so with the Secretary of the Commission in accordance with the requirements of Rule 210(b) of the Commission's Rules of Practice.[7] A movant shall serve a copy of any such motion upon American Electric Power Company Inc. at the address noted below in accordance with Rule 150(c) of the Commission's Rules of Practice, and proof of service shall be filed with the Secretary of the Commission contemporaneously with the motion.

It is further ordered that the Secretary of the Commission shall give notice of the hearing by mailing copies of this Notice and Order by certified mail to:

The American Electric Power Company, 1 Riverside Plaza, Columbus, Ohio 43215

The American Public Power Association, 2301 M Street, NW., Washington, DC 20037

The National Rural Electric Cooperative Association, 4301 Wilson Blvd., Arlington, Virginia 22203

It is further ordered that the Secretary of the Commission shall give notice to all other persons by publication of this Notice and Order in the **Federal Register**; that a copy of this Notice and Order shall be published in the ''SEC Docket''; and that an announcement of the hearing shall be included in the ''SEC News Digest.''

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. E4–2047 Filed 9–2–04; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35–27888; International Series Release No. 1280; 70–10236]

Filings Under the Public Utility Holding Company Act of 1935, as Amended (''Act'')

August 30, 2004.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by September 24, 2004, to the Secretary, Securities and Exchange Commission, Washington, DC 20549–0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After September 24, 2004, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

National Grid Transco, plc et al (70–10236)

National Grid Transco plc (''National Grid Transco''), and its registered holding company subsidiaries (''Intermediate Subsidiaries''), National Grid Holdings One plc, National Grid (U.S.) Investments, all at 1–3 Strand, London WC2N 5EH, United Kingdom, National Grid General Partnership c/o RL&F Service Corp., One Rodney Square, Wilmington, New Castle County, DE 19801, National Grid USA, National Grid Holdings Inc., both at 25 Research Drive, Westborough, MA 01582 all registered holding companies, National Grid USA's public utility subsidiaries (''Utility Subsidiaries'') New England Power Company (''NEPCO''), Massachusetts Electric Company (''Mass. Electric''), The Narragansett Electric Company (''Narragansett''), Granite State Electric Company (''Granite State''), Nantucket Electric Company (''Nantucket''), New England Electric Transmission Corporation (''NEET''), New England Hydro-Transmission Corporation (''N.H. Hydro''), New England Hydro-Transmission Electric Co. Inc. (''Mass. Hydro''), all at 25 Research Drive, Westborough, MA 01582, and Niagara Mohawk Power Corporation (''Niagara Mohawk''), 300 Erie Boulevard, West Syracuse, New York 13202 and the direct and indirect nonutility subsidiaries (''Nonutility Subsidiaries'') of National Grid Transco listed in Exhibit A (''Subsidiaries,'' and collectively ''Applicants'') to this application-declaration (''Application''), have filed under sections 6(a), 7, 9(a), 10, 12(b), 12(c) and 13(b) of the Act and rules 20, 26, 42, 43, 45, 46, 52, 53, 54, 87 and 90 under the Act.

I. Background

By order dated October 16, 2002 (HCAR No. 27577) (''October 2002 Order''), National Grid Group plc merged with Lattice Group plc (''Lattice Group'') (''Merger'') and was renamed National Grid Transco. In connection with the Merger, the Commission authorized National Grid Transco to invest up to $20 billion in foreign utility companies (''FUCOs'') and to issue and sell equity and debt securities and to enter into guarantees to finance and support these investments. The financing authority granted in the October 2002 Order supplemented financing authority that National Grid Transco had received prior to the Merger by order dated January 16, 2002 (HCAR No. 27490) (''January 2002 Order''). The January 2002 Order and the October 2002 Order provide that the financing authorizations granted by each order expires on September 30, 2004. Applicants now propose the following new financing authorizations for the National Grid Transco system.

A. National Grid Transco

National Grid Transco is a registered holding company under the Act. National Grid Transco's ordinary shares are listed on the London Stock Exchange and its American Depositary Receipts (''ADRs'') are listed on the New York Stock Exchange. As of March 31, 2004, there were 3,087,603,756 ordinary shares (including ADRs) outstanding. For the 12 months ended March 31, 2004, National Grid Transco reported consolidated gross revenues, operating income and net income of $15.2 billion, $3.1 billion, and $1.8 billion, calculated in accordance with United States generally accepted accounting principles (''US GAAP''). As of March 31, 2004, National Grid Transco had total consolidated assets of $59.4 billion, and a market capitalization of approximately $21.5 billion. National Grid Transco and its subsidiaries employ approximately 25,000 employees.

National Grid Transco's consolidated capitalization (including short-term debt) at March 31, 2004 was as follows:

	Book value (millions)	Percentage of total (%)
Common Stock Equity*	16,428.7	41.2
Preferred Stock	70.6	0.2
Long-Term Debt	20,590.1	51.7
Short-Term Debt**	2,761.9	6.9

[7] 17 CFR 201.210(b).

	Book value (millions)	Percentage of total (%)
Total	39,851.3	100.0

* Including minority interests.
** Including current portion of long-term debt.

National Grid Transco's senior unsecured debt is currently rated A− by Standard & Poor's Inc. (''S&P'') and Baa1 by Moody's Investor Service (''Moody's'').

1. U.K. Business Overview

Through its direct wholly owned subsidiary, National Grid Holdings One plc (''NGH One''), and that company's subsidiary, National Grid Holdings Ltd, National Grid Transco owns The National Grid Company plc (''NGC'') and certain other non-U.S. subsidiaries. NGC is engaged in the transmission of electricity in England and Wales. NGC owns and operates a transmission system consisting of approximately 4,500 route miles of overhead lines and approximately 410 route miles of underground cable together with approximately 341 substations at some 243 sites.

Through NGH One and its subsidiary Lattice Group, National Grid Transco owns Transco plc (''Transco'') and certain other non-U.S. subsidiaries. Transco is the owner and operator of the majority of Great Britain's gas transportation and distribution system however it does not sell gas to consumers. Transco's transportation network comprises approximately 4,200 miles of high pressure national transmission pipelines and approximately 170,000 miles of lower pressure regional transmission and distribution systems pipelines. An interconnector to Belgium links Transco's own gas transportation system to continental Europe. A second interconnector supplies gas to Eire and Northern Ireland.

2. U.S. Business Overview

National Grid Transco's U.S. business is conducted through National Grid USA, a registered holding company and an indirect wholly owned subsidiary of National Grid Transco. National Grid USA is held directly and indirectly by intermediate companies (''Intermediate Companies'') which also are registered holding companies.[1]

Through its subsidiaries, National Grid USA is engaged in electric transmission and distribution to residential, commercial, and industrial customers in New England and the transmission and distribution of electricity and the distribution of natural gas to residential, commercial, and industrial customers in New York. Applicants state that National Grid USA and its direct and indirect subsidiaries (''National Grid USA Group'') operates and maintains distribution power lines and substations; provides metering, billing, and customer services; designs and builds distribution-related facilities; and provides related products and services including energy efficiency programs for customers.

National Grid USA owns companies that deliver electricity to approximately 3.3 million customers in New York, Massachusetts, Rhode Island and New Hampshire. These electric public utility companies own and operate approximately 76,000 miles of transmission and distribution lines in New York and New England. The National Grid USA Group includes five wholly owned electricity distribution companies: Niagara Mohawk,[2] Mass. Electric, Narragansett, Granite State, and Nantucket and four other utility companies: NEPCO, NEET, N.H. Hydro, and Mass. Hydro.

Niagara Mohawk provides gas utility service to over 560,000 retail customers in New York State and electric service to about 1.6 million electric customers in eastern, central, northern and western New York State. As of and for the 12 months ended March 31, 2004, Niagara Mohawk had total assets of $12,415.9 million, operating revenues of $4,063.6 million and net income of $139.7 million. Niagara Mohawk is subject to rate regulation by the Federal Energy Regulatory Commission (''FERC'') and the New York State Public Service Commission (''NYPSC'').

