

Table of Contents

I.	<u>INTRODUCTION</u>	1
II.	<u>SUMMARY OF RESULTS</u>	2
III.	<u>RECONCILIATION ANALYSIS</u>	3
A.	<u>Fixed Cost Adjustments</u>	3
B.	<u>Variable Component Adjustments</u>	3
1.	<u>Revenues</u>	3
2.	<u>Variable Costs</u>	4
a.	<u>Nuclear Decommissioning and Other Post Shut-Down Costs</u>	4
b.	<u>Power Contracts</u>	5
c.	<u>Credits for Unit Sales</u>	6
d.	<u>Above Market Fuel Transportation Costs</u>	6
e.	<u>Transmission in Support of Remote Generating Units</u>	6
f.	<u>Payments in Lieu of Property Taxes</u>	6
g.	<u>Damages, Costs, or Net Recoveries from Claims</u>	6
h.	<u>Nuclear PBR</u>	7
i.	<u>Environmental Response Costs</u>	7
3.	<u>Reconciliation Adjustment</u>	8
4.	<u>Section 1.1.4 Adjustments</u>	9
a.	<u>Vermont Yankee</u>	9
5.	<u>Calculation of the 2009 CTC Rate</u>	10
IV.	<u>SIMPLIFIED FORMAT FOR CTC SCHEDULES</u>	10

LIST OF SCHEDULES

Schedule 1	CTC from New England Power Company to Granite State Electric Company Including Fixed Component and Variable Component
Schedule 2	CTC Reconciliation Adjustment and Reconciliation Account
Nuclear PBR	Workpapers for Actual Months
Attachment 1	Simplified format for CTC Reconciliation Report Schedules

I. INTRODUCTION

This report is made pursuant to the Settlements of New England Power Company's ("NEP") all-requirements contracts with Granite State Electric Company ("Granite State"). Effective October 2005, Granite State and NEP began doing business as National Grid. For ease of reference, however, in this report the companies will continue to be referred to as Granite State and NEP. The Settlements were approved by the Federal Energy Regulatory Commission ("FERC") in Docket Nos. ER98-2023-000 and (as amended) ER98-3925-000, and by the New Hampshire Public Utilities Commission in N.H.P.U.C. Docket No. DR 98-012. The report is designed to reconcile costs and revenues under the Settlements for 2008. The Contract Termination Charge ("CTC") formula set forth in the Settlements provides for a reconciliation to be performed annually. Capitalized terms not otherwise defined in this report are intended to have the same meaning set forth in the CTC formula. This report is subject to the dispute resolution process set forth in Section 3.5 of the Settlement. A copy of both the wholesale and retail settlement documents was compiled and provided with NEP's 1998 CTC reconciliation report ("Compiled Settlement"). Section 3.5 of the Settlement is shown at pp. 43-44 of the Compiled Settlement.

In accordance with the Settlements, the estimated CTC related costs that are reconciled annually are primarily the costs comprising the Variable Component. These estimated costs are reconciled to actual costs through the Reconciliation Adjustment (Schedule 2, page 2b) and accumulated in the Reconciliation Account (Schedule 2, page 3). In addition, revenues collected

through the CTC are reconciled to actual revenues based upon differences in megawatthours (“MWh”) deliveries on Schedule 2, page 2a.

For ease of reference, the schedules used in this report have been maintained in the same format as in NEP’s prior CTC reconciliation reports. Beginning with the 2000 CTC reconciliation reports, schedules that were previously expressed in millions are now shown in thousands. For NEP’s 2008 CTC Reconciliation Report, the months from October 2007 through September 2008 show actual costs and revenues, and the months of October, November, and December 2008 are estimates. These estimated amounts will be reconciled to actual in NEP’s 2008 CTC Reconciliation Report to be made next year.

NEP, Granite State and the New Hampshire Public Utilities Commission entered into an agreement (“USGenNE CTC Settlement”) on December 5, 2005, related to issues surrounding the resolution of the USGenNE bankruptcy proceeding. The USGenNE CTC Settlement provided that Granite State’s allocated share of the allowed claim proceeds received by NEP be used to pay down all of the remaining NEP power purchase contract buyout payments allocable to New Hampshire and to provide a residual value credit, with return, through the year 2010. The settlement also provided for updates to decommissioning expense and purchased power costs that are included in the base CTC. FERC approval was received on February 28, 2006.

