite State, and that it intends to exercise that authority after the merger. Thank you for your attention to our filing.

Sincerely,

Thomas G. Robinson
Carlos A. Gavilondo
Attorneys for New England Electric System

25 Research Drive
Westborough, MA 01582

Paul K. Connolly, Jr.
Attorney for The National Grid Group, plc
LeBoeuf, Lamb, Greene & MacRae
260 Franklin Street
Boston, MA 02110

cc: Michael W. Holmes

The name "New England Electric System" means the trustee or trustees for the time being (as trustee but not personally) under an agreement and declaration of trust dated January 2, 1926, as amended, which is hereby referred to, and a copy of which as amended has been filed with the Secretary of the Commonwealth of Massachusetts. Any agreement, obligation or liability made, entered into or incurred by or on behalf of New

England Electric System binds only its trust estate, and no shareholder, director, trustee, officer or agent thereof assumes or shall be held to any liability therefor.

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

New England Electric System and	)
The National Grid Group, plc: Merger:	)
Representation of No Adverse Effect	)
Pursuant to RSA 369:8, II	)

AFFIDAVIT OF LAWRENCE J. REILLY

I, Lawrence J. Reilly, declare:

1. My name is Lawrence J. Reilly. I am President, Chief Executive Officer, and a Director of Granite State Electric Company (Granite State). My business address is 55 Bearfoot Road, Northborough, Massachusetts 01532.

2. I have been asked by counsel to make the certain representations relating to the proposed merger between New England Electric System (NEES) and The National Grid Group, plc (National Grid) in accordance with the New

Hampshire law governing mergers and acquisitions involving parent companies of public utilities regulated by the Commission, RSA 369:8, II. That statute provides:

> To the extent that the approval of the commission is required by any other statute for any corporate restructuring, merger, acquisition, financing, change in long-term or short-term indebtedness, or issuance of stock involving parent companies of public utilities regulated by the commission, the approval of the commission shall not be required if the public utility represents to the commission in writing no less than 30 days prior to the anticipated completion of the transaction that the transaction will
>
> not adversely affect the rates, terms, service, or operation of the public utility within the state.

3. In making this representation, I have reviewed and relied upon the filing letter, testimony, and exhibits accompanying this affidavit and representations therein.

4. As described in the testimony and exhibits of Mr. Michael E. Jesanis, National Grid and NEES announced their agreement to merge on December 14, 1998. Under the agreement, NEES will merge with NGG Holdings LLC, with NEES being the surviving entity, wholly-owned by National Grid. National Grid will register as a holding company under the Public Utility Holding Company Act of 1935 (Holding Company Act), and all intermediate entities between National Grid and NEES will be wholly owned, directly or indirectly, by National Grid, and will be subject to comprehensive regulation by the Securities and Exchange Commission (SEC) under the Holding Company Act. The corporate structure of NEES' operating subsidiaries including New England Power Company (NEP), Granite State, Massachusetts Electric Company, Nantucket Electric Company, and The Narragansett Electric Company, and their service company affiliate, New England Power Service Company, will not be affected by the merger.

5. In order to show that "the transaction will not adversely affect the rates, terms, service, or operation of [Granite State]" as required by RSA 3 69:8, II, Granite State makes the following representations and commitments:

   a. Granite State's retail delivery rates will continue to be subject to plenary jurisdiction of the Commission. The transaction will not affect the corporate organization of NEES's operating companies, including Granite State. Thus, the

Commission will continue after the transaction to have the same authority over Granite State's rates, terms, service, and operations

as it did before the transaction.

b. For accounting purposes, Granite State may be allocated a portion of the acquisition premium and transaction costs associated with the transaction. Allocation of the acquisition premium and transaction costs will not adversely affect the rates, terms, service, and operations of Granite State, because:

i. The acquisition premium and the transaction costs will be recorded in below-the-line accounts and will not be reflected in Granite State rates absent express authorization of the Commission. Granite State will not seek recovery in rates of the acquisition premium and transaction costs absent a showing of offsetting savings and benefits to its customers.

