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**ProSidian Consulting, LLC Point-Of-View On
The 2009/10 Petition For A General Electric
Distribution Rate Increase In Massachusetts**

July 2009

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ProSidian Consulting Point-of-View On The 2009/10 Petition For A General Increase In Electric Distribution Rates And Approval Of A Revenue Decoupling Mechanism in Massachusetts

OVERVIEW

This document provides the ProSidian Consulting Point-of-View (POV) on Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid Petition for a General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism. We view the impact of electric utility rates is a risk to the organization that can be managed as part of a larger energy risk management strategy. The information contained in this review is based on research available in the industry as well as applicable filings on behalf of and with the Massachusetts Department of Public Utilities (DPU) and the Massachusetts Attorney General's Office (AGO).

This P-O-V was developed as industry information gathering help our professionals understand current market dynamics as well as the most pressing risks faced by our clients. There are pressing risks such as changing market dynamics and increased rates faced by Industrial and Commercial Customers in Massachusetts as a result of the petition for a general increase in electric rates and approval of a revenue decoupling mechanism.

This information can be leveraged in both solution set development activities (initial client discussions, ongoing client dialogues, design session workshops, etc.) and client service delivery, especially in the areas of process & controls, enterprise risk assessment / remediation, and energy risk management strategies.

EXECUTIVE SUMMARY

Electric and natural gas prices in New England have risen sharply over the past decade. Higher energy prices (rate increases) impact all consumers – from a senior resident living in a small apartment to our largest businesses. A rate increase also affects the economic viability of the state as businesses in the commercial and industrial sector may choose to relocate or otherwise factor utility rates and other costs in analysis of expected of shutdown strategies.

As a result of the impact on the general constituency both business and private, the Massachusetts Attorney General's Office (AGO) is actively working in proceedings involving proposed rate increases at the Federal or State level, whether related to power generation, transmission or distribution components of a rate. In Massachusetts, electric and gas delivery rates charged by investor-owned public utilities are regulated by the Department of Public Utilities (DPU). The delivery rate is just one component of the charges contained in a customer's bill. The federal government regulates other elements, such as generation or transmission charges. Still state law mandates other components, such as the renewable energy and demand side management charges. By statute, the Attorney General represents the interests of Massachusetts' ratepayers in gas and electric cases before the Massachusetts Department of Public Utilities.

The Massachusetts electricity profile ranks the state 42nd in the United States consisting of 827 electric utilities and almost 12,730 independent power producers. The state's primary energy source is natural gas fired generation. Although the Massachusetts Attorney General represents consumers to keep costs as low as possible, prices have increased due primarily to the higher cost of natural gas, which is set through world supply and demand in previous periods for subsequent billing periods. There is typically a lag in changes (increase or decrease) to a customer's utility bill. Petroleum and natural gas prices have fluctuated greatly in recent years and the long-term forecast is for high prices. Natural gas is used by power plants in New England to produce over 40 percent of the region's electric power, meaning a significant increase in the price of natural gas also results in higher electric rates.

Because of numerous Massachusetts energy laws and regulations in recent years, in particular the 1997 Electric Restructuring Act, there has been a substantial change in the way the Massachusetts electric utility industry is structured. In the state's utility bills now require more information related to client account, such as usage and rates as well as delivery services and charges for supplier services at the meter level. The Supplier Services portion of the bill includes charges from the power supplier, aggregator, standard offer service, or aggregator. The Delivery Services portion of the bill includes all charges from the local distribution company. In the case Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, these services will continue to be regulated by the state government through the Massachusetts Department of Public Utilities (DPU).

Recently, The Massachusetts Department of Public Utilities (DPU) issued an Order that will begin "decoupling" rates from sales volume for all of the state's electric and natural gas distribution utilities. The aim is to encourage utilities to help their customers reduce their energy consumption and take advantage of on-site renewable energy. Historically, with vertically integrated utilities, electric distribution has been regulated by Cost of Service (COS) or Rate of Return (ROR) regulation. COS/ROR regulation establishes a fundamental link between the regulated firm's prices and its costs. The regulatory authority establishes a rate of return based on the utility's rate-base and targeted profits.

National Grid believes that the U.S. electricity industry will face significant change over the coming years. The company predicts a shift from a model in which electricity is generated and controlled centrally. Instead, energy will be integrated at a local level although through more dispersed sources that take advantage of renewable energy sources.

On May 15, 2009, Massachusetts Electric Company (MECo) and Nantucket Electric Company (Nantucket) d/b/a National Grid, filed a request seeking approval from the Massachusetts Department of Public Utilities (DPU) to increase its annual distribution revenues by \$111,289,705. Docket G.L.C. 164, § 94, and 220 C.M.R. §§ 5.00 et seq., for a General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism represents an increase of approximately 16 to 17.5 to 18.0 (based on varying sources) percent over the National Grid's annual distribution revenues or an approximate 5.5% increase on the total basic residential service bill. National Grid is the Bay State's largest electric utility with 1.2 million customers.

National Grid has also proposed a rate mechanism that decouples its revenues from its sales and which the company states is intended to eliminate financial barriers that may stand in the way of pursuing aggressive energy efficiency measures. In addition, the company is seeking approval, among other requests, to transfer recovery for costs associated with its obligations to provide employee pension and post retirement benefits other than pensions from distribution rates to a separate tariff that allows these costs to be reconciled each year. The effective date of the proposed rate increase will be December 1, 2009, pending review by the DPU and the Massachusetts Attorney General's Office (AGO).

The rate increase will cause a large commercial customer with a monthly demand of 1,000 KW and using 400,000 kWh per month to see an approximate 12.9% increase in the distribution charge portion of the bill, which represents a total bill increase of between 2 - 4% (based upon location). On top of the rate increase, National Grid requests a profit, known as its Return on Equity (return for shareholders) of 11.6% -- an inordinately high profit under good economic conditions. Starting 2010, National Grid also wants to tack on a fee of 0.161 cents per kilowatt-hour - equal to about 2 percent of its current commodity charges - to recoup electricity costs that it has not been able to collect from some delinquent customers.

Customers in National Grid's service territory are likely to see significant increases in their bills in 2010. Initial Major Concerns with National Grid's Rate Increase Filing:

- The Company asks for a Return of Equity (profits for shareholders) of 11.6%. This is well above what the Department generally allows and is excessive considering the Company's filing.
- Although the Company wants more profits, the Company attempts to shift its normal risks onto ratepayers by requesting multiple cost trackers for: (a) Capital Expenditures; (b) inspection and maintenance program; (c) bad debt and other uncollectibles; and (d) pension and other post retirement benefits.

- Instead of spreading the cost over numerous years, the Company wants to recover \$30,000,000 in one year from ratepayers that it spent restoring service after the December 2008 ice storm.
- The Company's decoupling proposal does not comport to Department directives and serves the Company's interests over those of ratepayers.
- The Company's proposed inclining block rate structure may harm some customers including low-income customers.

If the Company's petition were approved as requested, the rate change would increase National Grid's annual distribution revenues by at least \$111 million in Massachusetts. In addition to this proposed 5.5 percent increase, an additional 2 percent increase is on schedule to take effect next January because of a 2004 legal settlement. Commercial and industrial customers would likely see their monthly bills vary in rise between 2 to 4 percent and could be as high as 5.7 percent for MECo customers and as high as 3.7 percent for Nantucket customers depending on usage.

There is a very strong alignment of the upcoming Massachusetts rate increase to Energy Related Stimulus Funding. Energy related issues are a significant focus for The Obama Administration. There are recent developments at the Federal & State level that are being connected to the upcoming Rate Case (2009/10). On top of the list is The Administration's goal to re-gain "high ground" for US across the globe on Climate Change and create a comprehensive energy policy, while embracing energy security and climate change.

In terms of the Federal Economic Stimulus Package, early headlines suggest that 10% of the \$787 (bn) Stimulus Bill is targeted at Energy related investments. Climate Change Legislation such as the Waxman-Markey Energy Bill will create the tie between economic vitality and a cleaner environment. Upcoming legislation will set of short and long term "enforceable" emissions targets for a National Renewable Portfolio Standard and "cap & trade" as well as an incentive framework to promote state/local initiatives to address global warming and fulfill a commitment to the global role the US plays in support of developing nations.

We believe the states are in a difficult situation. In spring of 2008, even before state regulators considered a proposed 15.6-percent increase in electricity rates, National Grid said it wanted to increase rates even more. National Grid told the Public Utilities Commission the increasing price of crude oil and natural gas has forced it to revise its proposed rate increase to 21.7 percent. In spite of the significant impact on employers, non-profit organizations and service providers in the National Grid service territory, the Department of Public Utilities (DPU) expects minimal turn out from parties directly affected by the potential rate increase, rate design, and decoupling mechanism; a factor that impact the legislative will to fight the rate increase.

Throughout our research, we found that this has been a roller coaster period highlighting few resilient organizations during times of steep market uncertainty. Information available about the General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism in Massachusetts and other North Eastern states is not readily available. Coupled with the fact that there is little direct public outcry from in state against pending rate adjustments along with both direct and indirect links to Energy Related Stimulus Funding, sources say that the Massachusetts Attorney General's Office (AGO) may reach a settlement with National Grid before this case goes to court. Because of such a settlement, a general increase in electric distribution rates and approval of a revenue decoupling mechanism is expected to be passed.

