

September 22, 2005

NAME

ADDRESS

(list of recipients attached)

Dear Sir/Madam:

In an August 29, 2005 letter to the State Working Group members, National Grid USA provided comment on the proposed Regional Greenhouse Gas Initiative (RGGI) model rule. One of our primary concerns related to the means by which emission allowances are provided to generators. We provided a compelling case for the auction of emission allowances with the proceeds directed back to electric customers to mitigate the electricity price increases expected under the RGGI program.

As a means of providing a more robust explanation of our position regarding the treatment of allowances, we commissioned the economic analysis firm of LECG, LLC of Washington, DC to evaluate the issue of allowance allocation and provide an opinion within a white paper on how the electricity market is likely to behave under a number of allocation scenarios. A copy of the text of white paper developed by LECG is attached for your review.

The white paper provides a compelling explanation of why generators are expected to add the market value of the emission allowances to their electricity price bids regardless of whether the allowances are auctioned or given to the generators at no cost. As such, we continue to advocate for a substantial portion of the allowances to be auctioned with the proceeds to be directed back to electric customers to mitigate the electricity price increases expected under the RGGI program.

Very truly yours,

*s/ Joseph M. Kwasnik*

Joseph M. Kwasnik, Vice President  
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