

May 22, 2006

Mr. Franz Litz  
Climate Change Policy Coordinator  
New York State Department of Environmental Conservation  
625 Broadway  
Albany, NY 12233-1010

RE: Comments on RGGI Draft Model Rule

Dear Mr. Litz:

National Grid is an electric and natural gas distribution and transmission company that provides electric and gas service to over 3 million electric and gas customers in the Northeastern United States. We have participated and continue to participate as a stakeholder in the Regional Greenhouse Gas Initiative (RGGI) since its inception and would like to offer our comments on the RGGI Draft Model Rule.

National Grid's comments are provided to ensure that our electric customers in the participating RGGI states are not economically disadvantaged nor subjected to energy costs that are artificially inflated due to the allowance trading mechanisms established by RGGI.

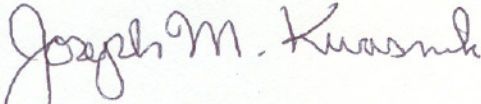
National Grid's comments are as follows:

- The Draft Model Rule currently specifies distribution of 25% of the carbon dioxide allowances through auction or similar mechanism with the proceeds being utilized for public benefit purposes. We strongly believe that a carbon dioxide allocation mechanism should minimize the impact on electric customers. In order to accomplish this goal, all carbon dioxide allowances should be auctioned to generators with all proceeds used for direct electric customer rebates or for energy efficiency improvements.
- Given the uncertainties of this new and relatively untried carbon dioxide allowance trading system, we are willing to endorse a phase in of the sale of 100% of the allowances over a period of 5 years with 25% of the allowances going to auction in the first year of the RGGI program and gradually accelerating to 100% in the 5<sup>th</sup> year.

- We also support the utilization of the electric distribution companies as the means of conducting the auction of the allowances and directly rebating the proceeds of the auction back to electric customers in a fair and equitable manner or to energy efficiency improvements.

I have also attached a White Paper commissioned by National Grid which discusses the economic advantages of an auction system versus a free distribution of allowances to generators.

Very truly yours,



Joseph M. Kwasnik  
Vice President-Environmental

Attachment