COMPONENTS OF UTILITY BILLS IN MASSACHUSETTS

In order to understand why large commercial and industrial customers received large increases, it is important to understand utility bills in Massachusetts. A typical bill of a customer living or operating a business in Massachusetts contains two parts: the "delivery rate" and the "generation rate." Generally, the delivery rate is one-third of a customer's bill and the generation rate is two-thirds. The delivery rate includes the distribution rates, transition rates, transmission rates and the state program charge.

Customers pay distribution charges for the delivery of electricity to the customer's door over local power and transmission lines and for metering, billing, and other customer services. Distribution rates are subject to The

Massachusetts Department of Public Utility’s (DPU) sole jurisdiction. If a utility seeks to increase its distribution rates, it must apply to the DPU and subject its costs and revenues to regulatory scrutiny in a rate case.

The transition charge is the fixed cost associated with the financing and required divestiture of generation property by a utility as required by the 1997 Restructuring Act. Transition charge rates relate to costs incurred by utilities while meeting the Restructuring Act’s requirements, and resulted from divestiture plans filed, approved, and annually reconciled by the DPU.

Transmission rates are the costs for the delivery of power over lines from generating facilities across high-voltage lines to where it enters a distribution system. Transmission rates are filed and the actual rate is approved at FERC. Then the DPU oversees the incorporation of these rates into the rate tariffs of the Massachusetts distribution companies. Finally, each customer’s bill also carries a fixed charge as set through state statute to fund energy efficiency and renewable energy programs.

The generation charge is for electricity used by a customer as set by a customer’s selected supplier, or, for customers that do not select a supplier, based on the distribution company’s basic service rate per kilowatt-hour (kWh). These rates are set through contracts and the wholesale electricity market under FERC oversight. Like transmission, the DPU oversees the incorporation of these rates into the rate tariffs of the Massachusetts distribution companies.

MASSACHUSETTS ELECTRICITY PROFILE

Massachusetts		
Item	Value	U.S. Rank
NERC Region(s)		NPCC
Primary Energy Source		Gas
Net Summer Capacity (megawatts)	13,557	27
Electric Utilities	827	42
Independent Power Producers & Combined Heat and Power	12,730	8
Net Generation (megawatt hours)	47,075,975	33
Electric Utilities	493,885	44
Independent Power Producers & Combined Heat and Power	46,582,091	10
Emissions (thousand metric tons)		
Sulfur Dioxide	51	32
Nitrogen Oxide	20	39
Carbon Dioxide	25,539	34
Sulfur Dioxide (lbs/MWh)	2.4	36
Nitrogen Oxide (lbs/MWh)	0.9	41
Carbon Dioxide (lbs/MWh)	1,196	35
Total Retail Sales (megawatt hours)	57,138,822	25
Full Service Provider Sales (megawatt hours)	33,297,614	34
Deregulated Sales (megawatt hours)	23,841,208	4
Direct Use (megawatt hours)	1,388,251	26
Average Retail Price (cents/kWh)	15.16	4

MWh = Megawatt hours / kWh = Kilowatt-hours. Sources: Energy Information Administration, Form EIA-860, "Annual Electric Generator Report." Energy Information Administration, Form EIA-861, "Annual Electric Power Industry Report." Energy Information Administration, Form EIA-923, "Power Plant Operations Report" and predecessor forms. Data Release Date: April 2009

TEN LARGEST PLANTS BY GENERATION CAPACITY

Massachusetts			
Plant	Primary Energy Source or Technology	Operating Company	Net Summer Capacity (MW)
1. Mystic Generating Station	Gas	Boston Generating LLC	1945
2. Brayton Point	Coal	Dominion Energy New England, LLC	1545
3. Canal	Petroleum	Mirant Canal LLC	1112
4. Northfield Mountain	Pumped Storage	First Light Power Resources Services LLC	1080
5. Salem Harbor	Coal	Dominion Energy New England, LLC	743
6. Pilgrim Nuclear Power Station	Nuclear	Entergy Nuclear Generation Co	685
7. Fore River Generating Station	Gas	Boston Generating LLC	683
8. Bear Swamp	Pumped Storage	Brookfield Power New England	563
9. ANP Bellingham Energy Project	Gas	IPA Bellingham Energy Company	475
10. ANP Blackstone Energy Project	Gas	ANP Blackstone Energy Co	437

MW = Megawatt. Source: Energy Information Administration, Form EIA-860, "Annual Electric Generator Report." Data Release Date: April 2009

UNDERSTANDING YOUR ELECTRIC BILL

Because of Massachusetts' energy laws and regulations in recent years, in particular the 1997 Electric Restructuring Act, natural gas and electric bills now include substantially more information about the services covered. The 1997 Electric Restructuring Act substantially changed the way the Massachusetts electric utility industry is structured as well as the way electric utility companies do business in the State Massachusetts.

The following terms address general components of the typical Massachusetts electric utility bill:

- **COMPETITIVE POWER SUPPLIER:** Also known as "power producer" or "power generator," this is a company or group that creates and sells the electricity that is delivered to your home or business by your electric distribution company.
- **DISTRIBUTION COMPANY:** Still referred to by many consumers as their "electric company," this local company delivers electricity to customers. Distribution companies also read meters maintain local power lines and restore power when there is an outage. In this case Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid.
- **KILOWATT-HOUR (KWH):** Electricity is measured in units called kilowatt-hours (KWh). One kWh is equal to 1,000 watts of power used over a period of one hour – for example, ten 100-watt light bulbs turned on for one hour. An average U.S. household uses about 11,000 kilowatt-hours (kWh) of electricity each year. 1,000 kWh's is equal to 1 Megawatt (MW) of energy can generate about 8.77 million kWh annually. Therefore, a megawatt of energy generates about as much electricity as 800 households use. A monthly electric bill is calculated by multiplying the cost of one kilowatt-hour by the number of hours of electricity use.

VIEW A SAMPLE ELECTRIC BILL

In the state of Massachusetts, utility bills require information related to client account, such as usage and rates as well as delivery services and charges for supplier services at the meter level. The delivery services portion of the bill includes charges from the local distribution company. In the case Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, these services will continue to be regulated by the state government through the Massachusetts Department of Public Utilities (DPU). The Supplier Services portion of the bill includes charges from the power supplier, aggregator, standard offer service, or aggregator. It is the only part subject to competition. The sample bill below illustrates the concepts outlined above.

Sample Bill			
Account Number: Customer:		Billing Date: Jun 11, 1998	
Meter: 388418	Service Period: May 03, 1998 to Jun 05, 1998	30 Days	
Rate: R1	Present Read: 02875 Actual	Previous Read: 02736 Estimate	kWh Usage: 119
Account Summary		Amount	Total
Previous Balance		\$9.47	
Payments Received By Jun 11, 1998 (Thank You)		-9.47	
Balance Forward			\$0.00
Cost of Electricity			
	kWh	Rate	
Delivery Services			
Customer Charge			\$6.43
Distribution Charge	119 x	.042353	5.04
Transition Charge	119 x	.034286	4.08
Transmission Charge	119 x	.002440	0.29
Energy Conservation	119 x	.000588	0.07
Renewable Energy	119 x	.000084	0.01
Supplier Services			
Generation Charge			
Standard Offer Service	119 x	.028656	3.41
Total Cost of Electricity			\$19.33
Total Amount Due (Payment Due Upon Receipt)			\$ 19.33
Due to industry changes, your savings this month are approximately \$2.15.			
Your next scheduled reading will be on Aug 06, 1998. Moving? Please let us know. Otherwise you may be liable for future charges.			
Notice			
Effective 6/1/98, The Energy Conservation Charge Of \$.0033 Per Kwh And The Renewable Energy Charge Of \$.00075 Per Kwh Have Been Removed From The Distribution Charge. These Charges Will Now Appear Separately On Your Bill. However, This Month's Bill Shows The Charges Prorated For The Time Period After June 1, 1998			
		kWh History	
		May 98 * 28	
		Apr 98 22	
		Mar 98 * 28	
		Feb 98 23	
		Jan 98 * 30	
		Dec 97 18	
		Nov 97 * 27	
		Oct 97 0	
		Sep 97 * 35	
		Aug 97 21	
		Jul 97 * 18	
		Jun 97 35	
		* Estimate	

Note: This sample bill is provided for information purposes only. When reviewing it, please note that each customer's bill is unique and may look different from this example.

WHAT DOES THE BILL INFORMATION CONTAIN

- DELIVERY SERVICES:** This portion of a bill includes charges from the local distribution company (electric utility). These services continue to be **regulated by State Government**. These charges are measured per kilowatt-hour (kWh), which equals 1,000 watts of power used over a one-hour period.
- RATE:** The delivery service rate at the meter level. Most customers have a “residential rate,” which provides for basic power delivery services.
- CUSTOMER CHARGE:** This is a fixed charge that covers a part of the electric company’s fixed cost to deliver electricity
- Distribution Charge:** This covers the local, lower-voltage power lines (wires) and associated facilities that transport the electricity from distribution substations to homes and businesses. **Substations, owned by local distribution companies** (the electric companies), receive electricity from power-generating facilities and distribute it to customers.