ii. In the event that Granite State should seek rate recovery of the acquisition premium and transaction costs, Granite State agrees to waive any and all claims that the Commission's authority to review the allocation of the acquisition premium and transaction costs is preempted by the SEC's review of the allocation of these costs. Accordingly, the Commission will have complete authority to evaluate the reasonableness of the amount and the allocation of the acquisition premium and transaction costs to Granite State, as well as and the amount of the savings or other benefits to Granite State and its customers resulting from the transaction in accordance with New Hampshire law and Commission precedent.

c. As explained in the accompanying filing letter, Granite State's financing and affiliate transactions will continue to be subject to the Commission's authority pursuant to state law. In addition, the Commission retains its general authority over Granite

State with the ability to make all inquiries needed to assure itself that the service provided is safe and adequate and is in all other respects just and reasonable.

6. For the reasons set forth in the accompanying filing, the transaction is expected to provide significant benefits to Granite State's customers by making additional financial and technical resources available to Granite State, providing practical experience and expertise in the operation of transmission systems in competitive markets for electricity supplies, and creating the financial scale that will assist in operating transmission and distribution businesses efficiently in today's restructured electric industry.

7. As set forth in the filing letter, the SEC as part of its review of the

transaction is expected to request a certification from this Commission that this Commission has the authority and resources to protect Granite State's ratepayers and that the Commission intends to exercise its authority. The representations and commitments in Paragraph 5 of this affidavit provide the basis for that certification in addition to the assurances required under New Hampshire law that the transaction will not adversely affect the rates, terms, service or operation of Granite State.

8. For the reasons stated in the filing and this affidavit, Granite State requests that the Commission:

a. Accept this representation pursuant to RSA 369:8, II that the transaction will not adversely affect the rates, terms, service, or operation of Granite State; and

b. Certify to the SEC that this Commission has the authority and resources to protect Granite State's customers, including in particular, with respect to matters such as rates, financings, affiliate transactions and financial integrity, and that the

Commission intends to continue to exercise that authority following the closing of the transaction.

I declare under penalty of perjury that the foregoing is true and correct.

Lawrence J. Reilly
President and Chief Executive Officer
Granite State Electric Company

Subscribed and signed before me:

Notary Public
My Commission Expires:

Dated: _____

STATE OF NEW HAMPSHIRE
BEFORE THE

PUBLIC UTILITIES COMMISSION

New England Electric System and	)
The National Grid Group, plc: Merger:	)
Representation of No Adverse Effect	)
Pursuant to RSA 369:8, II	)

AFFIDAVIT OF PETER G. FLYNN

I, Peter G. Flynn, declare:

1. My name is Peter G. Flynn. I am President and a Director of New England Power Company (NEP). My business address is 25 Research Drive, Westborough, Massachusetts 01532.

2. I have been asked by counsel to make the certain representations relating to the proposed merger between New England Electric System (NEES) and The National Grid Group, plc (National Grid) in accordance with the New Hampshire law governing mergers and acquisitions involving parent companies of public utilities regulated by the Commission, RSA 369:8, II. That statute provides:

> To the extent that the approval of the commission is required by any other statute for any corporate restructuring, merger, acquisition, financing, change in long-term or short-term indebtedness, or issuance of stock involving parent companies of public utilities regulated by the commission, the approval of the commission shall not be required if the public utility represents to the commission in writing no less than 30 days prior to the anticipated completion of the transaction that the transaction will
>
> not adversely affect the rates, terms, service, or operation of the public utility within the state.

3. In making this representation, I have reviewed and relied upon the filing letter, testimony, and exhibits accompanying this affidavit and representations therein. In addition, NEP and its affiliates have made a joint application to the Federal Energy Regulatory Commission (FERC) for approval of the transaction under ss.203 of the Federal Power Act, which I have also relied upon, and which is included as part of this filing.

