National Grid’s U.S. Environmental Report
Fiscal Years 2004/2005
Pursuing Environmental Excellence
The Red-spotted Newt, also known as the Eastern Newt, in its Eft stage.

The Red-spotted Newt and many species of amphibians are hatched in water, including vernal pools, throughout the Northeast in the spring time. Today, vernal pools are as threatened as the species they harbor. National Grid’s Paul Richards (photo page 28) has co-authored a paper recommending new “standards of care” to help National Grid and others in the power industry protect vernal pools and their inhabitants within electrical transmission rights of way.
A Message from the CEO

At National Grid we are as proud of our reputation for delivering energy safely, reliably and efficiently, as we are of our efforts to protect the environment for future generations. Our commitment to the environment is more than just a priority. It is the way we do business.

Each day at National Grid we apply our own natural resources to protecting the environment...our people. From a service technician on a house call to an administrator in our Westborough, Massachusetts headquarters, National Grid employees are encouraged to apply innovative thinking to reduce waste, prevent pollution and improve our environmental performance. With our commitment to helping meet the needs of customers both today and for generations to come, the people of National Grid are identifying and adopting environmentally sustainable practices and working to minimize the impact our operations might have on the environment.

Over the last two years we have done much to clean up hazardous waste sites, reduce pollution, recycle waste and preserve land for future generations. We expanded our commitment to the EPA SF, Emission Reduction Partnership, a voluntary program to reduce emissions of sulfur hexafluoride (SF6), a highly potent greenhouse gas used for insulation in electric transmission and distribution equipment. We took steps to reduce methane gas leakage in New York by replacing old cast iron natural gas distribution mains with polyethylene pipe. We continue to promote the purchase of electricity from such non-polluting sources as wind, solar, biomass and small hydro resources and to provide technical and financial assistance for customer energy conservation. And our foresters and environmental engineers took steps to protect the wildlife that thrives on our more than 8,700 miles of transmission rights of way.

Within this report you will meet some of the many National Grid employees who monitor the environmental impact of our business activities. You'll find details on our strategies, policies and programs. And you'll learn about our successes and challenges in the area of environmental performance.

Finally, at National Grid we strive to build mutual understanding and respect through open communication with our employees and all of our stakeholders – investors, customers, regulators and neighbors. Your input is important to us. We welcome your feedback on this report and encourage your suggestions.

Thank you for your ongoing support.

Mike Jesanis
President and Chief Executive Officer
National Grid USA
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Note: This National Grid Environmental Report covers the company’s fiscal year 2004 (April 1, 2003 through March 31, 2004) and fiscal year 2005 (April 1, 2004 through March 31, 2005). Reference to data and information associated with a National Grid fiscal year is always prefaced with “fiscal year” or “FY”. All years not prefaced with “fiscal year” are to be regarded as calendar years.

National Grid Transco Ranked #1 for Environmental and Sustainability Reporting

In July, 2005, the Robert’s Environmental Center at Claremont McKenna College of Claremont, CA released their rankings for environmental and sustainability reporting by the world’s largest energy and utility companies. National Grid Transco was the leader among the 46 companies studied. See page 36

National Grid’s U.S. service territory.
Company Profile

National Grid USA, a wholly owned subsidiary of National Grid plc, is focused on delivering energy safely, reliably and efficiently.

In the United States, we are a major electricity delivery company, with one of the largest distribution and transmission systems in the Northeast. In New York, we are also a leading distributor of natural gas.

In England and Wales, National Grid owns and operates the high voltage electricity transmission system, and the company delivers natural gas to millions of homes in Britain.

As one of the world’s largest utilities, we believe that a responsible approach to doing business is fundamental. We strive to act in a sustainable manner as a business, in our social role, and in how we interact with the environment.

### National Grid plc/Financial Highlights

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues ($m)</td>
<td>17,181</td>
<td>16,510</td>
<td>15,575</td>
</tr>
<tr>
<td>Basic earnings (loss) per share (¢)</td>
<td>23.2</td>
<td>64.0</td>
<td>53.9</td>
</tr>
<tr>
<td>Dividends per share (¢)</td>
<td>31.4</td>
<td>36.2</td>
<td>43.3</td>
</tr>
<tr>
<td>Total Assets ($m)</td>
<td>45,519</td>
<td>42,765</td>
<td>45,167</td>
</tr>
<tr>
<td>Total Debt ($m)</td>
<td>35,278</td>
<td>32,858</td>
<td>34,633</td>
</tr>
</tbody>
</table>

Note: Financial results are converted from the British pound and expressed at the exchange rate on 6/27/05

### National Grid US Operating Companies

#### Electricity Transmission and Distribution

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.

**Distribution Facts**

- 1.5 million electricity customers in 669 New York communities
- 1.2 million customers in 168 Massachusetts communities
- 465,000 customers in 38 Rhode Island communities
- 38,000 customers in 21 New Hampshire communities
- 10,000 year-round customers on the island community of Nantucket

National Grid owns and operates approximately 14,000 miles of electricity transmission and sub-transmission (23 kV and up) lines in New England and New York. We operate two converter facilities and high voltage direct current transmission lines as part of a New England-Hydro Quebec interconnection.

#### Natural Gas Distribution

National Grid delivers natural gas to more than 550,000 customers in 197 communities in central and eastern New York. The company maintains more than 8,400 miles of main and distribution pipe across a 4,500 square mile service territory.

#### Telecommunications Services

National Grid supports the telecommunications industry with infrastructure and turnkey services and provides dark fiber optic capacity and related services to business, telephone companies and wireless providers.
National Grid plc Rated #1 and #2 by Business in the Community

Business in the Community (BITC) is a UK organization with more than 700 member companies and a further 1600 participating in programs and campaigns. BITC was created over 20 years ago to inspire, challenge, engage and support business in continually improving its positive impact on society. The BITC Corporate Responsibility Index was set up in 2002, and has quickly established itself as the authoritative voluntary benchmark of responsible business practice - over 140 companies are now using the benchmark. National Grid plc’s worldwide operations were rated first in the index in 2003 and second in 2004. National Grid plc is also a constituent of the Dow Jones Sustainability World Index and FTSE4Good, both of which track companies with high standards of environmental and social performance.

Framework for Responsible Business

Sustainable Growth, Profits with Responsibility, Investing in the Future

National Grid is guided by the Framework for Responsible Business, which was created with input from thousands of employees, as well as investors, customers, regulators and media. The Framework sets out the principles by which we can grow our business and deliver long-term shareholder value, while making a positive contribution to society. It provides the context for our approach to corporate governance and is supported by policies addressing issues such as safety, business ethics and the environment. In The Framework for Responsible Business we commit ourselves to protecting the environment for future generations, including minimizing our contribution to climate change. For the complete Framework for Responsible Business document and our comprehensive Environmental Policy visit www.nationalgrid.com.

Committed to the Environment

National Grid is committed to the protection and enhancement of the environment, always seeking new ways to minimize the impact of our past, present and future activities. We believe that every employee can contribute to exemplary environmental performance, as we incorporate environmental considerations into all of our business practices.

Key Components of Our Environmental Management System

Through the adoption of environmentally sustainable business practices, National Grid is striving to be part of a new era of commerce in which human and business needs don’t deplete living systems. Our comprehensive environmental program breaks down into five key areas.

