

SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-27950; International Release No.1283; 70-10236)

National Grid Transco plc

**Supplemental Order Releasing Jurisdiction for Investment in Additional Foreign
Utility Companies; Reserving Jurisdiction**

March 9, 2005

National Grid Transco plc ("NGT"), a registered public utility holding company, London, UK has filed a post-effective amendment ("Application") with the Securities and Exchange Commission ("Commission") under sections 6(a) and 7 of the Public Utility Holding Company Act of 1935, as amended ("Act") and rule 54 under the Act. The Commission issued a notice of the Application on August 30, 2004 (HCAR No. 27888; International Series Release No. 1280).

By order dated September 30, 2004, (HCAR No. 27898) ("September Order"), the Commission authorized NGT and its subsidiaries to engage in certain financing and other transactions. In the September Order, the Commission reserved jurisdiction over, among other things, NGT's issuance of securities to invest an additional \$20 billion in foreign utility companies ("FUCOs"), as that term is defined in section 33 of the Act, pending completion of the record. NGT now requests that the Commission release jurisdiction over this proposed additional investment in FUCOs.

NGT states that as of September 30, 2003, NGT's aggregate investment in FUCOs was \$14.9 billion. As of September 30, 2004, its aggregate investment in FUCOs was \$19.1 billion. NGT states that the increase over the aggregate investment in FUCOs between September 30, 2003 and September 30, 2004 is attributable principally to

movements in guarantees and intercompany loans together with the registration of NGT's subsidiary holding company, National Grid Holdings One plc as a FUCO on April 1, 2004, and the transfer of Lattice Group plc to National Grid Holdings One plc, which resulted in a step-up in basis of the Lattice Group plc investment to its fair market value as of the date of transfer.¹

NGT now requests that the Commission release jurisdiction over \$17 billion and reserve jurisdiction over the remaining \$3 billion of the additional \$20 billion of FUCO investment authorization requested in the September Order. As of September 30, 2004, NGT's aggregate investment in FUCOs was \$19.1 billion and therefore this release of jurisdiction would permit NGT to increase its **[total]** FUCO investment **[authority]** to \$36.143 billion.

NGT asserts that this proposed issuance and sale of securities to finance additional FUCO investments will not adversely affect its financial integrity. NGT states that its senior unsecured debt is currently rated A- by S&P and Baa1 by Moody's.

NGT's consolidated capitalization on a U.S. generally accepted accounting principles ("U.S. GAAP") basis over the recent past is shown in the table below.

¹ National Grid Holdings One plc owns both National Grid Holdings Limited and Lattice Group plc; the FUCOs as of March 31, 2004. As of that date, using the appropriate conversion ratio at that time, NGT's aggregate investment, as defined in rule 53, in FUCOs was \$16,466 million (£8,998 million).

	March 31, 2004		March 31, 2003		March 31, 2002	
	(\$ mm)	(%)	(\$ mm)	(%)	(\$ mm)	(%)
Debt, ²	23,582	59.0	24,041	61.8	11,502	68
Equity	16,408	41.0	14,846	38.2	5,338	32
Total	39,991	100	38,887	100	16,840	100

NGT states that it subjects all FUCO investment proposals to careful and stringent reviews. NGT states that its investment review process includes as one of its objectives, minimizing the risks associated with FUCO activities. Before NGT or its subsidiaries make any investment in a project, the project is analyzed in detail, including the specific country risk, where applicable. The project review process includes a series of independent internal reviews, both at the subsidiary and NGT levels. NGT states that each potential project is subjected to a series of formal reviews to ensure its financial robustness. The process begins with a consideration of NGT's strategic plans, which will be updated periodically according to the planning cycle. Individual project business plans would be prepared as part of the process of including potential investments in the overall business plan of NGT ("Group Business Plan"). NGT states that all projects identified as requiring future funding must be included within the planning cycle. This planning procedure ensures that all capital and non-recurring revenue project expenditures can be justified on business, technical and economic grounds. In addition, project progress will be monitored and subject to normal business control to ensure that approved projects meet their performance targets.

² NGT states that this includes preferred stock and minority interests.

NGT states that the project review process includes consideration of business, financial, regulatory, environmental and legal risks and that foreign projects are subject to an additional level of scrutiny concerning:

- the political and economic stability of the particular country;
- the host government's commitment to private enterprise;
- the legal and regulatory framework for private investment in utility facilities;
- local business support for long-term investment of private capital;
- the economic viability of the project;
- the environmental impact; and
- currency conversion and repatriation of dividends issues.

Project proposals are subject to successive stages of review by senior management and directors depending upon NGT's projected financial exposure in a particular project. NGT states that, generally, the process by which NGT identifies, manages and approves its business development activities, broadly follows the following lines:

- The production of a Project Evaluation Paper ("PEP"), which covers, in outline form, a description of the opportunity, a brief description of the investment environment, the strategic importance of the investment and future actions. The PEP is presented to the group executive for approval.
- The production of a Project Development Paper ("PDP"), which identifies the development strategy for the investment and covers, in outline form, market conditions, competitive position and an action plan. The PDP also is presented to the group executive for approval.

- If an acquisition is contemplated, an Investment Proposal Paper ("IPP") seeking approval for a bid would be prepared. This paper would cover the investment opportunity, a financial appraisal, existing strategy, the transaction, bid details, and planned future actions. The IPP would be used to brief the NGT board to seek their approval of the acquisition.