II. SUMMARY OF RESULTS

As shown on Schedule 1, page 1, NEP’s CTC to Granite State for calendar year 2009 will be (0.01) cents per kilowatthour (“kWh”). The CTC rate of (0.01) cents per kWh is estimated to

produce approximately (\$0.1) million of CTC revenue based on forecasted deliveries of 883 MWh. The 2009 rate represents a decrease of 0.06 cents per kWh from the CTC rate presently in effect and a decrease of 0.18 cents per kWh, or approximately \$1.6 million, from the estimated 2009 CTC rate of 0.17 cents per kWh, included in NEP's 2007 CTC Reconciliation Report.

III. RECONCILIATION ANALYSIS

A. Fixed Cost Adjustments

The Fixed Component includes a residual value credit pursuant to terms of the USGenNE Bankruptcy as previously discussed. Also, in accordance with Section 1.1.4 of the CTC formula, net proceeds from sales of property, whose costs were included in the CTC, have been included in the Reconciliation Account (Compiled Settlement p. 150, footnote 6). Details summarizing these net proceeds are provided in Paragraph B.4 of this report.

B. Variable Component Adjustments

The Variable Component of the formula is adjusted to reconcile for differences between estimated and actual variable costs from October 2007 through September 2008. The Variable Component is set forth in Section 1.2 of the CTC formula. Specific adjustments are discussed below.

1. Revenues

The reconciliation of estimated to actual Granite State kWh deliveries from October 2007 through December 2007 and from January 2008 through

September 2008 is shown on Schedule 2, page 2a. In the last three months of 2007, actual MWh deliveries exceeded the estimate by approximately 7.5 MWh. For the period of January through September 2008, actual MWh deliveries exceeded estimated MWh deliveries by approximately 29.1 MWh. These variances in MWh deliveries produce credits aggregating approximately \$79 thousand for the period being reconciled in this report, as shown on Schedule 2, page 2a.

2. Variable Costs

The estimated Variable Component costs for the period October 2007 through December 2008 are shown in Column (7) on Schedule 2, Page 2b of this report, agree with the amounts included on Schedule 1, Page 16, and amount to \$115.8 million at the NEP level before the allocation to Granite State. The actual and estimated variable costs for the period October 2007 through December 2008 are shown in this report in Column (21) of Schedule 2, Page 2b and amount to \$69.9 million. When these actual amounts are compared to the estimated amounts, the over or under recoveries are produced and NEP's and Granite State's shares are shown on Schedule 2, Page 2b in Column (22) and (23), respectively. The variances by individual cost element is summarized below:

a. Nuclear Decommissioning and Other Post Shut-Down Costs

The actual Nuclear Decommissioning and Other Post Shut-Down Costs shown in Column (8) of Schedule 2, page 2b are less than the

estimates by approximately \$8.9 million in aggregate for the period being reconciled in this report and are primarily due to less than estimated costs at the Connecticut Yankee unit.

b. Power Contracts

As a result of the USGenE bankruptcy, economic responsibility for seven remaining power purchase contracts returned to NEP effective April 2005. Actual Power Contract Obligations shown in Column (9) of Schedule 2, page 2b, include the actual purchase power contract costs for these seven returning power purchase contracts, as well as Hydro Quebec. Column (10) represents the actual market value of NEP's power entitlements from the seven returning contracts as well as NEP's capacity entitlements under the Hydro Quebec Interconnection Agreement. Column (11) represents the NEP's purchased power payment obligations under the Purchased Power Transfer Agreement with USGenNE together with NEP's recovery of buyout payments.

In aggregate, the power contract costs were approximately \$36.9 million less than the estimated power contract costs. The variance is due to higher than estimated revenue and lower than estimated costs for all the remaining units with the exception of Four Hills, as well as NEP's capacity entitlements under the Hydro Quebec Interconnection Agreement.

c. Credits for Unit Sales

All Unit Sales Contracts that were originally included in Section 1.2.2 (b) (iii) of the CTC formula (Compiled Settlement, page 158) have been terminated. Thus, there are no credits for unit sales in this subsection of the Variable Component.

d. Above Market Fuel Transportation Costs

Fuel transportation costs were assumed by USGenNE at the closing of NEP's divestiture and all such amounts were restated at zero as part of NEP's post-divestiture CTC formula. See Schedule 1(a), page 16 of 16 on page 182 of the Compiled Settlement. Consequently, there are no adjustments in this category.

e. Transmission in Support of Remote Generating Units

Estimates for transmission support were set to zero beginning in 2002 and will be collected as incurred. No costs were incurred during the reconciliation period.

f. Payments in Lieu of Property Taxes

Payments under NEP's property tax settlements were assumed by USGenNE. NEP has not been assessed payments in lieu of property taxes by any non-settling towns. Therefore, there are no adjustments in this category.