- **TRANSITION CHARGE:** This fixed charge allows your distribution company to recover costs incurred before the 1997 Electric Restructuring Act for its: 1) investments in building or operating power generation plants and 2) other activities mandated by that 1997 law. This charge will decrease over time as these costs are recovered.
- **TRANSMISSION CHARGE:** The cost of delivering electricity via high-voltage power lines (wires) and associated facilities that transmit the electricity from power plants to distribution substations.
- **ENERGY EFFICIENCY (also called “Conservation” and “Demand Side Management”):** A fixed charge required by the Commonwealth for all electric ratepayers to help fund programs to improve energy efficiency and/or reduce energy use.
- **RENEWABLE ENERGY:** This is fixed charge required to help fund the Massachusetts Renewable Energy Trust. Revenues finance the development of facilities that produce power from solar, wind and other renewable resources.
- **SUPPLIER SERVICES:** This includes charges from a power supplier or aggregator for generating the electricity. This is the only part of the bill that is subject to competition among power supply companies.
- **BASIC SERVICE - FIXED:** Customers may choose a competitive power supplier, the company that generates their electricity. Most consumers have not selected a supplier and are listed as a “Basic Service – Fixed” customer. This rate provides the most stable electric bills – rather than a variable rate, which fluctuates monthly based on the current market price for electricity.
- **GENERATION CHARGE:** Covers the amount of electricity you use – the energy that comes from power plants and other facilities that produce the electricity-transported businesses via “distribution substations.” The generation charge is set through contracts between power generators and distribution companies, as well as the wholesale electricity market, which is under Federal Energy Regulatory Commission (FERC) oversight.

OVERVIEW OF THE ELECTRIC MARKET: 07-14-09

The following is an overview of the electric market affecting Industrial and commercial customers in the US North East as of 07-14-09.

ELECTRICITY

- **CONSUMPTION:** Retail sales of electricity in the industrial sector continue to decline, having fallen by 12 percent during the first quarter of 2009 compared with year-ago levels. Total consumption of electricity is projected to fall by 2.0 percent for the entire year of 2009 and then rise by 0.8 percent in 2010.
- **PRICES:** Residential electricity prices rose by 8 percent during the first quarter of 2009 compared with the first quarter of 2008. Lower generation fuel costs are expected to be passed through to retail consumers later this year, keeping the annual average growth in prices at around 4.7 percent and 3.3 percent in 2009 and 2010, respectively.

ELECTRICITY INVENTORIES

- **GENERATION: Net generation in the United States dropped by 5.0 percent from April 2008 to April 2009.** This was the ninth consecutive month that net generation was down compared to the same calendar month in the prior year. The Commerce Department reported that real gross domestic product decreased from the fourth quarter of 2008 to the first quarter of 2009.
- Continuing to reflect this decline, **industrial production in April 2009**, as reported by the Federal Reserve, **was 12.5 percent lower than it had been in April 2008, the tenth consecutive month that same-month industrial production was lower than it had been in the previous year.** The decline in net generation is also consistent with the National Oceanic and Atmospheric Administration’s (NOAA’s) population-weighted Residential Energy Demand Temperature Index (REDTI) for April 2009, which was 2.3 percent “below average consumption.” In April 2008, the REDTI was “near average.”
- **The drop in coal-fired generation was the largest absolute fuel-specific decline from April 2008 to April 2009** as it fell by 20,551 thousand-megawatt hours, or **13.9 percent.** Declines in Alabama, Georgia, Ohio, North Carolina, West Virginia, Wisconsin, and Texas accounted for 52.3 percent of the national decrease in coal-fired generation. The April decline was the third consecutive month of historically large drops in **coal-fired generation** from the same month in the prior year, though it was not as precipitous as the **drop of 15.3 percent in March or the decline of 15.1 percent in February.** The April national level decline was the fourth-largest percentage decrease in generation since 1974.

- **Generation from conventional hydroelectric** sources was the largest absolute **increase** in April 2009 as it was up by 3,918 thousand-megawatt hours, or **18.4 percent from April 2008**. Increases in Washington and Oregon accounted for 67.9 percent of the national rise. Generation at Washington’s Grand Coulee facility, the largest power plant in the United States, was up 35.3 percent. **Nuclear generation was up 3.1 percent**. **Generation from natural gas-fired plants was down by 1.5 percent**. **Net generation from wind sources was 34.8 percent higher**. Higher wind generation totals in Texas, Iowa, New York, and Indiana accounted for 62.2 percent of the national increase. Petroleum liquid-fired generation was down by 26.5 percent compared to a year ago, and its overall share of net generation continued to be quite small compared to coal, nuclear, natural gas-fired, and hydroelectric sources.

RENEWABLE ARE THE NEW BLACK

- **CONSUMPTION OF FUELS:** Consumption of coal for power generation in April 2009 was down by 12.7 percent compared to April 2008. For the same period, while petroleum coke increased by 2.5 percent, consumption of petroleum liquids was down by 26.9 percent. Consumption of natural gas decreased by 1.5 percent.

WHAT WE KNOW ABOUT THE CURRENT RATE STRUCTURE IN MASS

The Electric Restructuring Act required former, traditional electric utilities to remove themselves from the power generation business (i.e., owning power plants and other power-generating facilities) under a process known as “divestiture.” They continue to operate as distribution companies, purchasing electricity from competitive power suppliers and using power wires and poles to deliver it to customers. The rates charged for electricity vary among the different distribution companies, generally ranging from approximately nine (\$0.09) cents to thirteen (\$0.13) cents per kilowatt-hour in Massachusetts.

Recently, The Massachusetts Department of Public Utilities (DPU) issued an Order that will begin “decoupling” rates from sales volume for all of the state’s electric and natural gas distribution utilities. The aim is to encourage utilities to help their customers reduce their energy consumption and take advantage of on-site renewable energy.

Currently, utilities collect more revenue by selling more electricity or gas, and lose revenue when their customers use less. This approach to utility rates gives these companies the wrong incentives at a time of high-energy costs, which are driven by the prices of oil and natural gas, and creates an institutional barrier to reducing electricity and natural gas costs for residents and businesses through increased energy efficiency and the use of on-site or local renewable power generation.

Historically, with vertically integrated utilities, electric distribution has been regulated by Cost of Service (COS) or Rate of Return (ROR) regulation. COS/ROR regulation establishes a fundamental link between the regulated firm’s prices and its costs. The regulatory authority establishes a rate of return based on the utility’s rate-base and targeted profits.

This creates the possibility of incentives for the utility to overspend and thus requires very careful reviews of utility spending decisions by the regulator. With COS/ROR regulation in place, because any cost savings will ultimately be passed on to the ratepayers, there is very little incentive for a utility for measures that could cut costs or improve efficiency. In addition, when total retail competition is introduced so that a retail customer could choose the electricity supplier, COS/ROR based rate setting practice will not apply although some form of regulation will be required. Under COS/ROR regulation, the Department of Public Utilities (DPU) determines rates for distribution service through a three-step process.

1. First, a company’s revenue requirement is determined, based on its level of expenses, its allowable investment (or rate base), and a reasonable rate of return on rate base.
2. Second, the allocation of the revenue requirement to each rate class is determined, based on cost-causation principles.
3. Finally, retail rates are designed for each rate class to generate revenue equal to each class’ allocated revenue requirement.

Because COS/ROR creates the possibility of incentives for the utility to overspend, there has been a growing interest in an alternative form of regulation, called Performance Based Regulation (PBR) for electric distribution. PBR is a form of regulation that relies on financial incentives and penalties to induce desired behavior and is expected to simulate competition better than the traditional rate of return regulation.

PBR also requires explicit supply quality regulation, as supply quality investments are left to the discretion of the utility. Performance Based Regulation (PBR) also relies on financial incentives and disincentives to induce desired behavior by a regulated firm. Commonly sought after goals of this kind of regulation are cost cutting initiatives, innovation, environmental improvement, and advancement of certain public policy initiatives. Reasons for a growing trend towards an alternative form of regulation such as PBR are that this structure tends to reward better performance and penalizes poor performance thereby better simulating competition.

However, concerns about PBR include the possibility of the utility attempting to enhance its incentives at the cost of the quality of supply and/or quality of service. Going forward, Massachusetts gas and electric utilities will file rate plans that separate, or decouple, their sales of electricity or gas from the revenues they need to collect in order to maintain their electricity and natural gas distribution systems. While fully decoupled rate structures will be phased in over several years. Explicit regulation of service and supply quality is necessary in PBR.

To achieve full decoupling the following must take place:

- a) Each electric and natural gas utility companies must submit a rate case to the Department and proceed through a full evidentiary hearing process, in order to establish rates.
- b) Rates will be set at a level designed to recover the company's prudently incurred costs, plus an adequate return on investment.
- c) Rates will be subject to review and reconciliation on an annual basis. If a company's revenues are higher than expected, the excess is returned to consumers as a credit; if revenues are lower, due to demand-reduction programs and other factors, the company will be allowed to recover the difference through a rate adjustment.