1. Leadership, management systems and training
2. Programs promoting energy efficiency and conservation and renewable resources
3. Waste reduction, pollution prevention and contaminated site remediation
4. Environmental stewardship
5. Performance measurement and goal setting
Leadership, Management Systems and Training

Leadership
National Grid USA’s environmental group is led by Joe Kwasnik with managers, scientists and engineers based across the service area. They set environmental goals and work to ensure that we are in compliance with regulatory requirements and corporate environmental policies. The department of 40 full-time professionals includes engineers and scientists who investigate contaminated sites and manage remediation. Other engineers and scientists help our transmission and distribution organizations monitor environmental requirements associated with line construction, maintenance and operations. Six Forestry Department professionals work to ensure the protection of plant and animal life within our rights-of-way.

Management Systems
Our Environmental Management Systems (EMS) have matured over the past decade, and continued refinements are helping us improve our environmental performance. We adhere to the international consensus standard for Environmental Management Systems, ISO 14001, which

“As an environmentalist and avid outdoor enthusiast, I am keenly aware of the issue of sustainability and the importance of the work we do to keep National Grid on-track as a responsible corporate leader in environmental performance.”

Joe Kwasnik
Vice President-Environmental
we adopted in 2000. (Visit www.nationalgrid.com for a description of the ISO 14001 standard.)

This standard is helping us better manage compliance assurance and environmental performance, and has facilitated other improvements to our overall EMS.

| Number of Employees Working Under Environmental Management Systems in Accordance with ISO 14001 |
|-------------------------------------|-----------------|-----------------|-----------------|
| Fiscal Year                        | 2003            | 2004            | 2005            |
| Transmission                       | 130             | 184             | 189             |
| Investment Recovery                | 18              | 18              | 18              |
| Distribution                       | 6,703           | 6,600           | 5,846           |
| T&D Technical Services             | -               | 1,100           | 1,122           |
| Totals                             | 6,851           | 7,902           | 7,173           |

Note: In FY2005 National Grid reorganized resulting in fewer employees in Distribution than in 2003 and 2004.

Training
National Grid’s Environmental Training Program ensures that employees involved in activities that can impact the environment receive special training. Each year National Grid provides selected employees with classroom training on the company’s Environmental Policy, Environmental Management Systems and environmental and operating procedures. All employees are encouraged to watch refresher training videotapes each year.

Environmental messages are reinforced throughout the organization with regular articles in Network USA, the employee newspaper published every other month, and The Facilitator, the quarterly environmental newsletter for employees. Additionally, best practices for environmental protection and other environmental messages are communicated on InfoNet, the intranet site for National Grid employees in the U.S.

Programs Promoting Energy Efficiency, and Conservation

Efficiency and Conservation in New England
National Grid offers its electricity customers a menu of programs to help them use electricity more efficiently and thereby save money and reduce the emissions associated with energy production.

Since 1987, more than 50 percent of our 1.7 million New England customers have been served by our programs. During the period 1998-2004, our residential programs reached over 250,000 homeowners and tenants, and our business programs have served an average of 3,000 businesses each year.

For Commercial, Industrial and Municipal Customers

- **Design 2000plus**
  Provides technical assistance and financial incentives to developers, building owners and design professionals to encourage the use of high-performance design features and efficient electrical equipment in new construction, renovation, and remodeling projects.

- **Energy Initiative**
  Designed to help customers reduce energy bills and improve their facility’s overall efficiency, while helping to promote environmentally responsible practices. Among the services provided are: technical assistance on energy efficient alternatives, financing for efficiency projects, and ballast and lamp recycling.
■ **Small Business Service Program**

Helps small business customers (less than 100 kilowatts of demand) save hundreds of dollars annually by reducing their energy use by up to 30 percent. Among the energy efficiency improvements available through this program are energy-saving lighting upgrades, walk-in cooler efficiency measures, photocells for outdoor lighting, energy-efficient time clocks, programmable thermostats, and occupancy sensors.

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**For Residential Customers**

■ **ENERGY STAR® Appliances and Lighting**

National Grid is an active ENERGY STAR® partner, contributing strongly to this critical national program. ENERGY STAR® appliances and home electronics use 10 to 50 percent less energy than standard models. Rebates are available for ENERGY STAR® clothes washers, air conditioners, heating systems, and lighting for residential customers of National Grid.

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"With Design 2000plus we were able to help the Clinton Public Schools improve lighting quality for students and teachers, reduce operating and maintenance expenses, and save energy."

**Tom Coughlin**

School Initiatives Program Manager/Business Energy Efficiency Services
ENERGY STAR® Homes

ENERGY STAR® homes incorporate the latest technologies for energy efficiency and comfort. In National Grid’s service territory, 15% of the new housing market is now building to ENERGY STAR® standards, which are 15% more energy efficient than current building codes.

The program provides additional assistance to low income or subsidized housing developments and works closely with Community Action Programs and low income energy efficiency advocates, Community Development Corporations, Habitat for Humanity, and the state and federal government to support sustainable, energy efficient, affordable housing in our service territory.

Awards for Excellence in Energy Efficiency and Environmental Education

For six consecutive years through 2005, National Grid has received the U.S. Environmental Protection Agency and Department of Energy National ENERGY STAR Award for the Appliance and Lighting program. In 2004 National Grid also received the award for the ENERGY STAR® Homes program.

In 2003, the Office of the Governor of Rhode Island recognized National Grid for its support of the Weatherization Assistance program, while Community Teamwork, Inc. of Lowell presented National Grid with the Community Partnership Award for its support of Youthbuild, a vocational school education program through the ENERGY STAR® Homes program.

Home Energy Audit and Energy Improvement Rebates

Our Home Energy Services programs provide residential customers with information about energy efficiency and renewable energy by phone and over the internet (www.energyguide.com). In addition, customers can receive a free evaluation of their home’s heating and water heating systems, insulation, air infiltration and appliances. The program offers residential customers an incentive that will cover up to 50% of the cost of all allowable measures, up to a maximum of $1,500. Rebates of $200 are also available to replace inefficient refrigerators. Services are available for multi-family building owners as well. In 2004, over 16,000 National Grid customers participated in these programs.

Special services are available to low-income customers through our Appliance Management Program. Customers participating in the program save on average $100 per year on their electric bills and benefit from increased comfort and safety. Over 4,600 customers participated in this program in 2004.

Reducing Consumption and Emissions

During calendar year 2004 customers participating in our energy efficiency programs in Massachusetts, Rhode Island and New Hampshire saved approximately 173,557 megawatt-hours of electricity.

173,557 Megawatt-Hours of Electricity Equivalents

- Reduction in Consumption of Coal: 12,303 tons
- Reduction in Consumption of Oil: 53,799 barrels
- Reduction in CO2 Emissions: 102,312 tons

Energy Efficiency and Conservation Goals

Our goals for calendar year 2005 are to reduce the summer demand by approximately 30.9 megawatts, and to reduce annual electricity consumption by approximately 207,555 megawatt-hours. Actual results will be communicated in 2006.

Efficiency and Conservation in New York

Our “Energy Efficiency in the Empire Zones” conservation program provides rebates to certified Empire Zone Rider (EZR) customers who implement eligible energy efficiency measures.
Empire Zone businesses are located within “revitalization areas,” which are typically dominated by old, inefficient buildings. EZR customers pay among the lowest rates on energy anywhere, and therefore have very little financial incentive to conserve. National Grid’s program is helping these customers become energy savvy before they return to standard tariffs at the end of their 10-year discount term.