Mass. Electric is engaged in the delivery of electric energy to approximately 1.2 million customers in 171 cities and towns in Massachusetts. As of and for the 12 months ended March 31, 2004, Mass. Electric had total assets of $3,123.8 million, operating revenues of $1,993.5 million and net income of $34.8 million. Mass. Electric is subject to regulation by the FERC and the Massachusetts Department of Telecommunications and Energy (''MDTE'').

Narragansett is engaged in the delivery of electric energy to approximately 473,000 customers in 38 cities and towns in Rhode Island. As of and for the 12 months ended March 31, 2004, Narragansett had total assets of $1,552.2 million, operating revenues of $812.1 million and net income of $30.1 million. Narragansett is subject to rate regulation by the FERC and the Rhode Island Public Utilities Commission (''RIPUC''). The Rhode Island Division of Public Utilities and Carriers (''RIDIV'') has jurisdiction over Narragansett's financings and transactions with affiliates.

Granite State provides retail electric service to approximately 40,000 customers in 21 communities in New Hampshire. As of and for the 12 months ended March 31, 2004, Granite State had total assets of $100.8 million, operating revenues of $73.1 million and net income of $2.7 million. Granite State is subject to regulation by the FERC and the New Hampshire Public Utilities Commission (''NHPUC'').

Nantucket provides retail electric service to approximately 11,000 customers on Nantucket Island, Massachusetts. As of and for the 12 months ended March 31, 2004, Nantucket had total assets of $59.2 million, operating revenues of $19.8 million and net income of $0.9 million. Nantucket is subject to regulation by the FERC and the MDTE.

National Grid USA's wholly owned subsidiary, NEPCO, is the operator of electricity transmission facilities in the states of Massachusetts, Rhode Island, New Hampshire, and Vermont. As of and for the 12 months ended March 31, 2004, NEPCO had total assets of $2,715.1 million, operating revenues of $457.9 million and net income of $72.5 million. NEPCO is subject to rate regulation by the FERC. The Vermont Public Service Board (''VPSB''), the MDTE and the NHPUC have jurisdiction over NEPCO's financings and transactions with affiliates. Although the Maine Public Utilities Commission (''MPUC'') has jurisdiction over NEPCO's financings, it defers to financing authorizations from the MDTE. The Nuclear Regulatory Commission (''NRC'') has jurisdiction over NEPCO's ownership of nuclear facilities.

NEET, a wholly owned subsidiary of National Grid USA, owns and operates a direct current/alternating current converter terminal facility for the first phase of the Hydro-Quebec and New England interconnection (''Interconnection'') and six miles of

[1] Applicants state that Intermediate Companies are all the holding companies in the chain of ownership of National Grid USA that are direct or indirect subsidiaries of National Grid Transco including National Grid (US) Holdings Limited, National Grid (US) Investments 4, National Grid (US) Partner 1 Limited, National Grid (US) Partner 2 Limited, National Grid General Partnership, National Grid Holdings Inc. and any new companies in the chain of ownership as the structure may be revised from time to time.

[2] Niagara Mohawk is indirectly held by National Grid USA through the exempt holding company Niagara Mohawk Holdings Inc. (''NiMo Holdings''). *See* January 2002 Order.

high voltage direct current transmission line in New Hampshire. As of and for the 12 months ended March 31, 2004, NEET had total assets of $9.8 million, operating revenues of $6.3 million, and net income of $0.5 million. NEET is subject to rate regulation by FERC. The NHPUC has jurisdiction over its financings and transactions with affiliates. N.H. Hydro, in which National Grid USA holds 53.7% of the common stock, operates 121 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Interconnection, extending to the Massachusetts border. As of and for the 12 months ended March 31, 2004, N.H. Hydro had total assets of $92.2 million, operating revenues of $25.5 million, and net income of $3.1 million. N.H. Hydro is subject to rate regulation by FERC. The NHPUC has jurisdiction over N.H. Hydro's financings and transactions with affiliates.

Mass. Hydro, 53.7% of the voting stock of which is held by National Grid USA, operates a direct current/alternating current terminal and related facilities for the second phase of the Interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts. As of and for the 12 months ended March 31, 2004, Mass. Hydro had total assets of $107.8 million, operating revenues of $31.1 million, and net income of $5.1 million. New England Hydro Finance Company, Inc. (''N.E. Hydro Finance'') is owned in equal shares by Mass. Hydro and N.H. Hydro. NE Hydro Finance provides the debt financing required by the owners to fund the capital costs of their participation in the Interconnection. Mass. Hydro is subject to rate regulation by FERC. The MDTE has jurisdiction over Mass. Hydro's financings and transactions with affiliates.

Applicants state that the table below shows the capital structure of each Utility Subsidiary as of March 31, 2004.

Utility subsidiary	Common stock Equity	Debt
Niagara Mohawk	42.4	57.6
Mass. Electric	77.5	22.5
Nantucket	49.6	50.4
Narragansett	89.4	10.6
Granite State	78.0	22.0
NEPCO	71.1	28.9
NEET	2.6	97.4
NH Hydro	39.4	57.7
Mass. Hydro	39.9	61.1

The Nonutility Subsidiaries in the National Grid Transco System that are Applicants are described in Exhibit A to the Application.

II. Request for Financing Authorization

A. Financing Parameters

Applicants request authorization to engage in financing transactions through September 30, 2007 (''Authorization Period''), for which the specific terms and conditions are not known at this time. Applicants state that the following general terms (''Financing Parameters'') will be applicable where appropriate to the proposed external financing activities requested (including, without limitation, securities issued for the purpose of refinancing or refunding outstanding securities of the issuer):

1. Effective Cost of Money

The effective cost of capital on long-term debt, preferred stock, preferred securities, equity-linked securities, and short-term debt will not exceed the greater of (a) 500 basis points over U.K. or U.S. government-issued securities or other government benchmark for the currency concerned having a remaining term equal to the term of such series or (b) a gross spread over U.K. or U.S. government-issued securities that is consistent with similar securities of comparable credit quality and maturities issued by other companies.

2. Maturity

The maturity of long-term debt will be between one and 50 years after issuance. Preferred securities and equity-linked securities will be redeemed no later than 50 years after issuance, unless converted into common stock. Preferred stock issued directly by National Grid Transco may be perpetual in duration. Short-term debt will have a maturity of one year or less.

3. Issuance Expenses

The underwriting fees, commissions, or other similar remuneration paid in connection with the non-competitive issue, sale or distribution of securities under this Application will not exceed the greater of (a) 5% of the principal or total amount of the securities being issued or (b) issuance expenses that are generally paid at the time of the pricing for sales of the particular issuance, having the same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality.

4. Common Equity Ratio

National Grid Transco will maintain common stock equity [3] as a percentage of total consolidated capitalization [4], as shown in its most recent quarterly balance sheet (but measured on a book value U.S. GAAP basis), of at least 30% or above. National Grid USA, on a consolidated basis, and each Utility Subsidiary [5] on an individual basis (except NEET),[6] will maintain common stock equity of at least 30% of total capitalization as shown in each company's most recent quarterly balance sheet (measured on a book value U.S. GAAP basis).