4. As described in the testimony and exhibits of Mr. Michael E. Jesanis, National Grid and NEES announced their agreement to merge on December 14, 1998. Under the agreement, NEES will merge with NGG Holdings LLC, with NEES being the surviving entity, wholly-owned by National Grid. National Grid will register as a holding company under the Public Utility Holding Company Act of 1935 (Holding Company Act), and all intermediate entities

between National Grid and NEES will be wholly owned, directly or indirectly, by National Grid, and will be subject to comprehensive regulation by the Securities and Exchange Commission (SEC) under the Holding Company Act. The corporate structure of NEES' operating subsidiaries including NEP, Granite State, Massachusetts Electric Company, Nantucket Electric Company, and The Narragansett Electric Company, and their service company affiliate, New England Power Service Company, will not be affected by the merger.

5. In order to show that "the transaction will not adversely affect the rates, terms, service, or operation of [NEP]," NEP makes the following representations and commitments:

a. NEP's transmission rates are now and will continue to be subject to plenary jurisdiction of the FERC. The transaction will not affect the corporate

organization of the NEES operating companies, including NEP. Thus, the FERC will continue after the transaction to have the same authority over NEP's rates, terms, service, and operations as it did before the transaction.

b. For accounting purposes, NEP may be allocated a portion of the acquisition premium and transaction costs associated with the transaction. Allocation of the acquisition premium and transaction costs will not adversely affect the rates, terms, service, and operations of NEP, because the acquisition premium and the transaction costs will be recorded in below-the-line accounts and will not be reflected in NEP rates absent express authorization of the FERC. NEP will not seek recovery in rates of the acquisition premium and transaction costs absent a showing of offsetting savings and benefits to its customers.

c. NEP's financings will continue to be subject to this Commission's authority pursuant to state law. NEP's affiliate transactions will be subject to FERC's jurisdiction as set forth in the ss.203 application. In addition, FERC retains its general authority over NEP with the ability to make all inquiries needed to assure itself that the service provided is reasonably safe and adequate and is in all other respects just and reasonable.

d. The foregoing commitments are consistent with the FERC's merger policy, which provides that the merger may not adversely affect competition, rates, or the effectiveness of state or federal regulation.

6. For the reasons set forth in the accompanying filing, the transaction is

expected to provide significant benefits to NEP's customers, including Granite State, by making additional financial and technical resources available to NEP, providing practical experience and expertise in the operation of transmission systems in competitive markets

for electricity supplies, and creating the financial scale that will assist NEP in operating a transmission business efficiently in today's restructured electric industry.

7. For the reasons stated in the filing and this affidavit, NEP requests that the Commission:

Accept this representation pursuant to RSA 369:8, II that the transaction will not adversely affect the rates, terms, service, or operation of NEP.

I declare under penalty of perjury that the foregoing is true and correct.

Peter G. Flynn
President
New England Power Company

Subscribed and signed before me:

Notary Public
My Commission Expires:

Dated: _____

EXHIBIT I

SECURITIES AND EXCHANGE COMMISSION
(Release No.)
April __, 1999

The National Grid Group plc ("National Grid") and the New England Electric System ("NEES") have filed an application-declaration under the Public Utility Holding Company Act of 1935, as amended, seeking authority for National Grid to acquire, indirectly, the outstanding securities of NEES, and for certain related transactions.

The filing and amendments thereto are available for public inspection through the commission's Office of Public Reference. Interested persons wishing to comment or request a hearing should submit their views in writing by _____, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the applicants-declarants at the address specified above. Proof of service (by affidavit or, in case of an attorney-at-law, by certificate) should be filed with the request. Any request for a hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or

order issued in this matter. After said date, the joint application-declaration, as filed or as it may be amended, may be permitted to become effective.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Jonathan G. Katz

Secretary

Exhibit J-1
The National Grid Group
Description of Companies

The following is a description of the active subsidiaries of The National Grid Group plc. National Grid Group has a number of dormant subsidiaries (often formed for purposes of potential projects that are not realized) that are not included herein. Except as other noted, all entities listed below are organized under the laws of England and Wales.'