All Massachusetts utilities are expected to file decoupled rate plans with the Massachusetts Department of Public Utilities (DPU) as existing rate plans expire – for most companies, by 2012. The State Of Massachusetts believes the importance of establishing rate structures that send efficient price signals to consumers has been well recognized and can be taken care of through regulatory measures on top of the basic PBR system. These price signals are expected to enhance competition and increase supply are expected to include:

1. The costs incurred by a company in providing distribution service to each rate class; and
2. The underlying nature of those costs (i.e., fixed costs are recovered through fixed charges, demand-based costs are recovered through demand charges, and variable charges are recovered through volumetric charges).

To the extent that rates are not fully cost-based or that fixed and demand-based costs are not fully recovered through fixed charges, consumers are potentially receiving an energy price signal that departs from the theoretical ideal. In addition, it is possible that setting distribution rates that are closer to the theoretical ideal could mitigate some of the financial disincentives that companies currently face regarding the deployment of demand resources.

National grid believes the Regulatory relationship in the US is at a new level requiring demonstrated leadership in shaping regional energy policy. Strategies include innovative Solar and Smart Grid demonstration projects proposed, transformational approach to the New York State Energy Plan, and design of renewables language for Massachusetts Green Communities Act. The company sees Positive benefits (financial and other) of storm restoration, as well as recent positive gas rate cases in NY, RI and NH. The transformational nature of US Energy and Environmental agenda offers the company increased opportunities in light of pressing challenges faced by regulators in shaping future US policy & regulatory frameworks.

The company sees 2009/10 as “a big year for the rate case.”

WHAT ARE THEY ASKING FOR?

- Increased rates from 1 Jan 2010
- Timely recovery of costs
- Allowed returns at industry average
- Current recovery of system investments
- Decoupling
- Pension true ups
- OPEB true ups
- Bad debt recovery
- Structure to redefine role of utility

WHO IS NATIONAL GRID?

National grid is an international, London-based company and one of the largest investor-owned utilities in the world. National Grid plc was founded in 1990 and is based in London, the United Kingdom. National Grid plc, together with its subsidiaries, engages in the transmission and distribution of electricity and gas in the United Kingdom and the United States. Its Transmission business owns and operates high voltage electricity transmission network in England, Scotland, and Wales; the gas national transmission system in Great Britain; the electricity interconnector between England and France; storage facilities for liquefied natural gas (LNG); and high voltage electricity transmission networks in New York and in New England.

The company’s Gas Distribution business engages in the ownership and operation of four gas distribution networks in the Great Britain; and gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire, and Rhode Island. National Grids Electricity Distribution and Generation segment owns electricity distribution networks in upstate New York, Massachusetts, New Hampshire, and Rhode Island; operates and manages electricity transmission and distribution network in Long Island on behalf of the Long Island Power Authority; and generates electricity through oil and gas-fired steam turbine, gas turbine, and diesel driven generating units in Long Island.

Its Non-Regulated and Other businesses includes metering services, property management, LNG importation terminal on the Isle of Grain, and the construction and operation of an electricity interconnector between the Netherlands and the United Kingdom; and LNG storage, LNG road transportation, unregulated transmission pipelines, gas fields, and home energy services in the United States. As of March 31, 2009, the company served approximately 19 million residential, commercial, and business consumers.

WHAT WE ARE HEARING ABOUT THE MASSACHUSETTS DISTRIBUTION RATE CASE

On May 15, 2009, Massachusetts Electric Company (MECo) and Nantucket Electric Company (Nantucket) d/b/a National Grid, filed a request seeking approval from the Massachusetts Department of Public Utilities (DPU) to increase its annual distribution revenues by \$111,289,705. Docket G.L.C. 164, § 94, and 220 C.M.R. §§ 5.00 et seq., for a General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism represents an increase of approximately 16 to 17.5 to 18.0 (based on varying sources) percent over the National Grid’s annual distribution revenues or an approximate 5.5% increase on the total basic residential service bill. National Grid is the Bay State’s largest electric utility with 1.2 million customers

National Grid has also proposed a rate mechanism that decouples its revenues from its sales and which the Company states is intended to eliminate financial barriers that may stand in the way of pursuing aggressive energy efficiency measures. In addition, the company is seeking approval, among other requests, to transfer recovery for costs associated with its obligations to provide employee pension and post retirement benefits other than pensions from distribution rates to a separate tariff that allows these costs to be reconciled each year.

The effective date of the proposed rate increase has been suspended until December 1, 2009, pending review by the DPU and the Massachusetts Attorney General’s Office (AGO). The new rates established in this proceeding will be for electricity consumed on or after January 1, 2010. The Department of Public Utilities BEGAN holding public

hearings on July 7, 2009 in regards to the petition of National Grid (Massachusetts Electric Company, and Nantucket Electric Company) for a general increase in electric rates and approval of a revenue decoupling mechanism.

Employers, non-profit organizations and service providers in the National Grid service territory directly affected by the potential rate increase, rate design, and decoupling mechanism have been encouraged to participate in Hearings. However, the DPU expects minimal turn out which may affect the legislative will to fight the rate increase. Coupled with the fact that this issue is also being linked to economic stimulus funding from the Federal government.

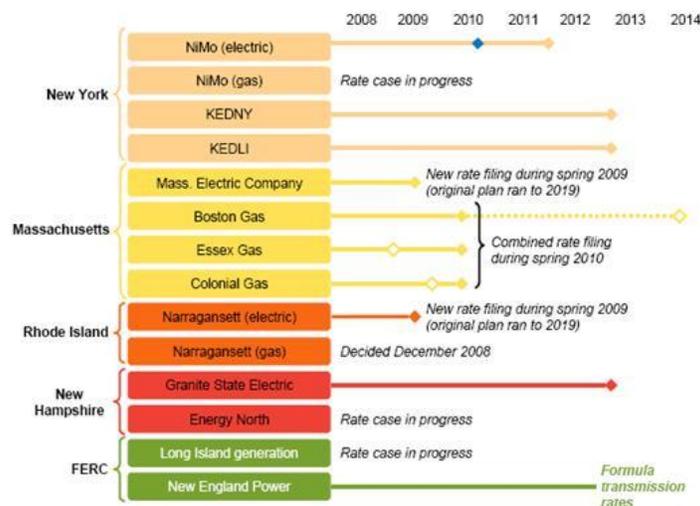
National Grid believes that the U.S. Electricity Industry will face significant change over the coming years. There will be a shift from a model in which electricity is generated and controlled centrally, to one in which energy is more dispersed and integrated at a local level taking advantage of renewable energy sources. The extra funds requested would be used for proposed initiatives such as infrastructure improvements, rising pension costs and improving energy efficiency under the state Green Communities Act. Environmental awareness and rising prices will require the energy industry to become increasingly responsive to the need for more timely energy usage and pricing information, more tailored energy options, and greater individual customer control (i.e. The Smart Grid).

Among the charges included in the increase is a \$30 million reimbursement to the company for efforts to restore service after the December 2008 ice storm (Storm Fund Recovery vs. Spreading the cost of its ice-storm response over numerous years). National Grid also claims one factor behind the proposed rate increase is the \$900 million that the company spent on improving its Massachusetts infrastructure since 2000. However the rate increase will cause a large commercial customer with a monthly demand of 1,000 KW and using 400,000 kWh per month to see an approximate 12.9% increase in the distribution charge portion of the bill, which represents a total bill increase of between 2-4% (based upon location). On top of the rate increase, National Grid requests a profit, known as its Return on Equity (return for shareholders) of 11.6% -- an inordinately high profit under good economic conditions. Starting 2010, National Grid also wants to tack on a fee of 0.161 cents per kilowatt-hour - equal to about 2 percent of its current commodity charges - to recoup electricity costs that it has not been able to collect from some delinquent customers.

National Grid requests that Massachusetts approve this increase effective January 1, 2010. This increase is solely related to recovery of the costs of operating and maintaining its normal utility equipment – the Company’s wires and poles – which bring electricity to your home or business. It does not include charges for the actual electricity that you use, which National Grid recovers in separate charges on the bills.

CONCERNS WITH NATIONAL GRID’S PROPOSED RATE INCREASE

National Grid’s Regulatory Calendar includes updating all US rate plans.



Customers in National Grid’s service territory are likely to see significant increases in their bills in 2010. Initial Major Concerns with National Grid’s Rate Increase Filing:

- The Company asks for a Return of Equity (profits for shareholders) of 11.6%. This is well above what the Department generally allows and is excessive considering the Company’s filing.
- Although the Company wants more profits, the Company attempts to shift its normal risks onto ratepayers by requesting multiple cost trackers for: (a) Capital Expenditures; (b) inspection and maintenance program; (c) bad debt and other uncollectibles; and (d) pension and other post retirement benefits.
- Instead of spreading the cost over numerous years, the Company wants to recover \$30,000,000 in one year from ratepayers that it spent restoring service after the December 2008 ice storm.
- The Company’s decoupling proposal does not comport to Department directives and serves the Company’s interests over those of ratepayers.
- The Company’s proposed inclining block rate structure may harm some customers including low-income customers.