5. Investment Grade Ratings

Applicants further represent that, except for securities issued for the purpose of funding money pool operations, no guarantees or other securities, other than common stock, may be issued in reliance upon the authorization granted by the Commission under this Application, unless (a) the security to be issued, if rated, is rated investment grade; (b) all outstanding securities of the issuer that are rated are rated investment grade; and (c) all outstanding securities of National Grid Transco that are rated, are rated investment grade. For purposes of this provision, a security will be deemed to be rated ''investment grade'' if it is rated investment grade by at least one nationally recognized statistical rating organization (''NRSRO''), as that term is used in paragraphs (c)(2)(vi)(E), (F) and (H) of Rule 15c3–1 under the Securities Exchange Act of 1934, as amended (''1934 Act''). Applicants request that the Commission reserve jurisdiction over the issuance of any guarantee or other securities in reliance upon the authorization granted by the Commission under this Application at any time that the conditions set forth in

[3] Common stock equity includes common stock (*i.e.*, amounts received equal to the par or stated value of the common stock), additional paid in capital, retained earnings, and minority interests.

[4] Applicants would calculate the common stock equity to total capitalization ratio as follows: common stock equity (as defined in the immediately preceding footnote)/(common stock equity + preferred stock + gross debt). Gross debt is the sum of long-term debt, short-term debt, and current maturities.

[5] Nantucket would maintain a minimum of 30% common stock equity as a percentage of total capitalization on a combined basis with Mass. Electric.

[6] Applicants state that NEET owns and operates a direct current/alternating current converter terminal facility for the first phase of the Hydro-Quebec and New England interconnection and six miles of high voltage DC transmission line in New Hampshire. The facilities are financed with a high level of debt on a project basis. The New England utilities participating in Phase 1 are responsible for the full costs of the facilities under a support agreement. Applicants state that it would be disruptive and economically inappropriate to refinance the facilities with additional equity since that would increase the cost of operating the facility. Based on this reasoning, the Commission excepted NEET from the 30% minimum common equity standard in the January 2002 Order.

clauses (a) through (c) above are not satisfied.

B. Use of Proceeds

The proceeds from the financings authorized by the Commission under this Application will be used for general corporate purposes, including (a) financing investments by and capital expenditures of the National Grid Transco System, (b) the funding of future investments in FUCOs, and companies exempt under rule 58 under the Act (''Rule 58 Subsidiaries''), (c) the repayment, redemption, refunding, or purchase by National Grid Transco or any Subsidiary of any of its own securities, and (d) financing working capital requirements of National Grid Transco and the Subsidiaries. The Applicants represent that no financing proceeds will be used to acquire the equity securities of any company unless the acquisition has been approved by the Commission in this proceeding or in a separate proceeding or in accordance with an available exemption under the Act or rules, including sections 32, 33, 34, and rule 58.

III. Proposed Financing Program

National Grid Transco requests authorization to increase its capitalization through the issuance and sale of securities including, but not necessarily limited to, common stock, preferred stock, preferred securities, equity-linked securities, options, warrants, purchase contracts, units (consisting of one or more purchase contracts, warrants, debt securities, shares of preferred stock, shares of common stock, or any combination of these securities), long-term debt, subordinated debt, bank borrowings, securities with call or put options, and securities convertible into any of these securities. The aggregate amount of new financing obtained by National Grid Transco during the Authorization Period (exclusive of short-term debt) through the issuance of securities, in each case valued at the time of issuance, shall not exceed $20 billion outstanding at any one time, (''NGT External Limit''), provided that securities issued for purposes of refunding or replacing other securities where National Grid Transco's capitalization is not increased as a result shall not be counted against the NGT External Limit. In addition, National Grid Transco requests authority to issue and sell from time to time, directly or indirectly through one or more financing subsidiaries (''Financing Subsidiaries''), short-term debt, including commercial paper and bank borrowings, in an aggregate principal amount at any time outstanding not to exceed $6 billion (''NGT Short-term Limit'').

Although the financing limits in the application are stated in U.S. dollars, a large portion of the securities issued under this authorization are expected to be denominated in pounds or other currencies the value of which will fluctuate against the dollar. To provide consistent financing limits over the Authorization Period, for purposes of measuring compliance with the limits, National Grid Transco would value securities issued in currencies other than the dollar, on their date of issuance, based on the applicable exchange rate between the dollar and the currency in which the security is denominated in effect on the date the Commission order granting the Application is entered.

National Grid Transco contemplates that securities would be issued and sold directly to one or more purchasers in privately-negotiated transactions or to one or more investment banking or underwriting firms or other entities who would resell the securities without registration under the Securities Act of 1933, as amended (''1933 Act'') in reliance upon one or more applicable exemptions from registration thereunder, or to the public either (a) through underwriters selected by negotiation or competitive bidding or (b) through selling agents acting either as agent or as principal for resale to the public either directly or through dealers. If underwriters are used, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. These securities may be offered to the public either through underwriting syndicates (which may be represented by a managing underwriter or underwriters designated by National Grid Transco) or directly by one or more underwriters acting alone, or may be sold directly by National Grid Transco or through agents designated by National Grid Transco from time to time. If dealers are utilized, National Grid Transco will sell securities to the dealers, as principals. Any dealer may then resell these securities to the public at varying prices to be determined by the dealer at the time of resale. If common stock is being sold in an underwritten offering, National Grid Transco may grant the underwriters a ''green shoe'' option permitting the purchase from National Grid Transco at the same price additional shares then being offered solely for the purpose of covering over-allotments.

A. Common Stock

1. General Issuance

National Grid Transco proposes to issue and sell common stock, or options, warrants, or other stock purchase rights exercisable for common stock, through underwriting agreements of a type generally standard in the industry. Public distributions may be under private negotiation with underwriters, dealers or agents, or effected through competitive bidding among underwriters. In addition, sales may be made through private placements or other non-public offerings to one or more persons. All common stock sales will be at rates or prices and under conditions negotiated or based upon, or otherwise determined by, competitive capital markets.

2. Acquisitions

National Grid Transco proposes to issue common stock or options, warrants, or other stock purchase rights exercisable for common stock in public or privately-negotiated transactions as consideration for the equity securities or assets of other companies, provided that the acquisition of any equity securities or assets has been authorized in a separate proceeding or is exempt under the Act or the rules thereunder (*e.g.,* rule 58).

3. Stock Plans

National Grid Transco also proposes to issue common stock and/or purchase shares of its common stock (either currently or under forward contracts) in the open market for purposes of (a) reissuing the shares at a later date under stock-based plans which are maintained for stockholders, employees and nonemployee directors or (b) managing its capital structure. Applicants state that National Grid Transco's stock-based plans are briefly described in Exhibit E to the Application. National Grid Transco proposes to issue shares of its common stock in order to satisfy its obligations under each of these existing stock-based plans, as they may be amended or extended, and similar plans or plan funding arrangements hereafter adopted without any additional Commission order. Shares of common stock issued under these plans may either be newly issued shares, treasury shares or shares purchased in the open market, including ADSs, provided that only the net proceeds from sales of newly issued shares will be counted against the NGT External Limit. National Grid Transco proposes to make open-market purchases of common stock in accordance with the terms of, or in connection with, the operation of the plans, or as part of a program to repurchase its securities generally. Stock repurchases would be conducted through open market transactions and could include the acquisition at arms'-length of National Grid Transco common stock from institutional investors that may have an affiliate interest in National Grid Transco.

B. Preferred Stock, Preferred Securities and Equity-Linked Securities

Applicants state that National Grid Transco states that it has not issued any preferred stock directly or other forms of preferred securities indirectly through any financing subsidiary. In the future, however, National Grid Transco wishes to have the flexibility to issue preferred stock directly and/or issue, indirectly through one or more Financing Subsidiaries, other forms of preferred securities (including, without limitation, trust preferred securities or monthly income preferred securities). Preferred stock and other forms of preferred securities may be issued in one or more series with rights, preferences, and priorities as may be designated in the instrument creating each series, as determined by National Grid Transco's board of directors, and may be convertible or exchangeable into shares of National Grid Transco common stock or unsecured indebtedness. Dividends or distributions on these securities would be made periodically and to the extent funds are legally available for the purpose, but may be made subject to terms which allow the issuer to defer dividend payments for specified periods. National Grid Transco also proposes to issue and sell equity-linked securities in the form of stock purchase units, which combine a security with a fixed obligation (*e.g.,*, preferred stock or debt) with a stock purchase contract that is exercisable (either mandatorily or at the option of the holder) within a relatively short period (*e.g.,* three to six years after issuance). The dividend or distribution rates, interest rates, redemption and sinking fund provisions, conversion features, if any, and maturity dates with respect to the preferred stock or other types of preferred securities and equity-linked securities of a particular series, as well as any associated placement, underwriting or selling agent fees, commissions and discounts, if any, will be established by negotiation or competitive bidding.