1. The National Grid Company plc. ("NGC") As the electric transmission company in England and Wales, NGC provides transmission service on a for-profit, nondiscriminatory basis and maintains and makes all improvements to optimize access to the system, procures ancillary services on the transmission system of England and Wales, matches supply and demand, manages the daily system of half-hourly bids for competing generators and makes payments due from each day's energy trading. NGC is organized under the laws of England and Wales and is subject to regulatory controls overseen by the Director General of Electricity Supply. NGC has seven active subsidiaries, as follows:

   a. NGC Nominees Limited serves as a shareholder for a number of National Grid Group entities, as it is customary in the UK to have more than one shareholder in most corporate entities. This company is not otherwise an operating entity.

   b. Datum Solutions Limited is engaged in providing metering services in the United Kingdom at entry and exit points of the U.K. transmission system, and more widely to customers in the competitive market.

   c. Energy Settlements and Information Services Limited operates the computer systems needed to calculate prices and payments due as a result of the daily trading of power across England and Wales.

   d. Energy Pool Funds Administration Limited manages the transfer of funds in payments for the energy traded.

   e. NGC Employee Shares Trustee Limited serves as trustee in respect of the National Grid Profit Sharing Scheme and Employee Benefit Trust, which

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1 As noted in the Application/Declaration on Form U-i, National Grid Group currently intends to undertake a restructuring which, among other things, would interpose a new holding company between National Group and its existing

subsidiaries (but not NEES) and liquidate certain dormant companies.

are trusts set up for employees of National Grid Group. This company does not have any independent operations.

f NGC Leasing Limited is engaged in the leasing of motor vehicles for use by employees of the National Grid Group system.

g. NGC Properties Limited owns and develops property that is not used for the operation of the transmission system, usually with a view toward eventual sale.

NGC does not directly or indirectly derive any part of its income from the generation, transmission or distribution of electric energy for sale or the distribution at retail of natural or manufactured gas for heat, light or power within the U.S. None of NGC or its subsidiaries is a public utility company operating in the U.S. On or prior to consummation of the Merger, NGC will be qualified as a "foreign utility company" within the meaning of the Act and it and its subsidiaries may be retained by National Grid Group pursuant to the provisions of Section 33(c) of the Act.

2. National Grid Insurance Limited was organized in Guernsey in connection with the self-insured retention of NGC's transmission assets. National Grid Group holds all of the outstanding ordinary shares of National Grid Insurance and Barclays Bank holds its outstanding preference shares. As noted in the Application, the Commission has previously authorized other registered holding companies to engage in self-insurance activities (see The Columbia Gas System, Inc., Holding Co. Act Release No. 26596 (Oct. 25, 1996)), thereby clarifying that such insurance is functionally related to core utility operations and therefore retainable by National Grid Group.

3. National Grid International Limited is the holding company for a number of the group's non-U.K. investments, including operations in South America, India, Africa and the U.S. National Grid International was formed has four direct and a number of indirect subsidiaries, as follows:

a. National Grid Overseas Limited is an intermediate holding company above most of the South American, Indian and African interests held by the National Grid Group.

i. National Grid Holdings BV is organized in the Netherlands and is a holding company for operations in Brazil and India.

(1) National Grid India By, another Netherlands organized company, organizes and controls National Grid Group's investments in India.

(2) NGC do Brasil Participacoes Ltda, a Brazilian company and National Grid Brazil By, a Netherlands company, serve to organize and control National Grid Group's investments in Brazil. They currently own three entities formed under the laws of Brazil as follows: JVCO Participacoes Ltda (a joint venture vehicle for National Grid Group and Sprint), Holdco Participacoes Ltda (an intermediate joint venture vehicle pursuant to which other investors are involved in Brazilian telecom operations) and Bonari Holding Ltda, an operating company engaged in telecommunications operations in Brazil).

ii. NGC Zambia Limited is a holding company for operations in Zambia.