“
We estimate that the Syracuse area electrification systems have been saving more than 33,000 gallons of diesel fuel each year and preventing all associated CO₂ emissions.”

Dave Devendorf
Manager Technology Transfer

Trucks Plug Into Pollution Reduction
National Grid has been working with the New York State Energy Research and Development Authority (NYSERDA) and the New York Thruway Authority to install 45 Advanced Truck Stop Electrification (ATSE) systems at rest stops in the Syracuse, NY area. The ATSE systems deliver individually controlled air conditioning and heat, electric outlets, telephone connection and other electricity powered amenities to a truck’s cab without the engine idling. In addition to the idle-free quiet and access to communications and entertainment, the electrification systems are reducing fuel consumption and pollution.
Renewable Energy Programs

“Green” Electricity Offerings

Our GreenUp program offers customers the opportunity to meet their electricity needs with renewable energy resources such as wind, solar, biomass (landfill gas) and small hydropower.

GreenUp is a collaborative effort among National Grid distribution companies, renewable energy supply companies and state government agencies to stimulate the development of renewable energy resources and reduce the emissions associated with electricity generated from coal, gas and oil. With the program, an eligible customer can select a renewable energy provided by any one of several firms.

By sponsoring GreenUp, we are providing our customers the opportunity to support the growth of the renewable energy market in New England and New York. Customers participating in GreenUp pay for their renewable energy selection based on their total electricity usage during the month. The charge is added as a separate line item to their bill, and the renewable energy is added to the regional power grid. For a typical residential customer, the additional cost for cleaner energy would be between $5.00 and $12.50 each month, depending on the state they live in and the GreenUp provider they select.

In 2004, GreenUp was launched in Rhode Island to our residential and small business customers. We introduced GreenUp in Massachusetts in September 2003, while in New York we first launched the innovative program in 2002.

More than 10,000 of our New York customers participate in the GreenUp program, which was honored by the New York Chapter of the League of Conservation Voters and praised by the Citizen Campaign for the Environment. In Massachusetts and Rhode Island we have enrolled more than 4,400 customers.

The impact of GreenUp in reducing greenhouse gas emissions is significant. For each residential customer using about 6,000 kilowatt hours of power each year, the switch to renewable energy spares the environment carbon dioxide emissions equivalent to an automobile engine being driven 120,000 miles.

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>36%</td>
<td>41%</td>
<td>45%</td>
</tr>
<tr>
<td>Massachusetts &amp; Rhode Island</td>
<td>7.6%</td>
<td>13%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Renewable Energy Trust Fund

National Grid and its customers in Massachusetts contribute to the Massachusetts Renewable Energy Trust Fund. Created in 1997, the Trust is charged with accelerating the use of cleaner sources of electricity in Massachusetts by investing in the state’s renewable energy industry. A National Grid executive serves on the board of directors of the Massachusetts Technology Collaborative, the non-profit economic development organization that administers the Trust.
Renewable Energy Collaborative
National Grid participates in the Rhode Island Renewable Energy Collaborative, which helps to bring affordable renewable electric power to customers in the state. Through its participation, the company has supported the installation of photovoltaic systems, wind energy systems, and a fuel cell. Renewable energy funds are collected through a monthly charge to electricity customers in Rhode Island. The funds are then used by the Rhode Island State Energy Office to provide incentives to commercial and industrial electricity customers for installing renewable energy equipment.

Photovoltaic Research
In Massachusetts we continue to conduct research into the performance of photovoltaic (PV) arrays and the long-term performance of PV systems, which directly convert sunlight into electricity.

National Grid works with residential and commercial customers and their contract electricians to install PV systems. Not only do customers with PV systems reduce their need for power plant produced electricity, they receive credits when their PV system generates excess energy which is transferred to the regional power grid.

"These photovoltaic arrays provide us with 6,600 kilowatt hours of energy each year to use in our Northborough facility."

John Bzura, Ph.D.
Principal Engineer, R&D
In our lab on the roof of the National Grid customer service building in Northborough, Massachusetts, we are experimenting with wind power and a self-contained alternating current (AC) module PV system. We also capture and use solar energy with three interconnected 2-kilowatt photovoltaic arrays.

**National Green Power Marketing Conference**

National Grid was a sponsor of the ninth annual National Green Power Marketing Conference held in Albany in October 2004. As the event, national and regional experts lauded the success of the National Grid GreenUp program and explored ways to increase consumer enrollment in green energy programs.

**Environmental Merit Award**

In May 2003, the New England Office of the Environmental Protection Agency honored National Grid as one of only three corporations to receive an Environmental Merit Award in honor of Earth Day. National Grid also received a Merit Award in 2004.

**Waste Reduction and Recycling**

National Grid is committed to reducing the amount of solid waste we generate and our consumption of fuel, paper and other resources.

<table>
<thead>
<tr>
<th>Solid Waste (tons)</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,060</td>
<td>6,979</td>
<td>5,450</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hazardous Waste (tons)</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>421</td>
<td>467</td>
<td>324</td>
</tr>
</tbody>
</table>

**National Grid’s Investment Recovery Center**

National Grid’s Investment Recovery and Recycling Services Center recycled a total of 12,262 tons of materials in FY 2005. Located in Syracuse, New York, the facility is ISO 14001-certified and processes a wide variety of materials from National Grid’s transmission and distribution operations, substations, corporate offices, and vehicle fleet.

The facility handles three primary categories of materials:

**Scrap/recyclables** - Non-ferrous metals, ferrous metals, processed metals, processed wire and cable, wood products, cardboard, paper, plastics, and porcelain

**Office equipment** - Computers, furniture, excess supplies, toner cartridges, telecommunications equipment and lighting

**Electrical equipment** (for sale, decommissioning or reuse) - Generator parts, refurbished hardware, distribution equipment, substation equipment, transmission equipment, transformers, cable and conduit hardware, meters, switches, and relays.

Among the recycling center’s services are the sale of excess inventory and obsolete material; the sale of stock materials to other utilities; and safe, environmentally sound disposal of unusable materials.

The Investment Recovery facility has been in operation for two decades, it was initially chartered in 1984.
The department includes a core marketing staff that locates buyers; a team of workers that operate the equipment; and, the facility employs approximately 50 adults with disabilities, who conduct manual sorting of materials.

The Investment Recovery facility provides not only environmental and social benefits to the community, but also significant financial benefits to National Grid. In fiscal year 2005, savings to the company and income from sold materials represented approximately $4.1 million.

Transformer Recycling

In fiscal year 2006, National Grid will embark on an aggressive new Transformer Recycling and Salvage Program. With strategic alliances with transformer recycling and disposal companies in New York and Massachusetts, National Grid expects to be able to recycle over 1,600 electric pole transformers each year.

Based on the specific location and circumstances, transformers will be shipped either full or empty of insulating oil to the appropriate recycling site. National Grid will utilize only EPA permitted recycling facilities and approved Department of Transportation vehicles, which are equipped with secondary containment to capture any leaking oil during transport. Once a
repair program is established, we expect to be able to redeploy at least one quarter of the transformers targeted for recycling.

### Recycled Waste (tons)
Reports the wastes that were recycled by National Grid’s U.S. operations, based on investment recovery and procurement records.