C. Long-Term Debt

Applicants state that long-term debt would be unsecured and may be issued directly through a public or private placement or indirectly through one or more financing subsidiaries, in the form of notes, convertible notes, medium-term notes, or debentures under one or more indentures, or unsecured long-term indebtedness under agreements with banks or other institutional lenders. The maturity dates, interest rates, redemption and sinking fund provisions, and conversion features, if any, with respect to the long-term debt of a particular series, as well as any associated placement, underwriting, or selling agent fees, commissions, and discounts, if any, will be established by negotiation or competitive bidding at the time of issuance.

D. Short-Term Debt

National Grid Transco proposes to issue and sell from time to time, directly or indirectly through one or more financing subsidiaries, short-term debt, in the form of unsecured commercial paper, notes issued to banks and other institutional lenders, and other forms of unsecured short-term indebtedness, in an aggregate principal amount at any time outstanding not to exceed the NGT Short-Term Limit. Unused borrowing capacity under a credit facility would not count towards the NGT Short-Term Limit. National Grid Transco proposes that short-term borrowings under credit lines will have maturities of a year or less from the date of each borrowing.

National Grid Transco proposes that commercial paper issued under any commercial paper facility would be sold, directly or indirectly through one or more Financing Subsidiaries, in established U.S. or European commercial paper markets. Commercial paper would typically be sold to dealers at the discount rate per annum prevailing at the date of issuance for commercial paper of comparable quality and maturities sold to commercial paper dealers generally. It is expected that the dealers acquiring the commercial paper would reoffer it at a discount to corporate, institutional and, with respect to European commercial paper, individual investors. It is anticipated that commercial paper would be reoffered to investors such as commercial banks, insurance companies, pension funds, investment trusts, foundations, colleges and universities, finance companies, and nonfinancial corporations.

E. Utility Subsidiary Financing

Applicants state that they expect the issue and sale of most securities by the Utility Subsidiaries will be exempt from the preapproval requirements of sections 6(a) and 7 of the Act under rule 52(a), as most of these securities must be approved by the public service commission in the state in which each Utility Subsidiary is incorporated and operating.[7] To the extent their financing is not exempt under rule 52(a) or otherwise, Applicants request authorization for the Utility Subsidiaries listed in the table below to issue debt securities having a maturity of 12 months or less in the aggregate amounts shown.

	In dollars
Niagara Mohawk	1 billion.
Mass. Electric	400 million.
Nantucket	40 million.
Narragansett	145 million.
Granite State	10 million.
NEPCO	750 million.
NEET	10 million.
NH Hydro	12.5 million.
Mass. Hydro	12.5 million.

F. Nonutility Subsidiary Financing

1. Generally

Applicants request authority for National Grid Transco or any Nonutility Subsidiary, including a Financing Subsidiary, to make loans to Nonutility Subsidiaries. Applicants state that these loans would generally have interest rates and maturities that are designed to parallel the lending company's effective cost of capital. Applicants request authorization to acquire the equity securities of wholly owned subsidiaries and to lend funds to these companies to finance ongoing operations and additional investments consistent with their existing businesses. Except as noted below, loans would bear interest at the lender's effective cost of capital. Applicants state that no financing proceeds will be used to acquire the equity securities of any company unless the acquisition has been approved by the Commission in this proceeding or in a separate proceeding or in accordance

[7] Specifically, Applicants state that: (a) The NYPSC must approve all financings by Niagara Mohawk other than short-term indebtedness having a maturity of 12 months or less, (b) the MDTE must approve all financings by Mass. Electric and Nantucket other than short-term indebtedness having a maturity of 12 months or less, (c) the RIDIV must approve all financings by Narragansett other than short-term indebtedness having a maturity of 12 months or less, (d) the NHPUC must approve all financings by Granite State, a New Hampshire corporation, (e) NEPCO is regulated by the VPSB, MDTE, and the MPUC with regard to security issuances other than short-term indebtedness having a maturity of 12 months or less and by the NHPUC with regard to both long- and short-term financings; (f) NEET and N.H. Hydro are subject to the jurisdiction of the NHPUC with respect to all financing transactions and (g) Mass. Hydro is subject to the jurisdiction of the MDTE which must approve all financings, other than short-term indebtedness having a maturity of 12 months or less.

with an available exemption under the Act or rules.

2. U.S. Chain of Companies

Applicants request authority for National Grid USA Group, the Intermediate Companies, National Grid USA, and NiMo Holdings to issue and sell securities to: (a) direct and indirect parent companies, and (b) FUCOs, such as NGH One and Lattice Group and their associate company subsidiaries. Applicants state that no FUCO or subsidiary of a FUCO will purchase equity and convertible debt securities from the Intermediate Companies, National Grid USA or NiMo Holdings. The Intermediate Companies, National Grid USA, and NiMo Holdings also propose to acquire securities from their direct or indirect subsidiary companies. The financing of Utility Subsidiaries would be subject to the Finance Parameters and the best rate method (''Best Rate Method''), described below. Applicants propose that financing of Nonutility Subsidiaries of National Grid USA also would be conducted under the Best Rate Method.

Applicants state that in no case would the Intermediate Companies, National Grid USA or NiMo Holdings borrow, or receive any extension of credit or indemnity from any of their respective direct or indirect subsidiary companies, except their Financing Subsidiaries or the Financing Subsidiaries of a direct or indirect parent company. Further, the Intermediate Companies, National Grid USA and NiMo Holdings would not acquire equity or convertible securities from indirect subsidiaries, unless otherwise authorized or permitted by the Commission, if the result would be to create a minority interest in a public utility company.

3. Intermediate Companies

Applicants commit that the Intermediate Companies would not issue securities to third parties. Applicants state that all borrowings by the Intermediate Companies would be unsecured, but may be guaranteed by National Grid Transco or other Intermediate Companies. Debt offerings by the Intermediate Companies and National Grid USA would have short, medium, and long-term maturities. Short-term debt would have a maturity of one year or less, medium-term debt would have maturities up to 5 years, and long-term debt would have maturities up to 50 years.

Applicants propose to structure financings within the National Grid Transco System and with FUCO subsidiaries. From time-to-time, Applicants request authority for the Intermediate Companies, National Grid USA, or NiMo Holdings to borrow funds from an indirect parent company or from a FUCO associate company. Applicants assert that these loans allow National Grid Transco the flexibility to meet the short-term working capital requirements of National Grid USA and its subsidiaries when funds can be raised at a lower cost by National Grid Transco.

Applicants propose that the terms and conditions of any financings between an Intermediate Company and its direct or indirect parent, or between an Intermediate Company and a FUCO subsidiary, such as NGH One or Lattice Group or their associate company subsidiaries, be on market terms. Applicants state that financing on market terms assists National Grid Transco to comply with U.K. tax regulations. Market rate financing assures that intercompany loans will not be used to transfer profits from one related entity to another. Market rates also allow the lending entity to recover its true costs of liquidity, and the risks associated with credit quality and interest rate and currency variability.