(1) National Grid Zambia BV, is formed under the laws of the Netherlands that organizes and controls National Grid Group's investments in Zambia.

(a) Copperbelt Energy Corporation plc, a Zambian corporation that is some 40% owned by National Grid and is engaged in buying, selling and transmitting electricity to meet the needs of the copper mining regions of Zambia. NGC Zambia and National Grid Zambia were formed for the purpose of facilitating National Grid's ownership and operations of African operations. Another registered holding company, CINergy, also owns a significant interest in Copperbelt.

iii. National Grid Finance BV. A company formed under the laws of the Netherlands that serves as a holding company for operations in Argentina. National Grid Overseas holds a one third interest in National Grid Finance directly.

(1) Citelec SA (41.25% interest held by National Grid Group),

(a) Transener, in which Citelec holds an approximately 66% interest, is the owner of the primary transmission system that services Argentina and acts as operator thereof. Transener itself owns a regional transmission system owner in Argentina

(Transba) and is engaged in the construction of a cross-country transmission line.

iv. The Electricity Transmission Company Ltd. holds the remaining two thirds direct interest in National Grid Finance. This company was formed for tax efficiency purposes.

b. Teldata International Limited is a holding company for US billing and energy service operations.

(i) Teldata Inc. is a Delaware corporation that provides complete, end-to-end, automated metering and billing solutions for electric, gas and water utilities and energy service providers.

(1) FirstPoint Services Inc. is a Delaware corporation engaged in providing billing software solutions for electric, gas and water utilities and energy service providers.

c. National Grid USA Inc. is a Delaware corporation formed to investigate potential opportunities in the U.S. market for National Grid.

d. National Grid (Isle of Man) Limited is a holding company for operations on the Isle and is organized under the laws of the Isle of Man.

(i) Manx Cable Company (Isle of Man) is organized under the laws of the Isle of Man for the purpose of developing an undersea connector between England and the Isle of Man.

National Grid International does not directly or indirectly derive any part of its income from the generation, transmission or distribution of electric energy for sale or the distribution at retail of natural or manufactured gas for heat, light or power within the U.S. None of National Grid International or its subsidiaries is a public utility company operating in the U.S. On or prior to consummation of the Merger, National Grid International and certain of its subsidiaries will be qualified as a "foreign utility company" within the meaning of the Act and it and its subsidiaries may be retained by National Grid Group pursuant to the provisions of Section 33(c) of the Act.

4. The National Grid Group Quest Trustee Company Limited serves as trustee with respect to the National Grid Group Qualifying Share Trust, which is a trust established for employees of National Grid Group. This company does not have any independent operations.

Applicants note that a number of registered holding companies have formed or been permitted to retain or invest in separate entities in connection with employee benefit programs. See New Century Energies, Inc., Holding Co. Act Release No. 26748) (Aug. 1, 1997) (retention of subsidiary holding life insurance policies of executives); Northeast Utilities, Holding Co. Act Release No. 24372 (April 15, 1987) (authorizing acquisition of common stock of insurer to facilitate obtaining directors and officers insurance); In the Matter of General Public Utilities Corporation, Holding Co. Act Release No. 7092 (Dec. 23, 1996) (authorizing acquisition of shares of non-utility subsidiary engaged in administering employee insurance plans). Thus, retention of this entity is consistent with the provisions of the Act.

5. NGG Telecoms Limited holds National Grid Group's interest in certain telecommunications operations.

a. Energis plc is the publicly-traded parent company of Energis Communications. National Grid Group holds a 48.3% interest in Energis plc.

i. Energis Communications Limited owns and operates an advanced telecommunications network that is astride the NGC transmission network. The Energis network transfers data, by voice, picture or data-base, throughout England and Wales.