NGT states that, once development of a project is undertaken, milestones are established to ensure that continuing expenditures produce acceptable results. In addition, project teams are established to identify the major technical, financial, commercial and legal risks associated with a particular project and risk mitigation strategies. NGT states that the process follows the following broad outline:

- undertake due diligence;
- prepare valuation;
- prepare business plan;
- obtain internal approvals;
- obtain acquisition financing;
- develop corporate and tax structure;
- prepare corporate communications plan;
- prepare and submit bid/offer; and
- prepare post acquisition plan

NGT states that the final project review process in many cases may be duplicated by lenders that may agree to provide construction or permanent debt financing on a non-recourse basis, since repayment of that debt will depend solely upon the success of the project.

NGT states that its system of internal controls is designed to safeguard shareholders' investment and the group's assets. The process of managing material risks to the achievement of business objectives is an ongoing process conducted at all levels of the group. NGT states that all parts of the group are required to capture and report, in a standard format, their key business risks, categorize all risks to highlight the sources of risk, subjectively score risks to reflect both the financial and reputational impact of the risk and the likelihood of its occurrence, and validate and approve the risk report with the participation of local management. NGT states that material changes in risks and associated responsive actions are reported periodically through a network of risk coordinators throughout the group to maintain a current perspective on overall group risks. NGT states that a risk steering group chaired by the general counsel of NGT provides direction and impetus to the implementation of risk management at all levels of the group, acts as a catalyst for change and provides visible senior executive support to the process.

NGT's aggregate investment in FUCOs currently exceeds the "safe harbor" afforded by rule 53(a) because its "aggregate investment" (as defined in rule 53(a)(1)) exceeds 50% of its "consolidated retained earnings" (also as defined in rule 53(a)(1)). At September 30, 2004, NGT's current aggregate investment in FUCOs was £10.635 billion (\$19.143 billion), while its consolidated retained earnings calculated in accordance with US GAAP were £ 2.7 billion (\$4.860 billion). Combined with the additional FUCO investment authorization of \$17 billion requested in this Application, NGT's aggregate authorized investment in FUCOs would be \$36.1 billion during the Authorization Period.

This amount would be 744% of the September 30, 2004 consolidated retained earnings, excluding OCL. NGT has no EWG investments.

At September 30, 2004, NGT's consolidated capitalization consisted of 38.3% equity, 61.5% debt and 0.2% preferred stock issued by subsidiaries. In accordance with the September Order, NGT has committed to maintain a consolidated common equity ratio (subject to certain qualifications), of at least 30%. NGT asserts that the proposed transactions will have no adverse impact on its ability to meet that commitment.

NGT satisfies the other conditions of paragraphs (a) and (b) of Rule 53, except that the books and records of its FUCO subsidiaries are maintained in accordance with UK GAAP, rather than US GAAP. NGT is in compliance with the limit in rule 53(a)(3) which provides that no more than 2% of the employees of NGT's U.S. public utility companies ("Utility Subsidiaries") may render services, at any one time, directly or indirectly, to FUCOs in which NGT directly or indirectly holds an interest. Further, in accordance with rule 53(a)(4), NGT has provided a copy of the Application in this matter to each regulator referred to below, and NGT will comply with the rule's other requirements concerning the furnishing of information. None of the circumstances enumerated in subparagraphs (1), (2) and (3) of rule 53(b) is currently triggered.

NGT's investments in FUCOs will be segregated from the Utility Subsidiaries and none of the Utility Subsidiaries will provide financing for, extend credit to, or sell or pledge its assets directly or indirectly to any FUCO in which NGT owns any interest. In addition, the record states that FUCO investments will not have any negative impact on the ability of the Utility Subsidiaries to fund operations and growth. The Utility

Subsidiaries will continue to have financial facilities in place or access to NGT financing facilities that will adequately support their operations.

In addition, NGT states that the proposed FUCO financing authorization will not have an adverse impact on the ability of any state commission to protect the Utility Subsidiaries or their customers. The Commission received letters from the state commissions which have jurisdiction over the Utility Subsidiaries stating that, NGT's investment in FUCOs will not have an adverse impact on the respective state commission's ability to protect the Utility Subsidiaries or their retail customers.³

Applicants (as defined in the September Order) request that the Commission continue to reserve jurisdiction over: (a) 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 Investment Grade Condition is not satisfied and (b) the participation of any NGT System company in the Money Pool, other than the Utility Subsidiaries and ServiceCo, as a borrower.

NGT states that the fees, commissions and expenses to be paid or incurred by NGT directly or indirectly in connection with the preparation of this Application are estimated to be approximately \$8,000. NGT states that no state commission and no federal commission, other than the Commission, has jurisdiction over the relief requested in this Application.

³ The Commission received letters from the Massachusetts Department of Telecommunications and Energy dated September 24, 2004; the Rhode Island Public Utilities Commission dated September 23, 2004, the New Hampshire Public Utilities Commission dated November 29, 2004 and the State of New York Department of Public Service dated December 1, 2004.

Due notice of the filing of this Application, as amended, has been given in the manner prescribed in rule 23 under the Act, and no hearing has been requested of, or ordered by, the Commission. On the basis of the facts in the record, it is found that, except as to those matters over which jurisdiction has been reserved, the applicable standards of the Act and rules under the Act are satisfied, and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that, except as to those matters over which jurisdiction has been reserved, the Application, as amended, be granted and permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

IT IS FURTHER ORDERED that jurisdiction be reserved over authority for: (a) \$3 billion of the requested FUCO investment authorization, (b) 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 Investment Grade Condition is not satisfied and (c) the participation of any NGT System company in the Money Pool, other than the Utility Subsidiaries and ServiceCo, as a borrower.

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

Margaret H. McFarland
Deputy Secretary