nationalgrid

August 29, 2005

NAME
ADDRESS
(list of recipients attached)

Dear Sir/Madam:

National Grid USA is a major electricity and natural gas delivery company with one of the largest distribution and transmission systems in the Northeast. Our five U.S. electricity distribution companies serve approximately 3.2 million customers over a network of 72,000 miles of distribution line covering approximately 29,000 square miles in New England and New York. Our electricity transmission companies own and operate approximately 14,000 miles of electricity transmission and sub-transmission lines in New England and New York.

We recognize that global climate change is a reality and as a responsible company we should help to protect the environment for future generations by making our contribution to minimizing climate change. As such we offer the following comments on the developing Regional Greenhouse Gas Initiative (RGGI)

Given the current state of uncertainty concerning the final form and direction of the RGGI model rule and a number of other concerns described below, National Grid cannot, at this time, offer support for the draft RGGI rule proposal on the table. However, National Grid will review this position once the RGGI model rule has been completed and issued.

As you are likely aware, National Grid has been a member of the RGGI Stakeholder Group since the inception of the RGGI program in early 2004. As such, we have been a participant in the development of and the planning for implementation of the RGGI Model Rule. We are very interested in and concerned about the direction and scope of the Model Rule and its potential impact on electricity customers. Although we are uncertain of the short or long term likelihood of implementation of a national greenhouse gas initiative to reduce greenhouse gas emissions, we do understand that the RGGI Model Rule and its possible implementation within the RGGI states could provide a useful model for a national program.

We understand that the RGGI Model Rule is likely to take the direction of a CO2 cap and trade program focused on large fossil fired electricity generators. If such a program is implemented, it must be at the least possible cost to electricity customers. We understand that various econometric models have been run to understand the economic impacts of the RGGI Model Rule and forecast only modest increases in electricity costs within the RGGI region. Unfortunately, these increases will occur contemporaneously with other

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increases in electricity pricing as a result of implementation of renewable portfolio standards, increases in the price of natural gas and, possibly, implementation of a locational installed capacity market (LICAP). Furthermore, all of these increases taken in concert will surely exacerbate the economic development challenges of our region in today's domestic and global marketplace.

We also understand that the RGGI State Working Group is considering, among other options, the assignment of CO2 emission allowances to the electric generator companies at no cost. Incorporation of this option within the Model Rule could prove to be an unwise decision for its potential adverse affect on electricity costs. As is believed by a number of RGGI stakeholders, the electric generator companies are expected, under the competitive wholesale markets, to simply add the market value of the allowances to their bid offers. This has been the case in other emissions markets (e.g., California) as emissions credits (e.g., NOx allowances) allocated to historical emitters at no cost are available for sale to other generators at their market value and thus represent a legitimate competitive market opportunity cost.[1] The economic impact can be substantial as the highest bid price that clears the ISO market would inevitably include the market value of CO2 emission allowances, thus increasing the clearing price for all wholesale energy transactions on the margin. This would result in electric customers not only paying for the allowances through increased electricity prices but also losing the market value of the allowances if they are given to the generating companies. As in any free market, the electric generating companies should bear the full cost of generating electricity including the purchase of CO2 and other emission allowances at their market value, cost of fuel, maintenance expenses and cost of capital and pass those reasonable costs along to the electricity customer through the operation of the regional electricity market.

We strongly encourage the RGGI State Working Group to design a program that will minimize its impacts on electricity customers and maximize the reductions in greenhouse gas emissions. Proceeds from sales of CO2 allowances through a region-wide auction should be used for the benefit of customers to mitigate the expected increases in the cost of electricity, preferably via direct rebates to electricity customers, or through a combination of rebates and other expenditures for the benefit of customers. In addition, offsets encouraging the reduction of SF6 gas and natural gas emissions should also be created to encourage the reduction of these other potent greenhouse gas emissions in an economic manner.

We would be happy to meet with you to further discuss our position.

Very truly yours,

s/Joseph M. Kwasnik

Joseph M. Kwasnik, Vice President
Environmental Department

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[1] See California's Energy Crisis, Paul L. Joskow, MIT, Oxford Review of Economic Policy, Vol. 17, No. 3, pp. 15 & 16, at http://econ-www.mit.edu/faculty/download_pdf.php?id=551.

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