g. Damages, Costs, or Net Recoveries from Claims

There were no damages, costs, or net recoveries from claims for the period being reconciled in this report.

h. Nuclear PBR

The Nuclear PBR was initially estimated as zero in the original CTC settlement (Compiled Settlement, p. 182). During the months from October 2007 through December 2008, the Nuclear PBR produced a surplus of approximately \$0.3 million (Column (19) of Schedule 2, page 2b). This is due to the receipt of five insurance refunds aggregating approximately \$0.5 million, partially offset by a payment of approximately \$0.2 million made to the Commonwealth of Massachusetts to support the activities of the Massachusetts Emergency Management Agency. This payment is assessed to electric companies in the Commonwealth who own or purchase power from nuclear plants operating outside the Commonwealth but within ten miles of Massachusetts cities and towns. The details of the PBR calculation are attached to this report. Per the Settlement (Compiled Settlement, pp. 161-162), 80 percent of the net costs or income are recovered from or returned to customers.

i. Environmental Response Costs

As of September 2008, NEP had a reserve and associated regulatory asset of approximately \$0.6 million for the estimated future

clean up of two sites, one located in Beverly, Massachusetts and a federal Superfund site located in Plaistow, New Hampshire. The reserve and regulatory asset are based on an estimated liability for site remediation. Environmental Response Costs are collected from customers as incurred and are recoverable through the CTC pursuant to section 1.2.2 (i) of the CTC formula. NEP incurred \$0.2 million in Environmental Response Costs associated with the Beverly, Massachusetts site during the period being reconciled in this report as shown on Schedule 2, page 2b, Column (20). Additional costs will be included as incurred.

3. Reconciliation Adjustment

The sum of all differences between NEP's Estimated Base Variable Component and its actual variable cost is shown in Column (22) on Schedule 2, page 2b, and totals \$45.9 million. Granite State's 3.0 percent share of the total variance is shown in Column (23) which, when combined with the revenue over-recovery shown in Column (6) of Schedule 2, page 2a, produces a Granite State Reconciliation Adjustment credit, including estimates for October, November and December 2008, of \$1.5 million for the period being reconciled in this report. This net credit is shown in Column (24) on Schedule 2, page 2b.

These monthly over and under-recoveries are then carried forward to the Reconciliation Account shown in Column (3) on Schedule 2, page 3. To that

amount are added the reconciliation adjustments associated with the Section 1.1.4 of the CTC formula. Details of these Section 1.1.4 adjustments are provided below and are shown on page 4 (NEP total) and on page 5 (Granite State's share) of Schedule 2. The net shortfall or excess is then shown in Column (5) of Schedule 2, page 3. A return is then calculated annually on the accumulated balance for the prior year as shown in Column (6). The annual return is spread evenly over the twelve months.

4. Section 1.1.4 Adjustments

As provided for in Section 1.1.4 of the Settlement (pages 146-153 of the Compiled Settlement), the following adjustments are included in the Reconciliation Account on Schedule 2, page 4:

a. Vermont Yankee

The Vermont Yankee offering set the terms of the sale as a sale of assets only, with the Vermont Yankee Nuclear Power Corporation ("VYNPC") surviving to administer the existing, albeit amended, wholesale purchased power contracts. VYNPC entered into a power purchase agreement with the new owner of the plant and continues to sell the power to the original equity owners under the existing Vermont Yankee contracts. The power component assignment to a third party did not include the ongoing overhead and administrative costs of VYNPC.

These ongoing administrative services produced costs aggregating approximately \$0.4 million for the reconciliation period and are included as divestiture related items on Schedule 2, page 3, Column (4).

5. Calculation of the 2009 CTC Rate

This 2008 CTC Reconciliation Report produces a 2009 CTC rate for Granite State of (0.01) cents per kWh as shown on Schedule 1, Page 1. This is a decrease of 0.18 cents per kWh, or approximately \$1.6 million, from the estimated 2009 CTC of 0.17 cents per kWh included in NEP's 2007 CTC Reconciliation Report, and represents a decrease of 0.06 cents per kWh from the rate of 0.05 cents per kWh presently in effect.

IV. SIMPLIFIED FORMAT FOR CTC SCHEDULES

At the request of certain parties, the Company has again prepared a set of simplified CTC schedules intended to ease the CTC review process while at the same time providing more information than currently contained in the existing CTC schedules. These simplified schedules are included in this report as Attachment 1. These schedules have been designed to provide detailed actual costs, as well as comparisons to original estimates, while illustrating a more concise approach to the calculation mechanism supporting the 2009 CTC rate.