4. Best Rate Method

Applicants propose that, regardless of the market rate applicable to these transactions, debt funding provided to National Grid USA Group companies would bear interest at a rate set according to the Best Rate Method. Under the Best Rate Method, short-term loans from associate companies to National Grid USA Group companies would bear interest at the rate, as published in the Wall Street Journal on the day of the borrowing (or the most recently published rate when borrowings occur on days when the Wall Street Journal is not published), for high grade 30-day commercial paper issued by major corporations and sold through dealers plus an ''at cost'' allocation of National Grid Transco's funding costs.[8] For medium and long-term loans to National Grid USA Group companies, unless there is a directly identifiable external borrowing intended to finance the company, National Grid Transco would use a rate equal to the effective rate that National Grid Transco would pay on the issuance of a comparable security in a competitive offering to unaffiliated banks or other lenders.

The interest rates paid by the National Grid USA Group companies in connection with borrowings from National Grid Transco and the other companies in the National Grid System, including the FUCO subsidiaries, would not increase the cost of capital used by the National Grid USA Group. National Grid Transco regularly monitors its ability to access the capital markets and states that if it determines that the rate at which it can borrow is higher than the rate a National Grid USA Group company would pay in a direct borrowing at that time from a nonassociated party, the interest rate applied to National Grid USA Group borrowings from associated companies would be based on that lower cost of funds. Consequently, Applicants state that under the Best Rate Method, the interest rate on loans to any company in the National Grid USA Group would be set at a rate equal to the lower of: (a) National Grid Transco's cost of funds, (b) the cost of funds of another associate company that proposes to lend funds to the prospective National Grid USA Group company borrower, or (c) the cost of funds that would be paid by the prospective National Grid USA Group company borrower in a transaction directly with a nonassociated lender.

In implementing the Best Rate Method, National Grid Transco states that it would determine whether the lending rate applied to an associated company loan is equal to or lower than the rate available to a National Grid USA Group company in a direct borrowing from a nonassociated party (*i.e.*, a market rate), in much the same manner as an independent bank would determine the market rate. National Grid Transco further states that it would take into account the nature of National Grid USA's business, or that of the individual subsidiary to be financed, evaluate its capital structure, the particular risks to which it is subject, and generally prevailing market conditions. National Grid Transco would also evaluate and take into account information from third parties such as banks that would indicate the prevailing market rates for similar businesses. In particular, National Grid Transco states that it will obtain information on the range of rates used by one or more banks for loans to similar businesses.

[8] National Grid Transco states that the ''at cost'' allocation would add to the interest rate for high grade 30-day commercial paper a small additional percentage that would compensate National Grid Transco for the cost that it incurs in issuing commercial paper, notes to banks or other institutional lenders, and other forms of unsecured short-term debt. The issuance costs include any selling agent fees, commissions, discounts, commitment fees, facility fees and other costs directly associated with the financing. The costs would be allocated among all borrowers based on a ratio derived from historical National Grid Transco short-term borrowings and the average costs associated of those borrowings.

5. National Grid USA

National Grid USA requests authorization to issue debt securities to third parties through public or private offerings. Any issuances would be limited to an aggregate amount outstanding at any one time of $1 billion (''NGUSA Limit'') and would be subject to the Financing Parameters. All borrowings by National Grid USA would be unsecured.

6. NiMo Holdings

In the January 2002 Order, the Commission found NiMo Holdings to be an exempt holding company under section 3(a)(1) of the Act, although it remains (regulated as) a subsidiary of a registered holding company. NiMo Holdings requests authorization to issue and sell securities to associate companies, but not NiMo Holdings' direct and indirect subsidiaries (other than Financing Subsidiaries), for the purpose of financing NiMo Holdings' existing business, the businesses of its respective subsidiaries, and future authorized or permitted businesses. Applicants state that NiMo Holdings would not issue equity or convertible securities to associate companies other than its immediate parent company and would not issue securities to third parties. Debt securities issued by NiMo Holdings would bear interest at the rates applicable to National Grid USA Group companies under the Best Rate Method described above. All borrowings by NiMo Holdings would be unsecured, except that borrowings may be guaranteed as provided below.

G. Continuation of Money Pool

Applicants request authority for the Utility Subsidiaries, National Grid USA Service Company (''ServiceCo'') and any National Grid Transco System company (''Participating Subsidiaries'') (to participate in the money pool established for the National Grid USA Group (''Money Pool'') in the Merger Order. Applicants request that the Commission reserve jurisdiction over the participation of any National Grid Transco System company in the Money Pool, other than the Utility Subsidiaries and ServiceCo, as a borrower until the record in this matter has been supplemented with additional information regarding the proposed participant.

Applicants request authority for the Participating Subsidiaries to make unsecured short-term borrowings from the Money Pool, to contribute surplus funds to the Money Pool, to lend and extend credit to, and acquire promissory notes from, one another through the Money Pool.

Applicants further request authority for: (a) National Grid Transco, (b) the Intermediate Companies, (c) NGH One, Lattice Group, their subsidiaries and any subsequently organized or acquired FUCO, (d) National Grid USA, (e) NiMo Holdings, and (f) the Nonutility Subsidiaries of National Grid USA to invest surplus funds and/or lend and extend credit to the Participating Subsidiaries through the Money Pool.

All the Utility Subsidiaries request authorization within the limits for short-term debt set forth in section III.E. above to: (a) Invest surplus funds and/or lend and extend credit to the Money Pool and (b) to borrow from the Money Pool.

Applicants state that the effective cost of short-term borrowings under the Money Pool will generally be as favorable to the Participating Subsidiaries than the comparable cost of external short-term borrowings. Applicants state that the investment rate paid to Participating Subsidiaries that invest surplus funds in the Money Pool will generally be higher than the typical yield on short-term money market investments. Applicants state that, under the Money Pool agreement (''Money Pool Agreement''), short-term funds are available from the following sources for short-term loans to the Participating Subsidiaries from time to time: (a) Surplus funds in the treasuries of Participating Subsidiaries and (b) proceeds received by National Grid Transco and National Grid USA from the sale of commercial paper, borrowings from banks and other lenders, and other financing arrangements (''External Funds''). Applicants state that funds are made available from sources in the order that ServiceCo, as the administrative agent under the Money Pool Agreement, determines would result in a lower cost of borrowing, consistent with the individual borrowing needs and financial standing of the Participating Subsidiaries.

Applicants state that Participating Subsidiaries authorized to borrow from the Money Pool (''Eligible Borrowers'') will borrow *pro rata* from each lending Participating Subsidiary in the proportion that the total amount invested by each Participating Subsidiary bears to the total amount then invested in the Money Pool. The interest rate charged to Eligible Borrowers on borrowings under the Money Pool will be as follows:

(a) A borrower with a commercial paper credit rating or an investment grade bond rating (''Commercial Paper Issuer'') will pay interest at a rate equal to the weighted monthly average of the rates on its outstanding commercial paper;

(b) During any month when a Commercial Paper Issuer has no commercial paper outstanding, the rate will be the monthly average of the rate for high grade 30-day commercial paper sold through dealers by major corporations as published in the Wall Street Journal. The rate to be used for weekends and holidays will be the next preceding published rate.

(c) An Eligible Borrower other than Commercial Paper Issuers will pay interest at a rate of 1.08 times the rate described in paragraph (b). In no event will the rate be greater than the monthly average of the Base Lending Rate of Fleet Boston.

Applicants state that funds not required by the Money Pool to make loans (with the exception of funds required to satisfy the Money Pool's liquidity requirements) would ordinarily be invested in one or more short-term investments, including: (a) Obligations issued or guaranteed by the U.S. government and/or its agencies and instrumentalities; (b) commercial paper; (c) certificates of deposit; (d) bankers' acceptances; (e) repurchase agreements; (f) tax exempt notes; (g) tax exempt bonds; (h) tax exempt preferred stock; and (i) such other investments as are permitted by section 9(c) of the Act and rule 40 thereunder.

