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NATIONAL GRID GROUP PLC
Form POS AMC
January 25, 2002

File No. 70-9849

United States Securities and Exchange Commission
Washington, D.C. 20549

Post-Effective
Amendment No. 1 to
Form U-1
Application/Declaration
Under the
Public Utility Holding Company Act of 1935

| | |
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| National Grid Group plc (to be renamed National Grid Holdings One plc) | New England Power Company Massachusetts Electric Company The Narragansett Electric Company |
| New National Grid plc (to be renamed National Grid Group plc) | Granite State Electric Company Nantucket Electric Company New England Electric Transmission Corporation |
| National Grid (US) Holdings Limited | New England Hydro-Transmission Corporation New England Hydro-Transmission Electric Co. Inc. |
| National Grid (US) Investments 4 | Vermont Yankee Nuclear Power Corporation Wayfinder Group, Inc. |
| National Grid (US) Partner 1 Limited | NEES Energy, Inc. EUA Energy Investments Corp. |
| National Grid (US) Partner 2 Limited | National Grid Transmission Services Corp. National Grid USA Service Company Inc. |
| NGG Finance plc 15 Marylebone Road London NW15JD United Kingdom | Metrowest Realty LLC National Grid USA National Grid Holdings Inc. 25 Research Drive Westborough, MA 01582 |
| National Grid General Partnership c/o RL&F Service Corp. One Rodney Square Wilmington, New Castle County, DE 19801 | Niagara Mohawk Holdings, Inc. Niagara Mohawk Power Corporation Opinac North America, Inc. 300 Erie Boulevard West Syracuse, New York 13202 |

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

New National Grid plc
(Name of top registered holding company)

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Kirk L. Ramsauer
Deputy General Counsel
National Grid USA
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Gary J. Lavine
Senior Vice President and Chief Legal
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Niagara Mohawk Holdings, Inc.

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(Names and addresses of agents for service)

The Commission is also requested to send copies
of any communication in connection with this matter to:

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Defined Terms

| Term | Definition |
|----------------------|---|
| National | Grid New National Grid plc (to be renamed National Grid Group plc), the proposed successor to NGG according to the Restructuring. |
| NGG | National Grid Group plc., the current registered holding company parent of the system and, post-Restructuring, a subsidiary of National Grid and top-level FUCO holding company. Post-Restructuring NGG will be renamed National Grid Holdings One plc. |
| NiMo | Niagara Mohawk Holdings, Inc. |
| Niagara Mohawk | Niagara Mohawk Power Corporation. |
| Utility Subsidiaries | All current National Grid USA public utility subsidiary companies and Niagara Mohawk. |

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| | |
|-------------------------|--|
| Nonutility Subsidiaries | All nonutility subsidiary companies set forth in Exhibit L-1 (including the nonutility subsidiaries of National Grid USA, NiMo and its nonutility subsidiaries, and CNP Limited and CNP Inc). The term Nonutility Subsidiaries also includes other direct or indirect subsidiaries of National Grid USA that are formed or acquired in accordance with an order of the Commission or applicable exemption subsequent to the issuance of an order by the Commission in this file. |
|-------------------------|--|

| | |
|--------------|---|
| Subsidiaries | The Utility Subsidiaries and the Nonutility Subsidiaries, collectively. |
|--------------|---|

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|----------------------|--|
| National Grid System | National Grid and all its associate companies. |
|----------------------|--|

| | |
|-------------------------|---|
| National Grid USA Group | National Grid USA and its direct and indirect subsidiaries. |
|-------------------------|---|

| | |
|------------------------|---|
| Intermediate Companies | All holding companies in the chain of ownership of National Grid USA that are direct or indirect subsidiaries of NGG (currently) or National Grid (post-Restructuring) 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. |
|------------------------|---|

This Post-effective Amendment No. 1 revises the Form U-1 Application-Declaration in File No. 70-9849, subsequent to the issuance by the Commission of an order in this matter, National Grid Group plc, et al, Holding Co. Act Release No. 27490 (January 16, 2002). This amendment revises Item 1.E.3.(h) of the filing, relating to Applicant's proposed tax allocation agreement, by amending and restating such subsection as follows.

Item 1. Description of the Proposed Transaction

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(h) Tax Allocation Agreement

In the NEES Acquisition Order, the Commission authorized NGGP and the National Grid USA Group to enter into an agreement to allocate consolidated taxes. The agreement permitted NGGP to retain the value of the tax deduction associated with the debt incurred by NGG to finance the NEES and EUA acquisitions. Applicants propose to amend the National Grid USA Group tax allocation agreement to add NiMo and its subsidiaries as members. Consistent with the relief granted in the NEES Acquisition Order, Applicants request that the Commission authorize NGGP, its direct subsidiary, National Grid Holdings Inc. ("NG Holdings"), or its agent, a direct special purpose subsidiary, (collectively, "NGGP"), to retain: (a) the value of the tax deduction associated with the debt incurred by National Grid to finance the Merger and; (b) the value of deductions for merger and acquisition related expenses that are prohibited from being charged or allocated to National Grid USA's subsidiaries (collectively, the "Tax Benefits")./1/ Such merger and acquisition related expenses include various costs allocated to merger and acquisition projects that failed to result in a completed transaction. Applicants request that the Commission reserve jurisdiction over the retention of the value of the expenses described in (b) above, until the record is complete with respect to this matter.