<table>
<thead>
<tr>
<th>Total Waste Recycled (tons)</th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13,521</td>
<td>11,945</td>
<td>12,262</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Select Materials (tons)</th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper</td>
<td>846</td>
<td>770</td>
<td>461</td>
</tr>
<tr>
<td>Metals</td>
<td>4,528</td>
<td>4,524</td>
<td>3,703</td>
</tr>
<tr>
<td>Plastics</td>
<td>57</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>Glass</td>
<td>234</td>
<td>319</td>
<td>295</td>
</tr>
<tr>
<td>Lighting Ballasts and Lamps</td>
<td>540</td>
<td>710</td>
<td>466</td>
</tr>
<tr>
<td>Meters</td>
<td>202</td>
<td>598</td>
<td>618</td>
</tr>
<tr>
<td>Transformers/Electrical Equipment</td>
<td>1,438</td>
<td>4,971</td>
<td>6,508</td>
</tr>
<tr>
<td>Wood (clean wood: pallets, reels, miscellaneous)</td>
<td>180</td>
<td>243</td>
<td>236</td>
</tr>
</tbody>
</table>

### Transportation Fuel Conservation
Fuel for transportation poses an environmental challenge for National Grid. Our U.S. fleet of trucks, vans and cars travel more than 50 million miles each year as we make line repairs, deliver equipment and perform other activities. It is our goal to hold fuel consumption to current levels in the coming years.

In 2003, we launched a fuel conservation campaign promoting 17 ways for employees to conserve fuel, including reducing vehicle idle time, car pooling, and conducting meetings through teleconferencing rather than driving off-site. In 2004, we introduced a more accurate method for charging for fuel use. Each vehicle’s actual fuel consumption is measured and charged to the driver’s department budget. In addition, monthly vehicle and fuel usage information is communicated to line managers throughout the company, who now have responsibility for ensuring responsible and efficient use of transportation fuel.

<table>
<thead>
<tr>
<th>Fuel Use – Fleet/Transportation (Gallons)</th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unleaded gas</td>
<td>3,439,843</td>
<td>3,434,632</td>
<td>3,181,305</td>
</tr>
<tr>
<td>Diesel</td>
<td>2,330,194</td>
<td>2,375,196</td>
<td>2,261,691</td>
</tr>
<tr>
<td>Aviation fuel</td>
<td>107,317</td>
<td>105,087</td>
<td>110,100</td>
</tr>
</tbody>
</table>

### Alternate Fuel and Hybrid Vehicles
The U.S. Energy Policy Act of 1992 created programs that facilitate the introduction of alternate fueled (non-gasoline) vehicles, including those powered by natural gas, hydrogen, ethanol, and electricity. National Grid has several efforts under way in alternative fuel transportation.

In 2004, many of our all-diesel fueled vehicles in Rhode Island and New York became bio-diesel fueled. With support from a grant by the New York State Energy Research and Development Authority, we are using approximately 180,000 gallons of B20 (20 percent soy) fuel in our Syracuse, New York vehicles.
Biodiesel fuels are biodegradable, nontoxic, and essentially free of sulfur and aromatics. Fuel containing 20% soy biodiesel and 80% petroleum diesel can reduce soot and carbon monoxide emissions by 12% and hydrocarbon emissions by 20%. In fiscal year 2006 we plan to increase the percentage of biodiesel fuel used by our diesel fleet from 7% to 20% with new federal tax credits for biodiesel making the price per gallon more competitive; and with the cooperation of our fuel supplier, we expect to secure and use approximately 500,000 gallons of biodiesel fuel.

As part of a pilot program, we are utilizing two hybrid vehicles in our corporate car pool. These gasoline and battery powered vehicles enjoy much higher overall efficiency than similar conventional gas powered autos. We are also testing a hybrid SUV.

Pollution Prevention

Sulfur Hexafluoride (SF$_6$) Program
Sulfur hexafluoride (SF$_6$) is a non-flammable, non-toxic gas that has superior cooling, insulating and arc quenching capabilities in high voltage electrical equipment. But when SF$_6$
escapes into the atmosphere it becomes a potent greenhouse gas with global warming potential that is 23,900 times greater than CO₂ over a 100 year period.

Nearly 80% of all the SF₆ produced today is used by the power industry. National Grid employs more than 140,000 pounds of the gas in electric substations and breakers throughout the Northeast to ensure the reliable and safe delivery of electricity to our customers. That is why National Grid’s New England subsidiaries joined the U.S. Environmental Protection Agency’s voluntary SF₆ Emissions Reduction Partnership in December 2003. Our New York subsidiary enrolled in 1999, and was one of the first participants in the program that tracks and reports releases of SF₆ on an annual basis. To achieve our goal of 57% reduction in SF₆ emissions from 2000 levels by 2008, we are targeting replacement of first generation Gas Insulated Substations (GIS) having high gas leakage rates and older SF₆ gas circuit breakers. We are also monitoring SF₆ usage more aggressively to identify leaking equipment, and we are using conventional methods and advanced laser imaging technology to identify the locations of leaks and help prioritize their repair. In addition, we are training employees on proper gas handling procedures and recording and being credited for the SF₆ returned to vendors in gas cylinders.

National Grid is investing more than $20 million to replace gas insulated substations such as the 345 kilovolt GIS at Brayton Point in Somerset, Massachusetts. The new indoor, state-of-the-art facility will have a low annual gas leakage rate of less than one half of one percent. Due to be operational in 2006, the new facility contains 3,300 fewer pounds of SF₆, and will prevent about 2,000 pounds of the gas from leaking into the atmosphere each year as compared with the equipment it replaces. Brayton Point represents the first of several GIS facilities to be replaced. Substations in Saugus and Tewksbury, Massachusetts are currently being evaluated for replacement.

Sulfur Hexafluoride (SF₆) Reduction Program

SF₆ emissions have been reduced by 37% compared to emissions in 2000, which is the year established with the U.S. Environmental Protection Agency as our baseline for measurement.

Note: SF₆ emissions in 2000 were 19,660 lbs.

<table>
<thead>
<tr>
<th>SF₆ Losses (pounds)</th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,856 lbs</td>
<td>12,828 lbs</td>
<td>12,471 lbs</td>
<td></td>
</tr>
</tbody>
</table>

Distribution and Transmission Line Reconductoring and Upgrade

Reconductoring and upgrade projects on National Grid distribution and transmission lines have improved efficiency resulting in a reduced need for electric generation. It is estimated that the work done since 2002 has resulted in a current annual emissions reduction of 32,865 tons of carbon dioxide (CO₂) associated with the avoided generation.

<table>
<thead>
<tr>
<th>Estimated Annual Incremental Emissions Avoided Due to Reconductor/Upgrade Projects (tons)</th>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miles of New Line</td>
<td>167</td>
<td>132</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>CO₂ Emissions Avoided (tons)</td>
<td>14,461</td>
<td>12,321</td>
<td>6,093</td>
<td></td>
</tr>
</tbody>
</table>

Note: Emissions avoided vary based on geographical area and size of line replaced.
Natural Gas STAR Program
Since 1994, National Grid has been working with other natural gas transmission companies, enrolled in the voluntary EPA STAR Program, to identify and adopt cost-effective technologies and practices to reduce emissions of methane. The primary component of natural gas, methane is 23 times more potent as a greenhouse gas than CO2. In addition to adopting STAR Program Best Management Maintenance Practices to reduce methane emissions, National Grid is replacing older, leaking natural gas main and service piping. Over 119 miles of pipeline have been replaced in the last three years, resulting in elimination of leaks that have saved over 15,590 metric cubic feet, or 350 tons of natural gas emissions. The program will provide leak reduction for many years to come.