	Cost of Request	Distribution Rate Increase	Residential Total Bill Rate Increase	Status of Filing
National Grid Rate Increase Request	\$111,300,000 per year	18%	5.50%	Pending – Decision by 12/1/09
Restructuring Related Cost Deferral*	\$66,300,000	7.8% (based on 12 month recovery)	2%	Pursuant to 2004 Settlement, the Company may begin collecting these costs on 1-1-10
Smart Grid Pilot Program*	\$56,000,000	2.6% (as proposed in DPU 09-32)	0.60%	Pending – Decision by November 2009
Solar Program*	\$31,000,000	0.7% (as proposed in DPU 09-38)	0.20%	Pending – Decision by November 2009
Energy Efficiency Spending	\$28,000,000 per year (increase over 2008 budget)	3.30%	0.80%	Filing by October 2009, begin recovering costs on 1-1-10
Other increases (net metering, long term contracts)	Unknown	Unknown	Unknown	Net metering is pending; long-term contracts likely to be filed in next several months

MW = Megawatt. Source: Energy Information Administration, Form EIA-860, "Annual Electric Generator Report." Data Release Date: April 2009

WHAT DOES THIS MEAN FOR MASSACHUSETTS UTILITY CUSTOMERS?

If the Company's petition is approved as requested, a typical MECo residential customer (R-1) using 500 to 1000 kilowatt hours per month will experience a monthly bill increase of \$4.25, or 5.5 percent, and a typical MECo low-income customer (R-2) will experience a monthly bill increase of \$3.70, or 6.4 percent. Typical Nantucket residential customer (R-1) using 500-kilowatt hours per month could experience a monthly bill increase of \$4.25, or 4.9 percent, and a typical Nantucket low-income customer (R-2) will experience a monthly bill increase of \$1.50, or 2.3 percent.

The rate change would increase National Grid’s annual distribution revenues by at least \$111 million in Massachusetts. In addition to this proposed 5.5 percent increase, an additional 2 percent increase is already scheduled to take effect next January because of a 2004 legal settlement. This rate hike will mark the state’s first litigated rate case since 1995 in which the attorney general actively fights an electric utility’s efforts to raise the amount of money it can charge customers for distribution. Sources say that the Massachusetts Attorney General’s Office (AGO) may reach a settlement with National Grid before this point; although a rate increase is expected to be passed.

Commercial and industrial customers would likely see their monthly bills vary in rise between 2 to 4 percent and could be as high as 5.7 percent for MECo customers and as high as 3.7 percent for Nantucket customers depending on usage. Small commercial users could enjoy a decrease. For the first time the Company is proposing inclining block rates to promote energy conservation, which results in larger percent bill increases for high usage customers.

NATIONAL GRID C&I ELECTRIC DELIVERY SERVICE RATE SCHEDULES (MASS)

General Service-Small Commercial & Industrial G-1 (M.D.P.U. No. 1138) Effective 3/1/2009		Charge
Rates for Retail Delivery Service		
Customer Charge \$9.03 applicable to metered service only.		\$9.03000
Location Service Charge - For allowed unmetered service \$7.02 for unmetered service as defined below.		\$7.02000
Distribution Charge per kWh (1) 4.094¢		\$0.04094
Transmission Charge per kWh 1.453¢		\$0.01453
Transition Charge per kWh 0.116¢		\$0.00116
Demand Side Management Charge per kWh 0.250¢ effective January 1, 2003		\$0.00250
Renewables Charge per kWh 0.050¢ effective January 1, 2003		\$0.00050
Other Rate Clauses apply as usual.		
Default Service Adjustment Factor of 0.089 per kWh		
Residential Assistance Adjustment Factor of 0.051¢ per kWh		
Default Service Cost Reclassification Adjustment Factor of (0.040¢) per kWh		
Exogenous Events Credit Factor of (0.007¢) per kWh		

DETAILS FOR GENERAL SERVICE-SMALL COMMERCIAL & INDUSTRIAL G-1 (M.D.P.U. No.

AVAILABILITY: Electric delivery service under this rate is available for all purposes, subject to the provisions of this section. A new Customer will begin service on this rate if the Company estimates that its average use will not exceed 10,000 kWh/Month or 200 kW of demand. A Customer may be transferred from rate G-1 at its request or at the option of the Company if the Customer's 12-month average monthly usage exceeds either 10,000 kWh/month or 200 kW of demand for 3 consecutive months. A Municipality which owns and maintains streetlight fixtures served by underground conduit may take delivery service under the unmetered service provision of this rate if the Municipality signs an Underground Electric Service for Non-Conforming Street Lighting Contract with the Company for underground electric delivery service for street lighting.
MONTHLY CHARGE: The Monthly Charge will be the sum of the applicable Customer or Location Service Charge, and the kWh Charges:
UNMETERED DELIVERY SERVICE: Unmetered delivery services are usually not permitted or desirable. However, the Company recognizes that there are certain instances where metering is not practical. Examples of such locations are telephone booths and fire box lights. The monthly bill generally will be computed by applying the rate schedule to a use determined by multiplying the total load in kilowatts by 730 hours. However, the energy use may be adjusted after tests of the unmetered equipment indicate lesser usage. The kilowatt-hour use for underground electric service for street lighting shall be determined according to the provisions of the Contract for the service. When unmetered service is provided, the Customer Charge will be waived and the Location Service Charge will be applied.
TRANSMISSION SERVICE COST ADJUSTMENT: Transmission service is available to all retail customers taking service under this rate. For those customers, the transmission charge under this rate shall be calculated in accordance with the Company's Transmission Service Cost Adjustment Provision.
TRANSITION COST ADJUSTMENT: The Transition Charge under this rate as set forth under "Monthly Charge" shall be adjusted from time to time in accordance with the Company's Transition Cost Adjustment Provision.
DSM CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a DSM Charge, representing a charge for energy conservation programs, in accordance with the Company's Demand Side Management Provision.
RENEWABLES CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a Renewables Charge in accordance with the Company's Renewables Provision.
MINIMUM CHARGE: The monthly minimum charge will be the applicable monthly Customer Charge or Location Service Charge. However, if the KVA transformer capacity needed to serve a customer exceeds 25 KVA, the minimum charge will be increased by \$1.88 for each KVA in excess of 25 KVA.
DEFAULT SERVICE: Any Customer who does not have a supplier other than the Company will receive and pay the Company for Default Service in accordance with the terms and price for Default Service established by the Department of Public Utilities.
DEFAULT SERVICE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Adjustment Provision.
DEFAULT SERVICE COST RECLASSIFICATION ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service and all Customers receiving Default Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Cost Reclassification Adjustment Provision.
RESIDENTIAL ASSISTANCE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Residential Assistance Adjustment Provision.
BIMONTHLY BILLING: The Company reserves the right to read meters and render bills on a bimonthly basis. When bills are rendered bimonthly, the applicable Customer Charge or Location Service Charge, and the Minimum Charge shall be multiplied by two.
TERM OF SERVICE: Customers served under this rate must provide the Company with six months prior written notice before installing or allowing to be installed for its use a non-emergency generator with a nameplate capacity greater than that in place on the Customer's location as of March 1, 1998. This notice provision does not apply to facilities eligible for net metering in accordance with 220 CMR 11.03(4)(d).
FARM DISCOUNT: Customers who meet the eligibility requirements for being engaged in the business of agriculture or farming as defined in M.G.L. Chapter 128 Section 1a at their service location are eligible for an additional discount from their distribution service rates. The discount will be calculated as 10% of the Customer's total bill for service provided by the Company before application of this discount. Customers who meet the requirements of this section must provide the Company with appropriate documentation of their eligibility under this provision.
TERMS AND CONDITIONS: The Company's Terms and Conditions in effect from time to time, where not inconsistent with any specific provisions hereof, are a part of this rate.

General Service - Demand G-2 (M.D.P.U. No. 1139) Effective 3/1/2009		Charge
Rates for Retail Delivery Service		
Customer Charge	\$16.56	\$16.56000
Distribution Demand Charge per kW	\$6.41	\$6.41000
Distribution Energy Charge per kWh (1)	0.089¢	\$0.00089
Transition Demand Charge per kW	\$0.11	\$0.00110
Transition Charge per kWh	0.123¢	\$0.00123
Transmission Charge per kWh	1.408¢	\$0.01408
Demand Side Management Charge per kWh	0.250¢ effective January 1, 2003	\$0.00250
Renewables Charge per kWh	0.050¢ effective January 1, 2003	\$0.00050
Other Rate Clauses apply as usual.		
(1) Includes Default Service Adjustment Factor of (0.089 per kWh)		
Residential Assistance Adjustment Factor of 0.051¢ per kWh		
Default Service Cost Reclassification Adjustment Factor of (0.014¢) per kWh		
An Exogenous Events Credit Factor of (0.007¢) per kWh.		