Applicants state that the interest income and investment income earned on loans and investments of surplus funds would be allocated among those Money Pool participants that have invested funds in accordance with the ratio of the surplus funds contributed by each participant to the total surplus funds invested in the Money Pool. Applicants state that each Eligible Borrower receiving a loan through the Money Pool would be required to repay the principal amount of the loan, together with all interest accrued, on demand and in any event within one year after the date of the loan. All loans made through the Money Pool may be prepaid by the borrower without premium or penalty and without prior notice.

Applicants state that proceeds of any short-term borrowings from the Money Pool may be used by an Eligible Borrower: (a) For the interim financing of its construction and capital expenditure programs; (b) for its working capital needs; (c) for the repayment, redemption or refinancing of its debt and preferred stock; (d) to meet unexpected contingencies, payment and timing differences, and cash requirements; and (e) to otherwise finance its own business and for other lawful general corporate purposes.

III. Guarantees

National Grid Transco requests authorization to provide guarantees (''Guarantees'') with respect to debt securities or other contractual obligations of any Subsidiary as may be appropriate in the ordinary course of the Subsidiary's business, in an aggregate principal or nominal amount not to exceed $20 billion (''NGT Guarantee Limit'') at any one time outstanding, provided however, that the amount of any Guarantees in respect of obligations of any Subsidiaries shall also be subject to the limitations of rule 53(a)(1) or rule 58(a)(1), as applicable.

National Grid Transco states that Guarantees may take the form of, among others, direct guarantees, reimbursement undertakings under letters of credit, ''keep well'' undertakings, agreements to indemnify, expense reimbursement agreements, and credit support with respect to the obligations of the Subsidiaries as may be appropriate to enable Subsidiaries to carry on their respective authorized or permitted businesses. Any Guarantee that is outstanding at the end of the Authorization Period shall remain in force until it expires or terminates in accordance with its terms.

National Grid Transco states that any Guarantee provided to a Financing Subsidiary will comply with the Financing Parameters and will count against the NGT External Limit. To avoid double counting, Applicants propose that the amount of any Guarantee with respect to securities issued by a Financing Subsidiary will not also be counted against the proposed limit on Guarantees.

Applicants state that Guarantees may be provided to support obligations of Subsidiaries that are not readily susceptible of exact quantification or that may be subject to varying quantification. In these cases, National Grid Transco will determine the exposure under that Guarantee for purposes of measuring compliance with the proposed limitation on Guarantees by appropriate means, including estimation of exposure based on loss experience or projected potential payment amounts. If appropriate, estimates will be made in accordance with GAAP and this estimation will be reevaluated periodically.

National Grid Transco requests authorization to charge each Subsidiary a fee for each Guarantee that is not greater than the cost, if any, of obtaining the liquidity necessary to perform the Guarantee (for example, bank line commitment fees or letter of credit fees, plus other transactional expenses) for the period of time that it remains outstanding.

In addition, Applicants request authority for the Nonutility Subsidiaries, National Grid USA, NiMo Holdings, the Intermediate Companies, and NGH One to guarantee the indebtedness or contractual obligations and to otherwise provide credit support to associate companies. Guarantees provided by National Grid USA and NiMo Holdings in support of the external obligations of direct or indirect subsidiaries would not exceed $1 billion outstanding at any one time, in the aggregate, exclusive of any Guarantees and other forms of credit support that are exempt pursuant to rule 45(b) and rule 52(b), provided however, that the amount of Guarantees in respect of obligations of any Rule 58 Subsidiaries shall remain subject to the limitations of rule 58(a)(1). The company providing credit support may charge its associate company a fee for each Guarantee provided on its behalf determined in the same manner as specified above.

IV. Interest Rate and Currency Risk Management Devices

National Grid Transco proposes to enter into, perform, purchase and sell financial instruments intended to manage the volatility of currencies and interest rates, including but not limited to currency and interest rate swaps, caps, floors, collars and forward agreements or any other similar agreements (''Hedging Instruments''). National Grid Transco would employ Hedging Instruments as a means of prudently managing the risk associated with any of its outstanding or anticipated debt by, for example, synthetically (a) converting variable rate debt to fixed rate debt, (b) converting fixed rate debt to variable rate debt, (c) limiting the impact of changes in interest rates resulting from variable rate debt, and (d) providing an option to enter into interest rate swap transactions in future periods for planned issuances of debt securities.

National Grid Transco proposes to enter into Hedging Instruments with respect to anticipated debt offerings (''Anticipatory Hedges''), to fix and/or limit the interest rate or currency exchange rate risk associated with any new issuance. In addition to the use of Hedging Instruments, Anticipatory Hedges may include: (a) A forward sale of exchange-traded government securities futures contracts, government securities and/or a forward swap (each a ''Forward Sale''), (b) the purchase of put options on government securities (''Put Options Purchase''), (c) a Put Options Purchase in combination with the sale of call options on government securities (''Zero Cost Collar''), (d) transactions involving the purchase or sale, including short sales, of government securities, or (e) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar, and/or other derivative or cash transactions, including, but not limited to structured notes, caps, and collars appropriate for the Anticipatory Hedges. National Grid may seek to hedge its exposure to currency fluctuations through currency swaps or options and forward exchange or similar transactions.

Applicants state that Hedging Instruments and instruments used to effect Anticipatory Hedges will be executed on-exchange (''On-Exchange Trades'') with brokers through the opening of futures and/or options positions, the opening of over-the-counter positions with one or more counterparties (''Off-Exchange Trades''), or a combination of On-Exchange Trades and Off-Exchange Trades. National Grid Transco will determine the optimal structure of each transaction at the time of execution. Off-Exchange Trades would be entered into only with Intermediate Companies or with counterparties whose senior debt ratings are investment grade as determined by Standard & Poor's, Moody's Investors Service, Inc. or Fitch IBCA, Inc. (''Approved Counterparties'').

The Utility Subsidiaries also propose to enter into Hedging Instruments with third-party Approved Counterparties, but not other National Grid Transco System companies, on the same terms generally applicable to National Grid Transco.[9] The Utility Subsidiaries expect to use this authority principally to hedge external debt.

The Intermediate Companies also request authorization to enter into currency derivatives with National Grid Transco and other Intermediate Companies for the purpose of managing their exposure to various currencies that may be used to finance their business.

National Grid Transco maintains a central treasury department whose

[9] Applicants state that the terms applicable to Hedging Instruments entered into by the Utility Subsidiaries differ from those applicable to National Grid Transco in that the Utility Subsidiaries will qualify Hedging Instruments entered into by the Utility Subsidiaries for hedge accounting treatment under U.S. GAAP. In addition, to the extent a Utility Subsidiary incurs a gain or loss on a Hedging Instrument that it has entered into to hedge a currency or interest rate risk associated with a security that the Utility Subsidiary has issued, the gain or loss would be attributed to the Utility Subsidiary.

activities are governed by policies and guidelines approved by the Board of Directors, with regular reviews and monitoring by a standing committee of the Board. The treasury department operates as a service center rather than as a profit center and is subject to internal and external audit. Treasury activities are managed in a non-speculative manner and all transactions in Hedging Instruments would be matched to an underlying business purpose. Consequently, Applicants state, National Grid Transco, the Intermediate Companies and the Utility Subsidiaries would not enter into transactions in Hedging Instruments for speculative purposes or to finance businesses that are not permitted, authorized or exempt under the Act. National Grid Transco will qualify transactions in Hedging Instruments for hedge-accounting treatment under GAAP in the U.S. or the UK. In the event transactions in Hedging Instruments are qualified for hedge accounting treatment under UK GAAP, but not under U.S. GAAP, National Grid Transco's financial statements filed with the Commission will contain a reconciliation of the difference between the two methods of accounting treatment as is required by Form 20–F. Applicants affirm that no gain or loss on a Hedging Instrument entered into by National Grid Transco or the Intermediate Companies, or associated tax effects, will be allocated to National Grid USA or NiMo Holdings or their subsidiaries, regardless of the accounting treatment accorded to the transaction and that National Grid USA, and its subsidiaries would not be adversely affected by these transactions.