<table>
<thead>
<tr>
<th>Natural Gas Pipeline Replacement, Eliminated Releases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>Miles of Pipeline Replaced</td>
</tr>
<tr>
<td>Natural Gas Releases Eliminated, Mcf</td>
</tr>
<tr>
<td>Natural Gas Releases Eliminated, tons</td>
</tr>
</tbody>
</table>

Note: Factors for eliminated releases of Natural Gas vary based on type and size of pipe replaced.
Award Winning Pipeline Project
The New York Public Service Commission, which is charged with ensuring safe, secure, and reliable access to energy, telecommunications and water services for the state’s citizens and businesses, recognized Niagara Mohawk for the environmentally sensitive construction of a 9.4 mile natural gas pipeline that runs from the Town of Rotterdam under the Mohawk River to the Town of Charlton in Saratoga County. Known as the E-36 Natural Gas Pipeline, it was constructed largely on National Grid’s right-of-way property to help meet the growing demand for gas in Saratoga County.

In addition, this project was the overall U.S. winner of the 2004 National Grid Chairman’s Award for Safety, Health and Environmental Achievement. Sir John Parker, Chairman of National Grid, presented the 16 member team with donation checks made out to the charities of their choosing. The Down Syndrome Aim High Program and the Down Syndrome Association of Central New York each received $13,250. The Chairman’s Awards recognize innovation and sound practices associated with safety, health and the environment.

Regional Greenhouse Gas Initiative
National Grid is actively participating in the Regional Greenhouse Gas Initiative (RGGI), which is a cooperative effort by northeastern and mid-Atlantic states to reduce greenhouse gas emissions. As a member of the stakeholder group, we are collaborating on a regional strategy aimed at reducing CO2 emissions from large power generation facilities. The RGGI plan is expected to be announced in late 2005.

Greenhouse Gas Reporting
National Grid continues to participate in the Department of Energy’s Energy Information System Voluntary Reporting of Greenhouse Gases program. The program recognizes utilities for demonstrating a commitment to voluntary approaches to environmental protection through actions taken to reduce or capture emissions of greenhouse gases.
Spill Prevention

U.S. Environmental Protection Agency regulations require Spill Prevention, Control and Countermeasure (SPCC) plans at certain facilities. Spill contingency plans and containment structures are required at facilities that store quantities of oil that exceed regulatory thresholds and are located where the oil it released could migrate to water.

In August 2002, major revisions to these regulations went into effect. Due to National Grid’s proactive stance, spill contingency plans were already in place at most of our facilities. Nevertheless, the new regulations have necessitated careful reviews of the SPCC plans for more than 1,000 National Grid substations and other facilities. In fiscal year 2005, six substations and seven service centers were retrofitted with new oil diversionary structures or trap rock containment fields. By December 2008, we will have completed all of our SPCC improvements, by designing and installing diversionary or containment structures at an additional 263 substations, nine cable sites and 15 service centers.

"Like all of my colleagues at National Grid, I am trained to recognize and react to potential environmental threats. Although I was just doing my job, I am thrilled to be able to direct the cash award to enhance the Worcester parks system."

Dawn Travalin
Lead Senior Environmental Engineer
In addition, we have incorporated semi-permeable spill containment structures into our standard specifications for installation of all new transformers in substations, even where SPCC regulations do not require it.

**Chairman’s Health Award**

Dawn Travalinii, a National Grid lead senior environmental engineer in Westboro, Massachusetts, was recognized in August 2004 with the National Grid Chairman’s Health Award. Travalinii took the initiative to locate and survey all National Grid owned oil-filled distribution equipment associated with public drinking water supplies in central Massachusetts, and determine whether a spill of oil from the equipment could contaminate a water supply. She then reported her findings to National Grid and water department authorities in the towns affected. Actions are currently under way to mitigate oil release potential from this equipment. Travalinii selected the City of Worcester Parks and Recreation Department to receive her $17,700 National Grid award donation.

**Nantucket Cable Project**

In 2005, National Grid completed the permitting process for the installation of a second 33 mile, 46 kilovolt underground and submarine power cable from Cape Cod (Barnstable) to the island of Nantucket. This second cable will enable National Grid to continue meeting the increasing demand for electricity on the island. The installation of the power cable is expected to be completed by late 2005. On land, the subsurface cable will be encased in an 8 inch pipe. At sea, the cable will be jet-plowed beneath the ocean floor. National Grid’s team of environmental engineers is working closely with various environmental agencies to ensure the protection of wetlands, endangered species and coastal resources during and after the installation process.

**Underground Storage Tanks**

In 2004, National Grid began the process of removing all of the company’s 91 underground storage tanks and conducting soil remediation when necessary. All the tanks, which store unleaded and diesel vehicle fuel, heating oil, emergency generator fuel, lubrication oil and waste oil, are expected to be removed by the spring of 2006. By May 2005, National Grid had already removed 12 underground tanks in Massachusetts, two in Rhode Island, seven in New York and two in New Hampshire.

Of the 91 underground tanks being removed, only 33 will need to be replaced with above ground storage tanks (AST). With the installation of the new above ground tanks, National Grid will establish new AST guidelines for maintenance training, inspections and tank performance monitoring. A website will also be built to help educate affected employees on performance regulations and requirements.
Contaminated Site Remediation

Former Manufactured Gas Plant (MGP) Sites
As far back as the 1850s, subsidiaries of National Grid’s predecessor companies had been involved in manufacturing gas to light and heat homes and businesses primarily in Massachusetts, New York, and Rhode Island.

The processes used to manufacture gas created several useful by-products including light oil, tar, and ammonia, which were sold as raw materials for other industries. The processes also created hazardous wastes such as tar, oil-water emulsions and ashes, some of which contained quantities of potentially harmful chemicals. Guided by the environmental and technical knowledge of the time, these wastes were often disposed on land adjacent to the MGP. Today, however, with a better understanding of environmental issues, we realize that by-products and wastes in soil or groundwater can pose risks to the environment and human health. At the same time, we now have the benefit of modern technology to correct MGP-related environmental problems inherited from prior generations.

National Grid continues to remediate former manufactured gas plant sites in keeping with the requirements of the U.S.
Environmental Protection Agency, Massachusetts Department of Environmental Protection, New York State Department of Environmental Conservation, and Rhode Island Department of Environmental Management. Currently, we are conducting environmental studies or cleanup at approximately 21 MGP sites or remote disposal locations in Massachusetts, 50 sites in New York and six sites in Rhode Island. Ten highly qualified project managers oversee all technical efforts at the former MGP locations and serve as liaisons between internal and external stakeholders.

During the past two fiscal years (2004 and 2005), remedial construction was completed at seven sites in New York and Massachusetts. By December 2005, we expect to make significant progress on large remedial construction projects including the Vitale Fly Ash site in Wenham, Massachusetts, and the Hudson and Troy Area 4 MGP sites in New York.

After identifying and remediating impacted soil and water, former MGP sites are sometimes left as open spaces or used by National Grid for operations purposes. As an example, in 2004 we remediated a site in Gloversville, New York and then relocated and upgraded a Niagara Mohawk gas regulator station at the location. Other times, the remediation project leads to a space for recreation or business purposes.