DETAILS FOR GENERAL SERVICE - DEMAND G-2 (M.D.P.U. No. 1139)

AVAILABILITY: Electric delivery service under this rate is available for all purposes, subject to the provisions of this section. A new customer will begin delivery on this rate if the Company estimates that its average use will exceed 10,000 kWh/Month, but not exceed 200 kW of Demand. A Customer may be transferred from rate G-2 at its request if the customer's 12 month average monthly usage either (a) is less than 8,000 kWh/Month or (b) exceeds 200 kW of Demand for 3 consecutive months. A Customer may be transferred at the option of the Company if the Customer's 12-month average usage (a) either is less than 8,000 kWh/Month or (b) exceeds 200 kW of Demand for 3 consecutive months.
MONTHLY CHARGE: The Monthly Charge will be the sum of the applicable Customer Charge, kW Charges, and kWh Charges:
TRANSMISSION SERVICE COST ADJUSTMENT: Transmission service is available to all retail customers taking service under this rate. For those customers, the transmission charge under this rate shall be calculated in accordance with the Company's Transmission Service Cost Adjustment Provision.
TRANSITION COST ADJUSTMENT: The Transition Charges under this rate as set forth under "Monthly Charge" shall be adjusted from time to time in accordance with the Company's Transition Cost Adjustment Provision.
DSM CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a DSM Charge, representing a charge for energy conservation programs, in accordance with the Company's Demand Side Management Provision.
RENEWABLES CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a Renewables Charge in accordance with the Company's Renewables Provision.
DEFINITION OF DEMAND: The Demand for each month under ordinary load conditions shall be the greatest of the following: a) The greatest fifteen minute peak occurring during all hours, Peak and Off-Peak, within such a month as measured in kilowatts, b) 90% of the greatest fifteen minute peak occurring during all hours, Peak and Off-Peak, of such month as measured in kilovolt-amperes, where the Customer's kilowatt Demand exceeds 75 kilowatts, or c) 5 kilowatts
HIGH-VOLTAGE METERING ADJUSTMENT: The Company reserves the right to determine the metering installation. Where delivery service is metered at the Company's supply line voltage, in no case less than 2400 volts, thereby saving the Company transformer losses, a discount of 1.0% will be allowed from the amount determined under the preceding provisions. When the metering equipment is installed on the Customer's side of the transformers and the nameplate transformer rating is greater than 120 percent of the Customer's highest demand over the last twelve months, the Company may adjust the kW, KVA, and kWh meter registrations or adjust electronic meter program settings to compensate for unmetered transformer losses.
CREDIT FOR HIGH VOLTAGE DELIVERY: If the Customer accepts delivery at the Company's supply line voltage, not less than 2400 volts, and the Company is saved the cost of installing any transformer and associated equipment, a credit of 46 cents per kilowatt of billing demand for such month shall be allowed against the amount determined under the preceding provisions.
DEFAULT SERVICE: Any Customer who does not have a supplier other than the Company will receive and pay the Company for Default Service in accordance with the terms and price for Default Service established by the Department of Public Utilities.
DEFAULT SERVICE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Adjustment Provision.
DEFAULT SERVICE COST RECLASSIFICATION ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service and all Customers receiving Default Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Cost Reclassification Adjustment Provision.
RESIDENTIAL ASSISTANCE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Residential Assistance Adjustment Provision.
MINIMUM CHARGE: The monthly Minimum Charge shall be the sum of the monthly Customer Charge and Demand Charge.
TERM OF SERVICE: Customers served under this rate must provide the Company with six months prior written notice before installing or allowing to be installed for its use a non-emergency generator with a nameplate capacity greater than that in place on the Customer's location as of March 1, 1998. This notice provision does not apply to facilities eligible for net metering in accordance with 220 CMR 11.03(4)(d).
FARM DISCOUNT: Customers who meet the eligibility requirements for being engaged in the business of agriculture or farming as defined in M.G.L. Chapter 128 Section 1a at their service location are eligible for an additional discount from their distribution service rates. The discount will be calculated as 10% of the Customer's total bill for service provided by the Company before application of this discount. Customers who meet the requirements of this section must provide the Company with appropriate documentation of their eligibility under this provision.
TERMS AND CONDITIONS: The Company's Terms and Conditions in effect from time to time, where not inconsistent with any specific provisions hereof, are a part of this rate.

Time-of-Use - G-3 (M.D.P.U. No. 1140-A) Effective 3/1/2009	Charge
Rates for Retail Delivery Service	
Customer Charge \$73.16	\$73.16000
Distribution Demand Charge per kW \$3.92	\$3.92000
Distribution Energy Charge per kWh	
<i>Peak Hours Use 1.229¢</i>	\$0.01229
<i>Off-Peak Hours Use (0.045¢)</i>	(\$0.00045)
Transition Charge per kW \$0.19	\$0.19000
Transition Charge per kWh 0.061¢	\$0.00061
Transmission Charge per kWh 1.192¢	\$0.01192
Demand Side Management Charge per kWh 0.250¢ effective January 1, 2003	\$0.00250
Renewables Charge per kWh 0.050¢ effective January 1, 2003	\$0.00050
Other Rate Clauses apply as usual.	
(1) Includes Default Service Adjustment Factor of (0.089¢) per kWh, Residential Assistance Adjustment Factor of 0.051¢ per kWh, Default Service Cost Reclassification Adjustment Factor of (0.011¢) per on peak kWh and an Exogenous Events Credit Factor of (0.007¢) per kWh.	

DETAILS FOR TIME-OF-USE - G-3 (M.D.P.U. No. 1140-A)

AVAILABILITY: Electric delivery service under this rate is available for all purposes, subject to the provisions of this section. A new Customer will begin delivery service on this rate if the Company estimates that its average use will exceed 200 kW of Demand. A Customer may be transferred from rate G-3 at its request if the customer's 12-month average monthly demand is less than 180 kW of Demand for 3 consecutive months. A Customer may be transferred from rate G-3 at the option of the Company if the Customer's 12-month average monthly demand is less than 180 kW of Demand for 3 consecutive months. The actual delivery of service and the rendering of bills under this rate is contingent upon the installation of the necessary time-of-use metering equipment by the Company; subject to both the availability of such meters from the Company's supplier and the conversion or installation procedures established by the Company. All Customers served on this rate must elect to take their total electric delivery service under the time-of-use metering installation as approved by the Company. If delivery is through more than one meter, except at the Company's option, the Monthly Charge for service through each meter shall be computed separately under this rate.
MONTHLY CHARGE: The Monthly Charge will be the sum of the applicable Customer, Demand and Energy Charges.
PEAK AND OFF-PEAK PERIODS: *The Peak hours defined above are applicable during 2009 and reflect the difference between when the customer's meter records on-peak kWh consistent with the pre-2007 Daylight Saving Time schedule and the revised Daylight Saving Time schedule mandated by the federal Energy Policy Act of 2005. Off-Peak hours will be all other hours Monday through Friday, and all day on Saturdays, Sundays, and holidays. The Company reserves the right to change these peak and off-peak hours, but in no case will the off-peak hours be less than eleven hours per day. The holidays will be: New Year's Day, President's Day, Memorial Day, Independence Day, Columbus Day, Labor Day, Veteran's Day, Thanksgiving Day and Christmas Day. All holidays will be the nationally observed day. Peak hours will occur Monday through Friday, excluding holidays, on the following schedule: January 1 – March 7 8: 00 a.m. to 9: 00 p.m. March 8 – April 4 9: 00 a.m. to 10: 00 p.m.* April 5 – October 24 8: 00 a.m. to 9: 00 p.m. October 25 – October 31 7: 00 a.m. to 8: 00 p.m. * November 1 – December 31 8: 00 a.m. to 9: 00 p.m.
TRANSMISSION SERVICE COST ADJUSTMENT: Transmission service is available to all retail customers taking service under this rate. For those customers, the transmission charge under this rate shall be calculated in accordance with the Company's Transmission Service Cost Adjustment Provision.
TRANSITION COST ADJUSTMENT: The Transition Charges under this rate as set forth under "Monthly Charge" shall be adjusted from time to time in accordance with the Company's Transition Cost Adjustment Provision.
DSM CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a DSM Charge, representing a charge for energy conservation programs, in accordance with the Company's Demand Side Management Provision.
RENEWABLES CHARGE: Customers receiving Retail Delivery Services under this rate will be charged a Renewables Charge in accordance with the Company's Renewables Provision.
DETERMINATION OF DEMAND: The Demand for each month under ordinary load conditions shall be the greater of the following: a) The greatest fifteen minute peak occurring during the Peak hours period within such a month as measured in kilowatts, or b) 90% of the greatest fifteen minute peak occurring during the Peak hours period, of such month as measured in kilovolt-amperes.
HIGH-VOLTAGE METERING ADJUSTMENT: The Company reserves the right to determine the metering installation. Where delivery service is metered at the Company's supply line voltage, in no case less than 2400 volts, thereby saving the Company transformer losses, a discount of 1.0% will be allowed from the amount determined under the preceding provisions. When the metering equipment is installed on the Customer's side of the transformers and the nameplate transformer rating is greater than 120 percent of the Customer's highest demand over the last twelve months, the Company may adjust the kW, KVA, and kWh meter registrations or adjust electronic meter program settings to compensate for unmetered transformer losses.
CREDIT FOR HIGH VOLTAGE DELIVERY: If the Customer accepts delivery at the Company's supply line voltage, not less than 2400 volts, and the Company is saved the cost of installing any transformer and associated equipment, a credit of 46 cents per kilowatt of the billing Demand for such month shall be allowed against the amount determined under the preceding provisions. An additional credit of \$2.31 per kilowatt of the billing Demand for such month shall also be allowed if said customer accepts delivery at not less than 115,000 volts, and the Company is saved the cost of installing any transformer and associated equipment.
DEFAULT SERVICE: Any Customer who does not have a supplier other than the Company will receive and pay the Company for Default Service in accordance with the terms and price for Default Service established by the Department of Public Utilities.
DEFAULT SERVICE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Adjustment Provision.
DEFAULT SERVICE COST RECLASSIFICATION ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service and all Customers receiving Default Service under this rate shall be subject to adjustment in accordance with the Company's Default Service Cost Reclassification Adjustment Provision.
RESIDENTIAL ASSISTANCE ADJUSTMENT PROVISION: The charges to all Customers receiving Retail Delivery Service under this rate shall be subject to adjustment in accordance with the Company's Residential Assistance Adjustment Provision.
TERM OF SERVICE: Customers served under this rate must provide the Company with six months prior written notice before installing or allowing to be installed for its use a non-emergency generator with a nameplate capacity greater than that in place on the Customer's location as of March 1, 1998. This notice provision does not apply to facilities eligible for net metering in accordance with 220 CMR 11.03(4)(d).
FARM DISCOUNT: Customers who meet the eligibility requirements for being engaged in the business of agriculture or farming as defined in M.G.L. Chapter 128 Section 1a at their service location are eligible for an additional discount from their distribution service rates. The discount will be calculated as 10% of the Customer's total bill for service provided by the Company before application of this discount. Customers who meet the requirements of this section must provide the Company with appropriate documentation of their eligibility under this provision.
TERMS AND CONDITIONS: The Company's Terms and Conditions in effect from time to time, where not inconsistent with any specific provisions hereof, are a part of this rate.