V. Payment of Dividends Out of Capital or Unearned Surplus

By order dated March 15, 2000 (HCAR No. 27154) (''March 2000 Order'') and also in the January 2002 Order, the Commission authorized, subject to certain conditions, the payment of dividends out of capital and unearned surplus of National Grid USA and its Utility and Nonutility Subsidiaries. As to the Utility Subsidiaries, dividends were permitted to be paid out of capital and unearned surplus in an amount equal to the retained earnings of each subsidiary prior to the mergers of National Grid Transco's predecessors with New England Electric System and NiMo Holdings. In addition, the March 2000 Order and January 2002 Order stated that the amortization or write down of goodwill could be ignored in calculating earnings available for the payment of dividends after the mergers.

Applicants request that the Utility Subsidiaries continue to be authorized to pay dividends out of capital or unearned surplus in an amount up to: (a) The amount of any retained earnings of the subsidiary prior to the mergers authorized in the January 2002 Order (with respect to Niagara Mohawk) and the March 2000 Order (with respect to all other Utility Subsidiaries), and (b) the amount of any goodwill impairment charge. Consequently, ''Income Available for Dividends'' would be calculated by starting with the amount of pre-merger retained earnings that had not already been paid in previous periods, adding any post-merger retained earnings, and adding any current period income grossed up for non-cash charges to income resulting from a determination that goodwill has been impaired.

In addition, the January 2002 Order further authorized Niagara Mohawk to calculate ''Income Available for Dividends,'' by excluding non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events.

Applicants now request that the Commission continue to authorize this variation in the calculation of Income Available for Dividends for Niagara Mohawk alone, consistent with the January 2002 Order. Applicants state that the Utility Subsidiaries would not pay dividends out of capital or unearned surplus if the effect of the dividend would be to reduce capitalization to less than 30% equity as a percentage of total capitalization or to reduce a rated Utility Subsidiary to below investment grade.

Applicants also seek authorization for the Nonutility Subsidiaries to pay dividends from time to time through the Authorization Period, out of capital and unearned surplus, to the extent permitted under applicable corporate law and the terms of any credit agreements and indentures that restrict the amount and timing of distributions to shareholders. In addition, Applicants state that none of the Nonutility Subsidiaries will declare or pay any dividend out of capital or unearned surplus unless it: (a) Has received excess cash as a result of the sale of some or all of its assets, (b) has engaged in a restructuring or reorganization, and/or (c) is returning capital to an associate company.

VI. Changes in Capitalization of Majority-Owned Subsidiaries

Applicants state that the portion of an individual Subsidiary's aggregate financing to be effected through the sale of stock to National Grid Transco or other immediate parent company during the Authorization Period under rule 52 and/or under an order issued by the Commission cannot be ascertained at this time. The proposed sale of capital securities (*i.e.*, common stock or preferred stock) may in some cases exceed the then authorized capital stock of the Subsidiary. In addition, the Subsidiary may choose to use capital stock with no par value.

Applicants request authorization to change the terms of any 50% or more owned Subsidiary's authorized capital stock capitalization or other equity interests by an amount deemed appropriate by National Grid Transco or other intermediate parent company, provided that the consents of all other shareholders have been obtained for the proposed change. This request for authorization is limited to National Grid Transco's 50% or more owned Subsidiaries and will not affect the aggregate limits or other conditions contained herein. A Subsidiary would be able to change the par value, or change between par value and no-par stock, or change the form of equity from common stock to limited partnership or limited liability company interests or similar instruments, or from instruments to common stock, without additional Commission approval. Additional terms that may be changed include dividend rates, conversion rates and dates, and expiration dates. Any action of this kind by a Utility Subsidiary would be subject to and would only be taken upon the receipt of any necessary approvals by the state commission in the state or states where the Utility Subsidiary is incorporated and doing business. National Grid Transco will be subject to all applicable laws regarding the fiduciary duty of fairness of a majority shareholder to minority shareholders in any 50% or more owned Subsidiary and will undertake to ensure that any change implemented under this paragraph comports with such legal requirements.

VII. Financing Entities

National Grid Transco currently owns the stock of NGG Finance plc which assists in the financing of National Grid Transco and its Subsidiaries. Applicants request authorization to organize and acquire the securities of Financing Subsidiaries in the form of one or more additional corporations, trusts, partnerships or other entities, to finance the business of the respective founding company or its subsidiaries. A Financing Subsidiary would be used to finance the authorized or permitted businesses of its direct or indirect parent company (''Founding Parent''), including the businesses of the National Grid USA Group, but in no event would a Financing Subsidiary engage in prohibited upstream loans involving companies in the National Grid USA Group. Financing Subsidiaries may issue any securities that the Founding Parent would be authorized to issue under the terms of this Application as authorized by the Commission, or Commission rule, regulation or order under the Act. Applicants also request authorization to issue securities to a Financing Subsidiary to evidence the transfer of financing proceeds by a Financing Subsidiary to a company receiving financing. Applicants state that the terms of the securities issued to a Financing Subsidiary would typically be designed to service the obligations of the Financing Subsidiary under the securities that it has issued.

As noted above, a Financing Subsidiary would raise funds and finance the businesses of its Founding Parent company, or the subsidiaries thereof, as authorized and permitted under the Act. A Financing Subsidiary would finance these companies on terms and conditions applicable to financings conducted by its parent as set forth in this Application or permitted by rule, regulation, or order of the Commission. Applicants state, for example, NGG Finance plc may finance an Intermediate Company at market rates, but a financing of National Grid USA or its subsidiaries must be in accordance with the Best Rate Method.

Securities issued by Financing Subsidiaries to third parties would count against issuance limits set forth in this Application that are applicable to the Founding Parent of the Financing Subsidiary. To avoid double counting, securities or Guarantees issued by the Founding Parent to the Financing Subsidiary would not count against the Founding Parent's respective issuance limits.

National Grid Transco and its Subsidiaries also request authorization to enter into support or expense agreements (''Expense Agreement'') with Financing Subsidiaries to pay the expenses of any such entity. In cases where it is necessary or desirable to ensure legal separation for purposes of isolating the Financing Subsidiary from its parent or another Subsidiary for bankruptcy purposes, the ratings agencies may require that any Expense Agreement whereby the parent or Subsidiary provides financing related services to the Financing Subsidiary be at a price, not to exceed a market price, consistent with similar services for parties with comparable credit quality and terms entered into by other companies so that a successor service provider could assume the duties of the parent or Subsidiary in the event of the bankruptcy of the parent or Subsidiary without interruption or an increase of fees. Applicants seek approval under section 13(b) of the Act and rules 87 and 90 to provide the services described in this paragraph at a charge not to exceed a market price but only for so long as such Expense Agreement established by the Financing Subsidiary is in place.

VIII. FUCO Financing Limits

Applicants propose that National Grid Transco use the proceeds of the financings proposed in this Application, in part, for investments in FUCOs.[10] In the October 2002 Order, National Grid Transco was authorized to issue securities to finance additional FUCO investments and operations up to a total aggregate investment of $20 billion. Applicants state that they have current investments in FUCOs of approximately $14.9 billion. National Grid Transco now seeks to use the authorization requested in this Application to issue up to $20 billion of securities during the Authorization Period for the purpose of financing additional FUCO investments beyond its current $14.9 investment. Applicants do not seek authorization to invest in exempt wholesale generators, as that term is defined in section 33 of the Act.