Skateboarders Roll in Williamstown, MA

A wetland area behind a former MGP site in Williamstown, Massachusetts was partially filled after the plant ceased operation in the 1920s. The area was subsequently developed and occupied by the Williamstown Housing Authority and the town's Water Department. National Grid's remediation of the site included excavation of significant quantities of contaminated soil, reestablishment of a portion of the wetlands and the formation of institutional controls on the property to ensure a high level of protection for the town's water supply. We then sponsored the $321,000 construction of a skateboard park on the site and made drainage improvements to the access road. The site achieved final completion in the fall of 2004.

Perkins Park is Reborn in Newburyport, MA

Following the decommissioning of a manufactured gas plant in Newburyport, Massachusetts which operated during the period 1852 through the 1920s, the property was subdivided and developed into a private residence, public playground and ballfield. National Grid began investigating the site in 1998. Once the assessment work was complete, we negotiated an agreement with the city to remediate the playground portion of the site. As part of this effort, we participated in over 10 public meetings, removed soil, constructed a soil cap, installed a clean corridor for future utilities, and reconstructed a baseball field, tennis court and basketball court. The park remediation and reconstruction were the result of a cooperative effort between National Grid, the city of Newburyport and the local residents. The result is a beautiful and safe new community playground and ballfield, which was completed in the spring of 2005.
Ready for Business in Oneida, NY

A quarter acre parcel of land in the city of Oneida, New York was the location of the Oneida Gas Works from 1859 until 1899. National Grid's remedial efforts at the site included removal and disposal of approximately 6,800 tons of impacted soil. The project was successfully completed in June 2004, and the site is now being redeveloped as part of a brownfield initiative by the city.

<table>
<thead>
<tr>
<th>Site Investigation and Remediation (SIR) Program</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Sites Managed by Site Investigation and Remediation (SIR) Program</td>
<td>135</td>
<td>167</td>
<td>166</td>
</tr>
<tr>
<td>Number of Sites Under Remediation</td>
<td>31</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td>Spent on Assessment and Remediation ($ in millions)</td>
<td>$17.0</td>
<td>$15.4</td>
<td>$19.9</td>
</tr>
</tbody>
</table>

Environmental Stewardship

Educational Programs

National Grid's subsidiaries offer educational literature, posters, and videotapes for grades K-8 at no cost to schools within our service territory. All materials have an environmental, energy, or electricity/gas safety emphasis, and are designed to stimulate critical thinking and enhance the classroom curriculum.

During the 2003/04 and 2004/05 school years, more than 430,000 student booklets and over 3,700 videos were requested through our educational resource catalog. The publication is mailed to all schools in our service territory and is accessible through our company websites.

Envirothon

National Grid supports the New York, Massachusetts, and Rhode Island Envirothons, an environmental education program for high school-age students that culminates in an annual statewide competitive event. Teams of five students from schools and community organizations throughout each state are tested on their knowledge in five categories: aquatics, forestry, soils, wildlife and a current environmental issue. The winning high school-age team from each state then travels to compete at the Canon National Envirothon.

The goal of the Envirothon is to increase awareness among high school students of environmental issues. The competition brings together a diverse group of students from various geographic locations to gain a better understanding of natural resource issues, and cultivate their desire to learn more about local, state, national, and global environments.

National Grid has been a primary sponsor of the three state Envirothons for more than 10 years, and each year the company's employees volunteer their time organizing and judging state competitions. National Grid has also contributed in-kind services, such as printing.
Protecting Wildlife

■ A1/B2 Line Project
The A1/B2 line is a century-old transmission line that traverses rugged terrain in Vermont, New Hampshire and Massachusetts. The line had been plagued by momentary outages caused primarily by turkey vultures and other large birds creating short circuits when their large wings touch two different lines as they take off. To improve the performance of the line and protect the birds, new conductor insulators and bird guards were installed in 2004. The $4.4 million project was conducted with a helicopter and lineman with special training. Far less obtrusive than a land vehicle, the helicopter would lower the lineman and materials onto each tower to make the upgrades and install the bird guards designed to discourage perching.

■ Osprey Nesting Poles
While replacing poles carrying high voltage transmission lines in the Birch Hill Wildlife Management Area near Royalston, Massachusetts in November 2004, National Grid line crews were invited to help with efforts to lure back the osprey, a large hawk-like bird best known for its dramatic high dive into water to capture prey. The species had left the area several years ago due to development and lack of a suitable nesting habitat. Instead of discarding the old 50 foot poles, the crews used them to build two nesting poles near the Birch Hill Dam. With a wooden pallet on top, the poles are located in an open area near a river, making them attractive nesting areas for osprey.

National Grid first erected nesting poles for osprey on Nantucket Island in the 1970s. Today, osprey breeding on the island has reached its highest level since the birds started nesting on the poles. We are continuing to support this effort by modifying poles, installing new nesting poles, and providing access with line crews and trucks.

In Rhode Island, National Grid has played an important role in helping restore the osprey population by installing new nesting platforms and retrofitting bird guard devices on existing power lines. One-third of the osprey nests in Rhode Island are found on our power lines.

■ Bald Eagles Soaring Comeback
Bald eagles disappeared from Massachusetts in 1905. In 1982, the Massachusetts Division of Fisheries and Wildlife instituted the Eagle Project, part of a plan to reintroduce the bird to the state. Quabbin Reservoir, with its 55,000 acres of watershed lands and 25,000 acres of water, was selected as the ideal protected eagle nesting site.

National Grid has been involved in the Massachusetts bald eagle restoration program for more than 20 years. Each January since 1988, we have donated a helicopter and pilot to the Division of Fisheries for the purpose of conducting a bald eagle census. On January 7, 2005, 69 bald eagles were spotted along the Quabbin shoreline, the Connecticut River and across western Massachusetts. The number, which is eight more than in 2004, shows the remarkable recovery the iconic bird has made over the last 20 years.

Living primarily on lakes, rivers and seacoasts, bald eagles build nests that are seven to eight feet across and often weigh hundreds of pounds. And when eagles' nests are constructed...
atop electric utility poles and structures they can cause electrical safety and reliability issues, as well as endanger the birds.

Over the last several years, National Grid has created special perches atop its power line poles in New York, Massachusetts and Rhode Island to prevent the young eagles from making contact with the lines.

During 2004, for the third year in a row, we assisted the New York State Department of Environmental Conservation with its eagle banding effort, and provided a bucket truck so that a department representative could reach the nesting birds. We also provided the materials to erect a 30-foot high bald eagle tower that emulates a nest in the wild.

**Integrated Vegetation Management Program**

By keeping vegetation away from our power lines, poles and substations, we help to prevent power outages and make the communities we serve safer places to live. Our electricity distribution and transmission subsidiaries use nationally approved, environmentally sound techniques and procedures to maintain trees and other vegetation near those facilities.

Because we use herbicides, we actively participate in the Pesticide Environmental Stewardship Program, a voluntary partnership with the U.S. Environmental Protection Agency to help users of pesticides and herbicides reduce their environmental impact.

Our use of herbicides is part of an Integrated Vegetation Management (IVM) program for our transmission rights-of-way. IVM produces a stable, low-growing plant community that not only improves access, worker safety and the reliability of our electricity transmission; it provides the grass and shrubs to support a diverse wildlife. Our rights-of-way management program preserves and enhances the habitat for small mammals, songbirds, insects, turkeys, raptors and other species.