POTENTIAL IMPACT ON NATIONAL GRID C&I ELECTRIC DELIVERY SERVICE RATES

Based on analysis of the information available and a review of overall factors at a glance, our point-of-view covers the National Grid Petition for a General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism in the State of Massachusetts. If the Rate Case (2009/10) is approved, the increase that will likely be realized in National Grid Commercial and Industrial (C&I) Electric Delivery Service Rates is as follows:

GENERAL SERVICE-SMALL COMMERCIAL & INDUSTRIAL G-1 (M.D.P.U. No. 1138) Effective 1/1/2010

LIKELY INCREASE

	Current Charge	12.9%	15.6%	16.0%	17.8%	14.8%
Rates for Retail Delivery Service						
Customer Charge \$9.03 applicable to metered service only.	\$9.03000	\$10.19487	\$10.43868	\$10.47480	\$10.63283	\$10.36945
Location Service Charge - For allowed unmetered service \$7.02 for unmetered service as defined below.	\$7.02000	\$7.92558	\$8.11512	\$8.14320	\$8.26605	\$8.06130
Distribution Charge per kWh (1) 4.094¢	\$0.04094	\$0.04622	\$0.04733	\$0.04749	\$0.04821	\$0.04701
Transmission Charge per kWh 1.453¢	\$0.01453	\$0.01640	\$0.01680	\$0.01685	\$0.01711	\$0.01669
Transition Charge per kWh 0.116¢	\$0.00116	\$0.00116	\$0.00116	\$0.00116	\$0.00116	\$0.00116
Demand Side Management Charge per kWh 0.250¢ effective January 1, 2003	\$0.00250	\$0.00282	\$0.00289	\$0.00290	\$0.00294	\$0.00287
Renewables Charge per kWh 0.050¢ effective January 1, 2003	\$0.00050	\$0.00056	\$0.00058	\$0.00058	\$0.00059	\$0.00057

GENERAL SERVICE - DEMAND G-2 (M.D.P.U. No. 1139) Effective 1/1/2010 **LIKELY INCREASE**

	Current Charge	12.9%	15.6%	16.0%	17.8%	14.8%
Rates for Retail Delivery Service						
Customer Charge \$16.56	\$16.56000	\$18.69624	\$19.14336	\$19.20960	\$19.49940	\$19.01640
Distribution Demand Charge per kW \$6.41	\$6.41000	\$7.23689	\$7.40996	\$7.43560	\$7.54778	\$7.36082
Distribution Energy Charge per kWh (1) 0.089¢	\$0.00089	\$0.00100	\$0.00103	\$0.00103	\$0.00105	\$0.00102
Transition Demand Charge per kW \$0.11	\$0.00110	\$0.00110	\$0.00110	\$0.00110	\$0.00110	\$0.00110
Transition Charge per kWh 0.123¢	\$0.00123	\$0.00139	\$0.00142	\$0.00143	\$0.00145	\$0.00141
Transmission Charge per kWh 1.408¢	\$0.01408	\$0.01590	\$0.01628	\$0.01633	\$0.01658	\$0.01617
Demand Side Management Charge per kWh 0.250¢ effective January 1, 2003	\$0.00250	\$0.00282	\$0.00289	\$0.00290	\$0.00294	\$0.00287
Renewables Charge per kWh 0.050¢ effective January 1, 2003	\$0.00050	\$0.00056	\$0.00058	\$0.00058	\$0.00059	\$0.00057

TIME-OF-USE - G-3 (M.D.P.U. No. 1140-A) Effective 1/1/2010 **LIKELY INCREASE**

	Current Charge	12.9%	15.6%	16.0%	17.8%	14.8%
Rates for Retail Delivery Service						
Customer Charge \$73.16	\$73.16000	\$82.59764	\$84.57296	\$84.86560	\$86.14590	\$84.01207
Distribution Demand Charge per kW \$3.92	\$3.92000	\$4.42568	\$4.53152	\$4.54720	\$4.61580	\$4.50147
Distribution Energy Charge per kWh						
<i>Peak Hours Use 1.229¢</i>	\$0.01229	\$0.01388	\$0.01421	\$0.01426	\$0.01447	\$0.01411
<i>Off-Peak Hours Use (0.045¢)</i>	(\$0.00045)	(\$0.00039)	(\$0.00038)	(\$0.00038)	(\$0.00037)	(\$0.00038)
Transition Charge per kW \$0.19	\$0.19000	\$0.19000	\$0.19000	\$0.19000	\$0.19000	\$0.19000
Transition Charge per kWh 0.061¢	\$0.00061	\$0.00069	\$0.00071	\$0.00071	\$0.00072	\$0.00070
Transmission Charge per kWh 1.192¢	\$0.01192	\$0.01346	\$0.01378	\$0.01383	\$0.01404	\$0.01369
Demand Side Management Charge per kWh 0.250¢ effective January 1, 2003	\$0.00250	\$0.00282	\$0.00289	\$0.00290	\$0.00294	\$0.00287
Renewables Charge per kWh 0.050¢ effective January 1, 2003	\$0.00050	\$0.00056	\$0.00058	\$0.00058	\$0.00059	\$0.00057

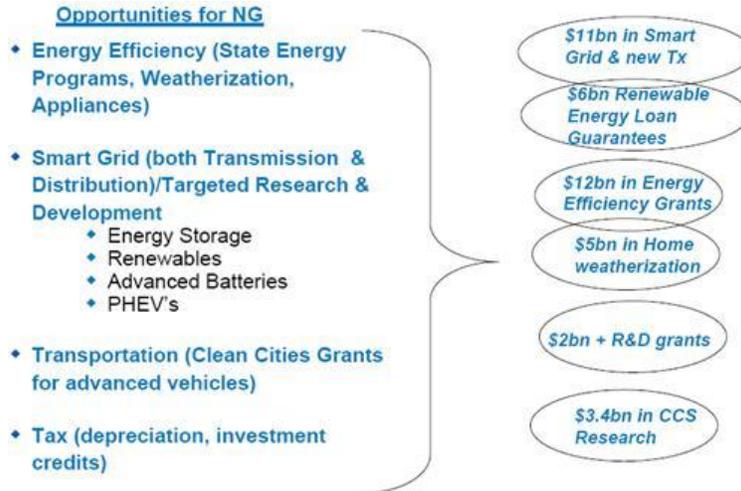
EVERY STICK HAS A CARROT ATTACHED

There are recent developments at the Federal & State level that could be linked to the upcoming Rate Case (2009/10). Energy related issues are a significant focus for Obama Administration. On top of the list is The Administration’s goal to re-gain “high ground” for US globally on Climate Change and create a comprehensive Energy Policy, while embracing Energy security and Climate Change. This creates a clear linkage to focus on “Clean tech” economic stimulus and ongoing work on two bills set to go to The House and Senate by Memorial Day 2009, may be combined into a substantial single bill. In addition, developing State level Energy Plans and/or Legislation in all NE states are set to embrace emerging federal themes and to link to stimulus funding. These include Energy Efficiency, Smart Grid, and meeting Renewable Portfolio Standards.