IX. Intermediate Subsidiaries and Nonutility Subsidiary Reorganizations

National Grid Transco proposes to acquire, directly or indirectly, the securities of one or more entities (''Intermediate Subsidiaries''), which would be organized exclusively for the purpose of acquiring, holding and/or financing the acquisition of the securities of or other interest in one or more FUCOs, Rule 58 Subsidiaries, exempt telecommunications companies as that term is defined in section 34 of the Act (''ETCs'') or other non-exempt Nonutility Subsidiaries (as authorized in this proceeding or in a separate proceeding), provided that Intermediate Subsidiaries may also engage in administrative activities (''Administrative Activities'') and development activities (''Development Activities''), as those terms are defined below, relating to those subsidiaries.

[10] Applicants propose that a reorganization of existing FUCO investments that results in an increased FUCO investment for accounting purposes as a result of the recognition of the market value of transferred FUCO interests would not be counted as an increased FUCO investment if National Grid Transco did not actually make a cash investment in, or increase its guarantee exposure to, a FUCO subsidiary.

Applicants state that Administrative Activities include ongoing personnel, accounting, engineering, legal, financial, and other support activities necessary to manage National Grid Transco's investments in Nonutility Subsidiaries. Applicants state that Development Activities will be limited to due diligence and design review; market studies; preliminary engineering; site inspection; preparation of bid proposals, including, in connection therewith, posting of bid bonds; application for required permits and/or regulatory approvals; acquisition of site options and options on other necessary rights; negotiation and execution of contractual commitments with owners of existing facilities, equipment vendors, construction firms, and other project contractors; negotiation of financing commitments with lenders and other third-party investors; and other preliminary activities as may be required in connection with the purchase, acquisition, financing or construction of facilities or the acquisition of securities of or interests in new businesses.

An Intermediate Subsidiary may be organized, among other things, (a) in order to facilitate the making of bids or proposals to develop or acquire an interest in any FUCO, Rule 58 Subsidiary, ETC or other nonutility subsidiary, (b) after the award of a bid proposal, in order to facilitate closing on the purchase or financing of such acquired company, (c) at any time subsequent to the consummation of an acquisition of an interest in any such company in order, among other things, to effect an adjustment in the respective ownership interests in such business held by National Grid Transco and non-affiliated investors, (d) to facilitate the sale of ownership interests in one or more acquired Nonutility Subsidiaries, (e) to comply with applicable laws of foreign jurisdictions limiting or otherwise relating to the ownership of domestic companies by foreign nationals, (f) as a part of tax planning in order to limit National Grid Transco's exposure to taxes, (g) to further insulate National Grid Transco and the Utility Subsidiaries from operational or other business risks that may be associated with investments in Nonutility Subsidiaries, or (h) for other lawful business purposes.

Applicants propose that investments in Intermediate Subsidiaries may take the form of any combination of the following: (a) Purchases of capital shares, partnership interests, member interests in limited liability companies, trust certificates or other forms of equity interests, (b) capital contributions, (c) open account advances with or without interest, (d) loans, and (e) Guarantees issued, provided or arranged in respect of the securities or other obligations of any Intermediate Subsidiaries. Funds for any direct or indirect investment in any Intermediate Subsidiary will be derived from: (a) Financings authorized in this proceeding, (b) any appropriate future debt or equity securities issuance authorization obtained by National Grid Transco from the Commission, and (c) other available cash resources, including proceeds of securities sales by Nonutility Subsidiaries under rule 52. Applicants state that, to the extent that National Grid Transco provides funds or Guarantees directly or indirectly to an Intermediate Subsidiary that are used for the purpose of making an investment in any FUCO or a Rule 58 Subsidiary, the amount of the funds or Guarantees will be included in National Grid Transco's ''aggregate investment'' in those entities, as calculated in accordance with rule 53 or rule 58, as applicable.

National Grid Transco requests authorization to consolidate or otherwise reorganize all or any part of its direct and indirect ownership interests in Nonutility Subsidiaries, and the activities and functions related to such investments. To effect any such consolidation or other reorganization, National Grid Transco may wish to either contribute the equity securities of one Nonutility Subsidiary to another Nonutility Subsidiary (including a newly formed Intermediate Subsidiary) or sell (or cause a Nonutility Subsidiary to sell) the equity securities or all or part of the assets of one Nonutility Subsidiary to another one. National Grid Transco requests authorization to consolidate or otherwise reorganize, under one or more direct or indirect Intermediate Subsidiaries, National Grid Transco's ownership interests in existing and future Nonutility Subsidiaries. Applicants state that these transactions may take the form of a Nonutility Subsidiary selling, contributing, or transferring the equity securities of a subsidiary or all or part of a subsidiary's assets as a dividend to an Intermediate Subsidiary or to another Nonutility Subsidiary, and the acquisition, directly or indirectly, of the equity securities or assets of a subsidiary, either by purchase or by receipt of a dividend. The purchasing Nonutility Subsidiary in any transaction structured as an intrasystem sale of equity securities or assets may execute and deliver its promissory note evidencing all or a portion of the consideration given. Each transaction would be carried out in compliance with all applicable U.S. or foreign laws and accounting requirements. In addition, in the event that proxy solicitations are necessary with respect to any corporate reorganization, Applicants state that they will seek Commission approvals as necessary under section 6(a)(2) and 12(e) of the Act through the filing of a declaration.

National Grid Transco requests authorization to make expenditures on Development Activities, as defined above, in an aggregate amount of up to $600 million. National Grid Transco proposes a ''revolving fund'' for permitted expenditures on Development Activities. Thus, Applicants propose, to the extent a Nonutility Subsidiary in respect of which expenditures for Development Activities were made subsequently becomes a FUCO or qualifies as an ''energy-related company'' under Rule 58, the amount so expended will cease to be considered an expenditure for Development Activities, but will instead be considered as part of the ''aggregate investment'' in such entity under rule 53 or 58, as applicable.

For the Commission by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–50283; File No. SR–Amex–2003–82]

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of Proposed Rule Change and Amendment No. 1 Relating to Auto-Match

August 27, 2004

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on September 9, 2003, the American Stock Exchange LLC (''Amex'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in items I, II and III below, which items have been prepared by the Amex. On August 16, 2004, the Amex amended the proposed rule change.[3] The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to add Commentary .04 to Amex Rule 933 for the purpose of enhancing the Auto-Match feature of the Amex Order Display Book (''AODB'') and to amend Amex Rule 590 to include the failure to sign on and use Auto-Match in the Minor Rule Violation Fine System. Proposed new text is *italicized*, and proposed deletions are [bracketed].

* * * * *

Rule 590. Minor Rule Violation Fine Systems

Part 1 General Rule Violations

(a)–(f) No Change.

(g) The Enforcement Department may impose fines according to the following schedule for the rule violations listed below:

- *Failure to sign on and use the Auto-Match feature of the Amex Options Display Book*

* * * * *

Rule 933. Automatic Execution of Options Orders

(a) No Change.

(b) Broker-dealer orders entered through the Exchange's order routing system will not be automatically executed against orders in the limit order book *unless permitted on a class-by-class basis by the appropriate Options Floor Procedure Committee*. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to the Amex Options Display Book (AODB) for execution *unless permitted to be automatically executed on a class-by-class basis by the appropriate Options Floor Procedure Committee.*

(c) through (h) No Change.

Commentaries

.01 through .03 No Change.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* letter from Jeffrey P. Burns, Associate General Counsel, Amex, to Nancy Sanow, Assistant Director, Division of Market Regulation (''Division''), Commission, dated August 13, 2004 (''Amendment No. 1''). In Amendment No. 1, the Exchange modified proposed Commentary .04 to Amex Rule 933 by providing that orders of a broker-dealer that submitted a customer order for placement on the limit order book, orders from affiliates of a broker-dealer, or orders solicited by a broker-dealer from member or non-member broker-dealers may not execute against the customer limit order on the limit order book, unless the customer limit order is exposed on the book for at least 30 seconds. The Exchange also represented that, similar to the Exchange's automatic execution system (''Auto-Ex''), orders executed through Auto-Match will be at the current national best bid or offer (''NBBO'') so that such orders do not trade through the NBBO.