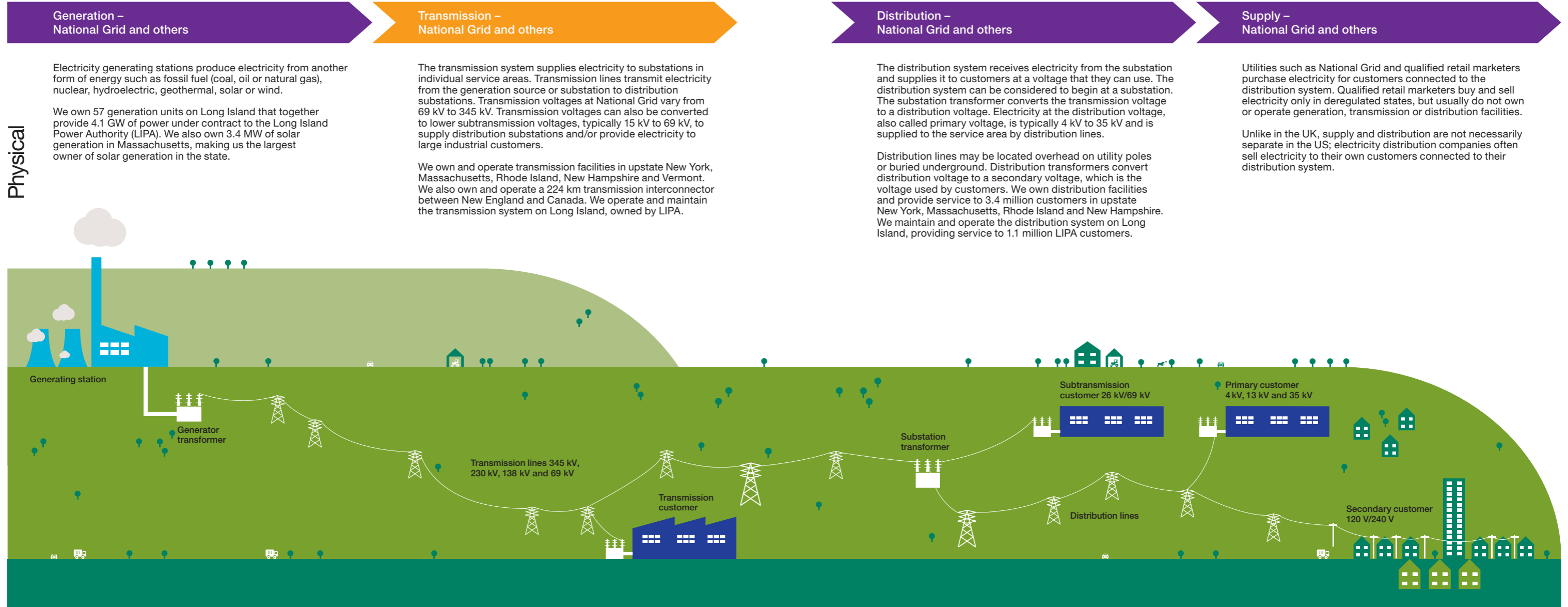


How the US electricity industry works

Physical



Commercial

Utilities may generate all the electricity they sell or may purchase electricity on the wholesale market from other utilities, independent power producers, power marketers or from a market based on membership in a regional transmission reliability organisation such as an independent system operator (ISO).

We purchase electricity through the New York ISO and ISO New England for transmission and distribution to our customers. We also contract directly with generators to purchase electricity.

All available power from our Long Island generation facilities is made available to the New York ISO market to meet the Long Island Power Authority's requirements and for sale to others.

The independent system operators operate as independent administrators for the oversight of electricity transmission while providing fair and open access to the electricity grid. Each independent system operator is the clearing house for load serving entities' bids to purchase electricity and generating stations' offers to sell electricity. New York ISO and ISO New England markets determine the wholesale energy price for New York and New England respectively.

We are permitted to recover the cost of electricity transmission across the regional grid from our customers as a transmission service charge.

Distribution rates are regulated by the state public utility commissions. Utility distribution facilities provide electricity services to end users. This contrasts with the UK, where distribution companies do not sell electricity to end users.

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered, without a profit margin, and a delivery rate, covering our delivery service.

In deregulated states, which includes all the states in which we operate, consumers have the option to select their energy supply from the incumbent utility or retail marketers/energy supply companies.

Where customers choose National Grid, those customers pay us for distribution and commodity cost. Where they choose to purchase from third parties, they pay us for distribution only and pay the third party supplier for the commodity.