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National Grid, KeySpan Complete \$11.8B Merger



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AUGUST 27, 2007

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National Grid plc Friday announced that it completed its \$11.8 billion, 100% debt-financed acquisition of KeySpan Corp. Closure of the transaction came two days after the merger received its last regulatory approval from the New York Public Service Commission (see [Daily GPI](#), Aug. 23).

The deal makes London-based National Grid the second largest utility in the United States, delivering electricity to approximately 3.3 million customers and natural gas to about 3.4 million customers in Massachusetts, New Hampshire, New York and Rhode Island. It will supply power to more than one million customers on Long Island and about one-quarter of New York City's electricity needs, the company said.

The merger is expected to net ratepayers substantial benefits, estimated at more than \$700 million over a 10-year period, according to the New York PSC. More than half of the savings (\$494 million) will go to KeySpan customers on Long Island and New York City, while about \$100 million will flow to National Grid's upstate customers and \$93 million will go to customers of affiliate Long Island Power Authority. Included in the settlement in principle reached with state regulators in July is a five-year rate freeze for gas customers (see [Daily GPI](#), July 10).

After the settlement was announced, as worldwide stock and credit markets began to slide, New York regulators became concerned about the financial risks associated with the totally leveraged deal. At the last minute they

attached a wide range of protections for ratepayers against any default by the parent company.

“We are totally committed to making sure our customers and shareholders receive the benefits coming from this merger. The substantial opportunities for cost savings are clear, and with our investment capability we can really unlock KeySpan’s growth potential,” said National Grid CEO Steve Holliday.

Under the terms of the merger, which was announced in February 2006, KeySpan will become a wholly owned subsidiary of National Grid and will continue to operate as KeySpan. It is the largest distributor of natural gas in the Northeast, serving 2.6 million gas customers. KeySpan is the largest electric generator in New York State as well, owning approximately 6,650 MW of generating capacity to supply power to Long Island and New York City.

Through a series of acquisitions starting in 2000, National Grid has developed an eastern U.S. conglomerate that distributes electricity to approximately 3.4 million customers in Massachusetts, New Hampshire, New York and Rhode Island and natural gas to approximately 814,000 customers in New York and Rhode Island. The company also owns and operates the high-voltage electricity transmission network and the high-pressure gas transmission system in Great Britain.

In September 2000, the company announced a deal to acquire Niagara Mohawk Holdings for \$8.9 billion in cash. That deal followed National Grid’s acquisition of the New England Electric System of Westborough, MA, for \$4.7 billion in cash and assumed debt and its \$1.03 billion cash and assumed debt acquisition of Eastern Utilities Associates of Boston.

With the closure of the merger, the United Kingdom firm’s grid will include KeySpan’s Boston Gas and the old Brooklyn Union Gas, and New England Gas. KeySpan has been on its own acquisition campaign during the past decade, adding major eastern utilities such as Boston Gas and Long Island Lighting.

With the acquisition of KeySpan’s 6,000 MW of power generation in the New York area, the combined company will serve the power needs of the Long Island Power Authority. Other KeySpan assets include a 20.4% interest in

Iroquois Gas Transmission, a 50% interest in the proposed Islander East pipeline and a 20% interest in Millennium Pipeline. It also has interests in New York-area gas storage facilities.

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ISSN © 1532-1231		ISSN © 2577-9877
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