### Land/Vegetation Management Investment ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2003</th>
<th>FY 2004</th>
<th>FY 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karner Blue Butterfly</td>
<td>$41.3 million</td>
<td>$43.1 million</td>
<td>$40.4 million</td>
</tr>
</tbody>
</table>

Reports the total costs incurred to manage vegetation on National Grid USA rights-of-way.

In fiscal year 2006, we will work with representatives from the New York State Department of Environmental Conservation, The Nature Conservancy and the United States Fish & Wildlife Service to renew cooperative agreements ensuring that the habitat for the Karner Blue butterfly will not diminish within our rights-of-way. We will also work with environmental agencies to deploy utility Integrated Vegetation
Management (IVM) strategies on land adjacent to our rights-of-way, so that the lupine plant will expand, increasing the chances that the Karner Blue might one day be delisted from the National Endangered Species List.

Wetlands Restoration
National Grid’s transmission and distribution lines travel through wetlands within New York, Massachusetts, Rhode Island, New Hampshire and Vermont. We recognize a responsibility to help protect these areas and the wildlife that lives within them. To ensure that our operations do not have an adverse impact on wetland resource areas, our Environmental Department provides wetland protection training to operations and engineering personnel.

During 2004, National Grid and other corporate partners continued to contribute money and in-kind services to the Massachusetts’ Corporate Wetlands Restoration Partnership (CWRP). This partnership, established in 1999, was one of the first programs in the nation to enable corporations to combine talent and resources for the protection, enhancement and restoration of wetlands and other aquatic habitats. Facilitated by the Coastal America Partnership in Washington, D.C., the CWRP enables member corporations to donate funds, which are matched with federal and state funds to undertake restoration projects.

National Grid is a contributor to the Rhode Island CWRP, which was formed in 2001. The company is participating in an ongoing effort to restore Town Pond, a 40-acre marsh in the town of Portsmouth. The marsh was damaged by fill when nearby shipping channels were dredged in the 1940s. Restoration would restore the flow of water, as well as coastal vegetation, to what was once a salt pond.

In New York, we are leading the formation of the state’s chapter of the Corporate Wetlands Restoration Partnership, which is expected to sponsor its first projects in late 2005.

Broad Meadow Brook Conservation Center and Wildlife Sanctuary
Broad Meadow Brook Conservation Center and Wildlife Sanctuary is located in the City of Worcester, Massachusetts. Thanks, in part, to a partnership between the Massachusetts Audubon Society and National Grid, Broad Meadow Brook is home to 400 acres of forest, fields, streams and marsh with five miles of marked trails.

In 1990, we invited the Audubon Society to combine the 200 acres of National Grid owned transmission land that abutted the sanctuary with the acreage already set aside. Today we continue to maintain our property as part of our Rights-Of-Way Vegetation Management Program. In 2004, National Grid completed an environmental kiosk which is displayed in the lobby of the new conservation center. The kiosk describes our vegetation management activities and highlights the species of butterfly and birds that thrive in the habitat near our transmission towers.
Treeline USA Program

In 2004, National Grid was again recognized for its contribution to improve community forests with a Tree Line USA award from the National Arbor Day Foundation and the National Association of Foresters. This represents the sixth consecutive year for our New York subsidiary and the fifth year in a row for our New England companies to receive this award.

The three requirements that National Grid met for designation as a Tree Line USA utility are: a program of quality tree care, annual worker training in quality tree care practices, and a tree planting and public education program.

In celebration of Arbor Day, National Grid participated in several tree-planting ceremonies at schools, municipal offices, parks and other community facilities. Among our 2005 activities in New York, we worked with the Olmstead Park Conservatory to prune, remove and plant trees to aid in a park restoration project in the City of Buffalo. We also planted an additional tree in the developing utility tree arboretum in Syracuse, as part of a "wire friendly" tree demonstration area. Tree planting and educational programs brought us to schools in Bolton, Lenox, Rehoboth, Gloucester and Lowell,

“I am proud of our efforts to protect vernal pools and the animal species that depend upon them within our transmission rights-of-way.”

Paul Richards
National Grid Consulting Environmental Engineer

Paul Richards is the co-author of a paper recommending new “standards of care” that the electric power industry should employ before siting a project near a vernal pool.
Massachusetts and a school in Warwick, Rhode Island. The school visits are designed to help children understand the importance of trees and encourage them to become environmental stewards.

Performance Measurement

Group Sustainability Performance Metrics
As part of the sustainability performance report for National Grid’s worldwide operations, we compile and report data on U.S. operations.

National Grid USA Sustainability Performance Metrics

1. Environmental Incidents – Category 1 (total #)
   Measures oil spills and other chemical releases to water, oil spills greater than 100 gallons, PCB spills, and other incidents as determined by Environmental Department.

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>17</td>
<td>24</td>
<td>20</td>
</tr>
</tbody>
</table>

2. Environmental Incidents – Category 2 (total #)
   Measures all incidents not classified as Category 1.

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>560</td>
<td>626</td>
<td>695</td>
</tr>
</tbody>
</table>

3. Electricity Use (total kilowatt-hours)
   Measures electricity used by all National Grid U.S. facilities.

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>108,153,009 kWh</td>
<td>98,407,257 kWh</td>
<td>113,972,248 kWh</td>
</tr>
</tbody>
</table>

4. Electricity Losses – T&D (mWh)
   Measures electricity losses across the New England portion of National Grid’s U.S. transmission and distribution system. New York measurement devices only allow for estimated total transmission and distribution losses (distribution figures cannot be isolated).

NE Transmission Losses:

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>908,175 mWh (2.86%)</td>
<td>522,386 mWh (1.61%)</td>
<td>490,200 mWh (1.50 %)</td>
</tr>
</tbody>
</table>

NE Distribution Losses:

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,155,748 mWh (3.74%)</td>
<td>1,391,771 mWh (4.37%)</td>
<td>1,478,516 mWh (4.60%)</td>
</tr>
</tbody>
</table>

NY Transmission and Distribution Losses:

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>–</td>
<td>3,789,905 mWh (3.76%)</td>
<td>3,883,471 mWh (5.20%)</td>
</tr>
</tbody>
</table>

5. Cable Oil Losses (gallons)
   Reports the quantity of fluid lost from underground transmission cables due to leaks or failures (releases).

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
<th>FY2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>553 gallons</td>
<td>508 gallons</td>
<td>3,741 gallons</td>
</tr>
</tbody>
</table>

Note: In FY2005, approximately 3,000 gallons of fluid leaked from a corroded 115kV line under the runway at Rochester International Airport in New York. National Grid oversaw all remediation efforts.
The goal of National Grid’s Environmental Compliance Audit Program is to provide independent verification and assurance to management that:

- The company’s operations are performed in accordance with applicable environmental statutes and regulations.
- The company’s operations conform to internal environmental policies and procedures.
- Environmental management systems are in place to ensure continued conformance.

In support of this goal, environmental audits are conducted frequently throughout the company and its associated operations. During fiscal years 2004 and 2005, these audits focused on company operations that posed the greatest potential risk to the environment. Various company sites and assets, such as service centers, substations, and transmission line rights-of-way, were included in the scopes of these risk-based audits. During fiscal years 2004 and 2005, the Environmental Compliance Audit Program conducted 12 system audits and 33 compliance audits, observing company operations at 237 sites during those audits.