/1/ The NEES Acquisition Order provides that "charges associated with future mergers and acquisitions may be allocated to NEES [now, National Grid USA] and/or to other National Grid Group companies, but not to the NEES Subsidiaries." NEES Acquisition Order Appendix C at C-2. Because these charges are not borne by the subsidiaries they are in all relevant respects equivalent to the acquisition-related debt interest expense.

The Tax Allocation Agreement provides for the retention by NGGP of the Tax Benefits, rather than the allocation of such Tax Benefits to subsidiary companies without payment as would otherwise be required by Rule 45(c)(5). The form of proposed Tax Allocation Agreement is attached as Exhibit Q-1. If not reinvested in National Grid USA or another business, National Grid expects that funds retained by NGGP under the tax allocation agreement will flow up the chain of Intermediate Companies to National Grid through dividends, interest payments, share repurchases and the repayment of principal. On an annual basis, subsequent to the filing of the consolidated tax return and the remittance of payment from associate companies participating in the consolidated filing to NG Holdings for the value of the tax deduction associated with the debt incurred directly or indirectly by National Grid to finance the Merger, National Grid will use such amount for the sole purpose of paying debt service on the Merger debt and the reduction of the outstanding principal of such Merger debt.

Provisions in a tax allocation agreement between a registered holding company and its subsidiaries must comply with Section 12 of the Act and Rule 45 thereunder. Rule 45(a) of the Act generally prohibits any registered holding company or subsidiary company from, directly or indirectly, lending or in any manner extending its credit to or indemnifying, or making any donation or capital contribution to, any company in the same holding company system, except pursuant to a Commission order. Rule 45(c) provides that no approval is required for a tax allocation agreement between eligible associate companies in a registered holding company system, that "provides for allocation among such associate companies of the liabilities and benefits arising from such consolidated tax return for each tax year in a manner not inconsistent with" the conditions of the rule. Of interest here, Rule 45(c)(5) provides that:

The agreement may, instead of excluding members as provided in

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paragraph (c)(4), include all members of the group in the tax allocation, recognizing negative corporate taxable income or a negative corporate tax, according to the allocation method chosen. An agreement under this paragraph shall provide that those associate companies with a positive allocation will pay the amount allocated and those subsidiary companies with a negative allocation will receive current payment of their corporate tax credits. The agreement shall provide a method for apportioning such payments, and for carrying over uncompensated benefits, if the consolidated loss is too large to be used in full. Such method may assign priorities to specified kinds of benefits. (Emphasis added.)

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Under the rule, only "subsidiary companies," as opposed to "associate companies" (which includes the holding company in a holding company system), are entitled to be paid for corporate tax credits. However, if a tax allocation agreement does not fully comply with the provisions of Rule 45(c), it may nonetheless be approved by the Commission under Section 12(b) and Rule 45(a).

In connection with the 1981 amendments to Rule 45, the Commission explained that the distinction between associate companies, on the one hand, and subsidiary companies, on the other, represented a policy decision to preclude the holding company from sharing in consolidated return savings. The Commission noted that exploitation of utility companies by holding companies through the misallocation of consolidated tax return benefits was among the abuses examined in the investigations underlying the enactment of the 1935 Act. Holding Co. Act Release No. 21968 (March 25, 1981), citing Sen. Doc. 92, Part 72A, 70th Congress, 1st Sess. at 477-482. It must be noted, however, that the result in Rule 45(c)(5) is not dictated by the statute and, as the Commission has recognized, there is discretion on the part of the agency to approve tax allocation agreements that do not, by their terms, comply with Rule 45(c) -- so long as the policies and provisions of the Act are otherwise satisfied. In this matter, where the holding company (i.e., NGGP) is seeking only to receive payment for Tax Benefits that have been generated by it, in the limited and discrete circumstances where the benefits arose in connection with acquisition-related debt and merger and acquisition expenses, the proposed arrangement will not give rise to the types of problems (e.g., upstream loans) that the Act was intended to address. Compare Section 12(a) of the Act. It is also important to note that the tax allocation agreement provides that "under no circumstances shall the amount of tax allocated to a Member exceed its separate tax liability." Consequently, the National Grid USA group is effectively insulated from the financial abuses targeted by the Act. For these reasons, the Applicants request that the Commission approve the Tax Allocation Agreement. A memorandum included as Exhibit Q-2 to the Application provides further arguments in support of the proposed tax allocation relief.

* * * * *
SIGNATURE

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

Date: January 25, 2002 National Grid Group plc
 New National Grid plc
 National Grid (US) Holdings Limited
 National Grid (US) Investments 4
 National Grid (US) Partner 1 Limited

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National Grid (US) Partner 2 Limited
NGG Finance plc
New England Power Company
Massachusetts Electric Company
The Narragansett Electric Company
Granite State Electric Company
Nantucket Electric Company
New England Electric Transmission Corporation
New England Hydro-Transmission Corporation
New England Hydro-Transmission Electric Co. Inc.
Vermont Yankee Nuclear Power Corporation
Wayfinder Group, Inc.
NEES Energy, Inc.
EUA Energy Investments Corp.
National Grid Transmission Services Corp.
National Grid USA Service Company Inc.
Metrowest Realty LLC
National Grid USA
National Grid General Partnership
National Grid Holdings Inc.

By: /s/ John G. Cochrane

John G. Cochrane
Vice President
National Grid USA

Date: January 25, 2002 Niagara Mohawk Holdings, Inc.
Niagara Mohawk Power Company

By: /s/ Gary J. Lavine

Gary J. Lavine
Senior Vice President and Chief Legal Officer
Niagara Mohawk Holdings, Inc.