In terms of the Federal Economic Stimulus Package, early headlines suggest that 10% of the \$787 bn Stimulus Bill is targeted at Energy related investments and \$83 bn in tax incentives & spending will be linked to “Clean tech” sectors with \$27.5 bn for transport, of which some will go into SMART/Clean transportation. The administration expects the focus on creating new “green” jobs to be realized in next 12-24 months with funding to be allocated by a combination of Department of Energy (DOE) & through various state agencies. With 60% Appropriations and approximately 40%

in Tax Incentives, a wide range of possible funding/incentive mechanisms could create incremental funding/grants for new projects, tax incentives, loan guarantees, and additional funding for existing schemes such as innovation R&D.

OPPORTUNITIES FOR NATIONAL GRID INCLUDE



Proposed National Grid approach is to tie 2009/10 rate case initiatives to Energy Efficiency (State Energy Programs, Weatherization, Appliances), Smart Grid (both Transmission & Distribution), Targeted Research & Development (Energy Storage, Renewables, Advanced Batteries, PHEV's), Transportation (Clean Cities Grants for advanced vehicles), Tax (depreciation, investment credits), and Stimulus Funding directed largely via States continue to focus through existing National Grid programs.

The “carrot on the stick” for states includes National Grid’s primary focus in terms of scale/scope, opportunity to capture matching funding, the company’s ability to participate in both DOE transport electrification & Clean Cities alternative vehicle programs with partners, and supporting applications in all four States for clean vehicles. These and other administration initiatives have direct and indirect benefits to National Grid as well as the states where the rate case happens to be developing. Cost estimates for the Smart Grid 'Spine' and "modules" - Solar, PHEV, Energy Storage, Wind, Micro Grids, Micro CHP could be as follows:

- New York - \$240 million (NG 50% 120 million)
- Massachusetts - \$240 million (NG 50% 120 million)
- Rhode Island – \$80 million (NG 50% 40 million)
- New Hampshire - \$20 million (NG 50% 10 million)

RECENT REGULATORY DECISIONS

	Rhode Island Gas	Upstate NY Gas Settlement	New Hampshire Gas Settlement
Period:	<ul style="list-style-type: none"> 1-year with incremental pipeline replacement programme 	<ul style="list-style-type: none"> 2-year rate agreement 	<ul style="list-style-type: none"> 1 year Settlement agreement resolving all issues except ROE (being litigated with NHPUC)
Requested Revenue:	<ul style="list-style-type: none"> \$18.6 million 	<ul style="list-style-type: none"> \$84.2 million 	<ul style="list-style-type: none"> Requested ~\$10 million in February 2008
Received Revenue:	<ul style="list-style-type: none"> \$13.7 million 	<ul style="list-style-type: none"> \$39.4 million Adjustments in 2nd year for pension & OPEB, property taxes and environmental remediation 	<ul style="list-style-type: none"> Interim rate increase of \$6.6 million, in effect August 2008
Rate Increase:	<ul style="list-style-type: none"> 10.9% 	<ul style="list-style-type: none"> 13.7% 	<ul style="list-style-type: none"> Final to be determined
ROE:	<ul style="list-style-type: none"> 10.5% 	<ul style="list-style-type: none"> 10.2% 	<ul style="list-style-type: none"> Awaiting decision of NHPUC, which impacts final rate decision.
Earnings Sharing:	<ul style="list-style-type: none"> 1st 100 basis points 50/50 customer/shareholder Above 100 basis points 75/25 sharing 	<ul style="list-style-type: none"> Up to 11.35% - 100% to shareholders Next 225 basis points - 50/50 customer/shareholder Next 200 basis points - 75/25 Above 15% - 90/10 	<ul style="list-style-type: none"> To be determined
Bad Debt:	<ul style="list-style-type: none"> Increased to 2.46% of revenues 	<ul style="list-style-type: none"> Increased to 1.75% of revenues 	<ul style="list-style-type: none"> Commodity portion of bad debts 2.54% for this year and delivery rate assumption of 1.75%
Decoupling:	<ul style="list-style-type: none"> Denied, however, fixed portion of customer bills increased. Weather normalization continues 	<ul style="list-style-type: none"> Approved 	<ul style="list-style-type: none"> No, however, fixed portion of customer bills increased.
Annual true-ups:	<ul style="list-style-type: none"> Pension and OPEBs Environmental remediation Accelerated pipeline replacement programme 	<ul style="list-style-type: none"> New debt interest expense w/ dead band at 6.9% Pension and OPEBs Environmental remediation Accelerated pipeline replacement programme 	<ul style="list-style-type: none"> Continued environmental reconciliation agreement Cast/Iron Bare steel replacement program per Merger Agreement

CLEAR ALIGNMENT OF ENERGY RELATED STIMULUS FUNDING

Climate Change Legislation such as the Waxman-Markey Energy Bill will create the tie between economic vitality and a cleaner environment. Upcoming legislation will setting of short and long term “enforceable” emissions target with National Renewable Portfolio Standard and “ cap & trade” as well as an incentive Framework to promote State /Local initiatives to address global warming and fulfill a commitment to a Global role and US support to developing nations.

The company’s linkages to rate plan regulatory recovery is still at an early stage. However, National Grid has provided input to key stakeholders in each state it operates for a list of “shovel ready” new projects and suggestions of enhancements to existing customer programs. The company has highlighted a cross line of business team established to co-ordinate National Grid’s response at Federal, State and Corporate Level in evaluating potential scale of opportunities and establish priorities to be addressed.

The company is seeking to prioritize participation across many areas to benefit the states, advance the company strategy and optimize return to their business. National Grid has highlighted potential stimulus funding sources across Matching Fund Grants, Bonus Depreciation, Investment/Production Tax Credits, and federally funded Loan Guarantees.

THE LIKELIHOOD OF SUCCESS FOR THIS RATE CASE (2009/10)?

In spite of the significant impact on employers, non-profit organizations and service providers in the National Grid service territory directly affected by the potential rate increase, rate design, and decoupling mechanism, the Department of Public Utilities (DPU) expects minimal turn out which may impact the legislative will to fight the rate increase. Coupled with this fact, is that this issue is also being linked to economic stimulus funding from the Federal Government and any rate hike sought by National Grid is the first significant one in 14 years. National Grid's distribution rates will still be less than what Massachusetts' other big utility, NStar, charges: 4.915 cents per kilowatt-hour versus 5.643 cents per kilowatt-hour for NStar.

In spring of 2008, even before state regulators have considered a proposed 15.6-percent increase in electricity rates, National Grid now says it wants to increase rates even more. National Grid told the Public Utilities Commission the

increasing price of crude oil and natural gas has forced it to revise its proposed rate increase to 21.7 percent. There is a very strong Alignment of the upcoming Massachusetts rate increase to Energy Related Stimulus Funding.

In terms of the Federal Economic Stimulus Package, early headlines suggest that 10% of the \$787 bn Stimulus Bill will be targeted towards Energy related investments. We believe the states are in a difficult situation. **Coupled with the fact that there is little direct public outcry against pending rate adjustments, sources say that the Massachusetts Attorney General's Office (AGO) may reach a settlement with National Grid before this point; although a rate increase is expected to be passed.**

FORWARD LOOKING INFORMATION SUBJECT TO RISK AND UNCERTAINTY

Information provided constitutes ProSidian Consulting, LLC's point-of-view on the National Grid Petition for a General Increase in Electric Rates and Approval of a Revenue Decoupling Mechanism in the State of Massachusetts. This information is not to be considered an in-depth review of the case or circumstances surrounding the case, nor research, information, analysis applicable, admissible, or discoverable in any proceedings on behalf of the Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, the Massachusetts Department of Public Utilities (DPU) and the Massachusetts Attorney General's Office (AGO).

As a general point-of-view document; recommendations, analysis, and any discernable advice should be considered carefully and validated with informational applicable to the specific employers, non-profit organizations and service providers in the National Grid service territory directly affected by the potential rate increase, rate design, and decoupling mechanism. The Probability of Occurrence has not been quantified.

The information provided is solely based on a high level review of information available through research and review of case filings and through informal discussions with persons familiar with the case including industry practitioners, trade groups and other organizations impacted and interested in the Massachusetts rate case proceedings. Energy market updates contain the representative's opinion about the current market and considered advisory in nature as part of ongoing support on behalf risk management initiatives for commercial and industrial customers in deregulated energy markets.

Energy market updates will be based on a fundamental assessment of the market performed periodically and used to gain a point-of-view on the energy markets and categorizes the future outlook as strong (high prices), neutral, or weak (low prices). Past results are not necessarily indicative of future performance. The Services and any related advice or deliverables provided to any particular client are intended solely for information and use of by that particular client's management, officers, directors, agents and employees and may not be disclosed to any other third party without ProSidian Consulting LLC's prior written consent.

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