5.2 NGG Telecoms Investment Limited is an internal holding company for part of National Grid Group's interest in Energis plc.

NGG Telecoms is indirectly engaged exclusively in telecommunications services, information services and services related or incidental thereto. On or prior to consummation of the Merger, NGO Telecoms and its subsidiaries will qualified as an exempt telecommunications entity within the meaning of Section 34 of the Act and, as a result, retention of NGG Telecoms and its subsidiaries will be expressly authorized under Section 34(d) of the Act.

6. NatGrid Finance Limited, NG Investment Limited and Natgrid Investments Limited are Jersey corporations that provide financial management services to National Grid Group. For example, this group of companies is currently involved in investing and managing the proceeds from the recent public offering by National Grid Group of some of its interest in the ordinary shares of Energis plc. A number of other registered holding companies hold subsidiaries that perform financing transactions for the system. See Central and Southwest Corporation, Holding Co. Act Release No. 23767 (July 19, 1985) (authorizing formation of subsidiary to provide factor intrasystem

receivables); Ameren Corporation, Holding Co. Act Release No. 26809 (Dec. 30, 1997) (permitting retention of subsidiary engaged in investing in securities for systems companies).

EXHIBIT J-2
THE NATIONAL GRID GROUP PLC
PROPOSED STRUCTURE FOR INVESTMENT IN
NEW ENGLAND ELECTRIC SYSTEM

This exhibit describes and explains the purpose of the corporate structure that The National Grid Group plc ("NGG") intends to use for its acquisition of all of the issued and outstanding shares of New England Electric System ("NEES"). The structure described below is the proposed structure of the NGG system as it relates to NEES immediately after the acquisition of NEES is completed, which is the point when NGG will register as a holding company under the Public Utility Holding Company Act of 1935, as amended, except that it also reflects the proposed subsequent conversion of NEES to a business corporation, NEES Holdings, Inc. A number of the entities described below have not yet been formed and are therefore described generically (i.e., as UK Co, Irish Co or DGP). The following points should be noted in connection with the structure:

1. The diagram below does not reflect the EUA transaction. When EUA is added to the holding company system, it will not change the structure between NGG and NEES but will instead add companies below NEES. It is currently intended that the EUA operating companies will be held directly by NEES Holdings similar to the way the NEES operating companies will be held under the proposed structure. In some cases, the NEES and EUA operating companies may be merged.

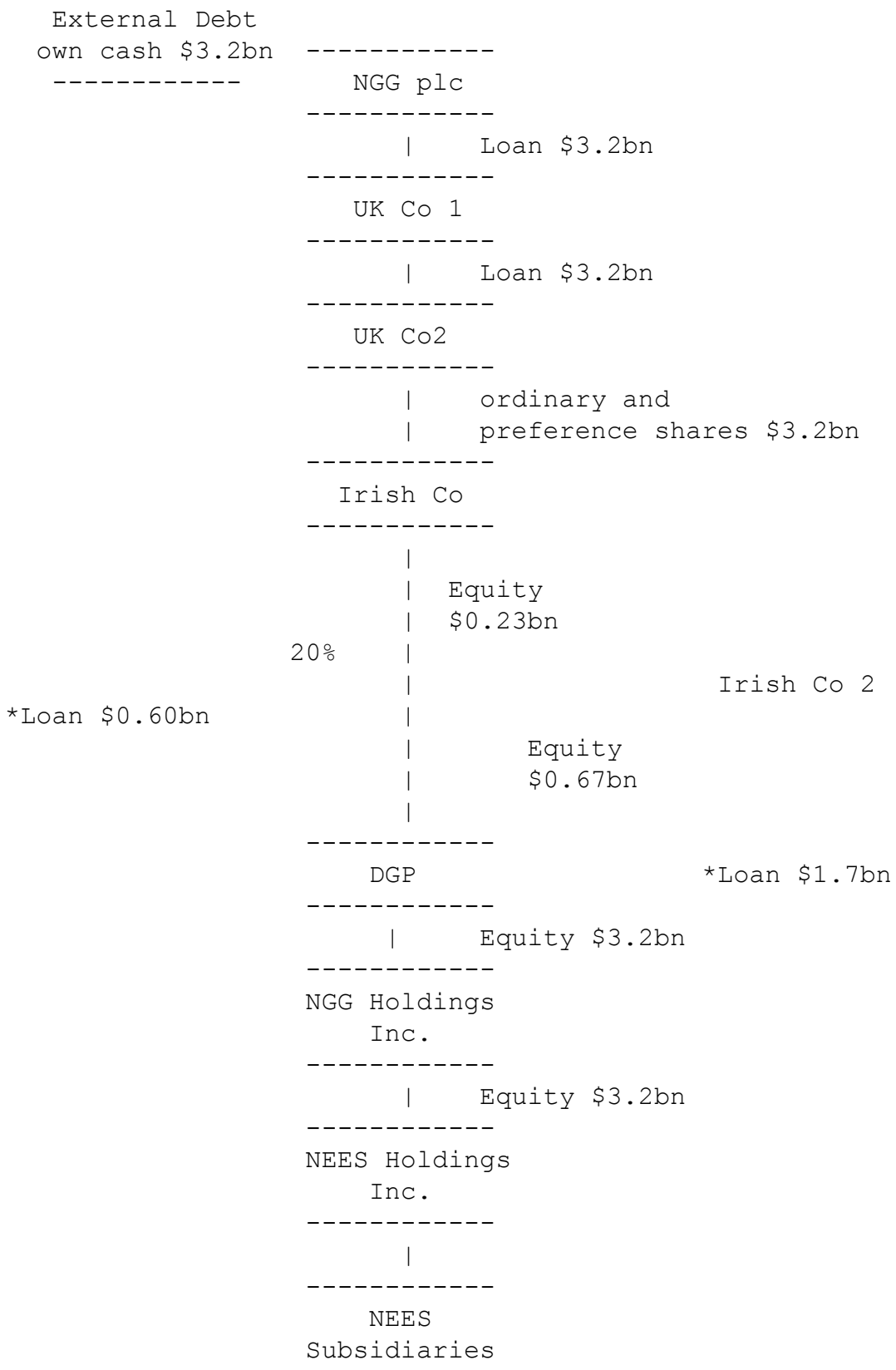
2. As noted above, National Grid Group intends to convert NEES from a Massachusetts business trust to a business corporation by means of a merger of NEES with and into NEES Holdings, Inc., a business corporation. Among other things, this conversion will eliminate some uncertainties regarding the treatment of NEES under U.K. law. Essentially, because a Massachusetts business trust would not be treated as either a "company" or a pass-through or transparent entity for U.K. tax purposes, having s subsidiary organized as a Massachusetts business trust would likely create difficulties for National Grid Group, which would be eliminated by the conversion to a corporation.

3. The purpose of this structure is to permit both reinvestment and repatriation of the profits of NEES in a tax efficient manner. The intermediate companies between National Grid Group and NEES Holdings are formed solely for the purposes of this transaction and are directly or indirectly wholly owned by National Grid Group. The parties note that this structure provides insulation to the U.S. jurisdictional operations by separating them from the remainder of the group under a holding company (NGG Holdings) incorporated in the U.S.

4. The diagram set forth below is the current intended structure based our best understanding of the relevant tax treatment to be afforded the companies and their interaction with management imperatives. However, it is possible that as a result of future changes in tax or accounting rules or other related matters, the structure will need to change to some extent prior to closing. Any changes in the structure prior to the closing of the transaction will be

reflected in an amendment to the Application/Declaration on Form U-1.

The diagram below assumes that the purchase price for NEES is $3.2 billion.



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* Guaranteed by NGG plc or subsidiary. Purely internal debt.
[Remainder filed as confidential material pursuant to rule 104]