National Grid remains committed to maintaining an executive committee that reviews all legal notices received from federal, state, or local regulatory agencies that allege failure of the company to comply with environmental statutory and regulatory requirements. This committee also reviews all corrective actions for appropriateness, timeliness and suitability for mitigating any recurrence. In addition, the committee sets strategic direction for optimal improvement of environmental activities within the company.

Our parent company has implemented a group-wide environmental audit program, under which a three-tiered audit approach may be undertaken. Tier 1 audits are reserved for group-related issues, while Tiers 2 and 3 are undertaken by the operating company. The three tiers referenced by the program are:

Tier 1 Group – Environmental Policy audits
Tier 2 Operating Company – System audits
Tier 3 Operating Company – Environmental compliance audits

In addition, audits of the company’s Environmental Management Systems (EMS) are conducted by the Environmental Department and outside EMS auditors. These audits are separate from the Environmental Compliance Audit Program and are used to ensure continued conformance of our EMS with the ISO 14001 standard.
Legal Notices

National Grid is committed to doing much more than just complying with local, state and federal laws and regulations. We are proactive and often establish goals that exceed the government’s expectations. However, in those instances when we are found to be in violation of environmental laws or regulations, we strive to take quick and effective remedial action.

During fiscal year 2004, National Grid received 13 notices of alleged violations related to its U.S. operations. In fiscal year 2005 we received 14 notices. All corrective actions associated with the FY 04 and FY 05 notices have been initiated or completed. These corrective actions have resolved the alleged violations to the satisfaction of the regulatory agencies. We are still waiting on a response from a regulatory agency to a proposed resolution for one notice.

Summary of Notices

Waste Management

Ten (10) legal notices pertaining to waste management were issued by regulatory agencies.

FY 2004
- Incomplete documentation submitted to regulatory agencies.
- Improperly labeled and uncovered hazardous waste containers and waste stored on site longer than 90 days.
- Incomplete hazardous waste contingency plan documentation
- Lack of cover for hazardous waste container
- Change in generator status not communicated with regulatory agency

FY 2005
- Unauthorized dumping on rights of way by unknown third party
- Failure to provide complete paperwork for asbestos abatement project
- Mislabel hazardous waste drums
- Exceedance of hazardous waste storage limits in accumulation area
- Incomplete hazardous waste contingency and training plans documentation

Site Investment and Remediation

Five (5) notices were issued in connection with manufactured gas plant remediation projects.

FY 2004
- Failure of contracted laboratory to report sample analyses in accordance with permit requirements

FY 2005
- Inspection findings at Nantucket MGP site
- Three (3) notices for failure to meet response action deadlines
Water and Wetlands
National Grid received five (5) notices related to water and wetlands protection.

**FY 2004**
- Stream restoration not in conformance with approved plans
- Unauthorized disturbance of a protected stream

**FY 2005**
- Two notices with respect to unauthorized filling and use of wetland on National Grid property by third party
- Rutting in a wetland caused by line truck

Waste Water Discharge
Three (3) notices were issued for exceeding waste water discharge permit limits.

**FY 2004**
- Exceedance of discharge limit for lead from crew truck wash operation
- Failure to notify regulatory agency about exceeding permit discharge limits within required timeframe

**FY 2005**
- Exceedance of discharge limit for oil and grease from crew truck wash operation

Petroleum Storage
Two (2) notices were issued in connection with the storage of petroleum.

**FY 2005**
- Inoperable leak detection monitoring system on underground storage tanks and housekeeping and maintenance issues on above ground tanks
- Excessive accumulation of water in a tank sump

Oil Spills
National Grid received two (2) notices related to oil spills.

**FY 2004**
- Failure to file spill cleanup report with regulatory agencies within the required timeframe

**FY 2005**
- Failure to report a spill and dispose of contaminated soil within required timeframe
Goal Setting

Looking Ahead
National Grid is committed to upholding its reputation for responsible, proactive management of environmental risks. As we work to help meet the needs of customers both today and for generations to come, we continue to identify and adopt environmentally sustainable practices and work to minimize the impact our activities might have on the environment.

In Fiscal Year 2006 we will continue to explore new initiatives, programs and procedures to improve our environmental performance, including:

Management Systems and Training
- Investigate the feasibility of integrating other departments and affiliated organizations into the ISO 14001 registration for our Distribution companies.
- Develop or update best management practices for minimizing any environmental impact of routine transmission and distribution maintenance on rights of way.
- Enhance the environmental training programs and reproduce environmental videos to be state specific.
- Continue to identify ways to strengthen Environmental Management Systems to reduce risks.

Compliance and Pollution Prevention
- Continue to make modifications to the design of substations and other facilities in accordance with Spill Prevention Control and Countermeasure (SPCC) plans.
- Complete the comprehensive underground storage tank removal project.
- Investigate new methods of handling Construction and Demolition (C&D) spoils in New York.
- Evaluate the feasibility of retrofiling or replacing all equipment containing more than 449 parts per million of PCBs in substation power transformers and regulators.

Global Climate Change
- Evaluate participation in the EPA’s Climate Leaders Partnership and the Chicago Climate Exchange.
- Develop a long term strategy on SF6.
- Investigate participation in the EPA’s Performance Track program.
Verification Statement of the Certified Environmental Auditor

ESS Group, Inc. (ESS) has been contracted by National Grid USA Service Company (National Grid) to provide a certified auditor and perform an independent verification review of its Environmental Performance Report for fiscal years 2004 and 2005. Julie T. Davies, a QSRAB Certified Environmental Auditor, oversaw the review by ESS and provides the verification opinion stated below.

Under Ms. Davies’ direction, an audit plan was created to verify the information presented in National Grid’s Report. The goal of the audit was to ensure that the statements made in the Report accurately reflect the actions and accomplishments of National Grid.

ESS’s Approach

The audit team consisted of Chris Rein and Kendra Shea, both of ESS with Julie T. Davies overseeing the planning, implementation and follow-up. The team prepared this verification statement by performing the following tasks:

1. Reviewed the Report and created an audit plan focusing on several key areas. The areas of focus were chosen based on statements made in the Report and information obtained from prior year verifications.

2. Mr. Rein and Ms. Shea conducted on-site reviews of information and data and compared it to the Report. During the data review, the team was focusing on the accuracy of the figures, the reproducibility of the numbers, and the sustainability of the system used to obtain the figures.

3. Conducted interviews with key staff members in Syracuse, New York and Westborough, Massachusetts from all levels to verify that information, goals and strategies are being communicated to all levels of employees, as stated in the Report. The team was looking for accuracy and consistency of employee statements and the National Grid system depicted in the Report.

4. Compiled information from data reviews and staff interviews into an audit binder. Ms. Davies reviewed the data with the team and any follow-up questions were addressed.

5. Reviewed final editorial changes to the Report for adherence to the standards previously described.

6. Prepared the following independent Verification under the direction of Ms. Davies, the Certified Environmental Auditor.
Opinion of the Certified Environmental Auditor

Based on the team’s review of the information and data obtained from the site visits and the staff interviews, I can confidently state that the information presented in the Report accurately reflects National Grid’s:

- Environmental Management System,
- Its corporate environmental goals, and
- Its accomplishments related to environmental stewardship.

ESS Group, Inc.

ESS Group, Inc. is a multidisciplinary environmental engineering and consulting firm located in East Providence, Rhode Island and Wellesley, Massachusetts. ESS has extensive experience related to the environmental compliance of the energy sector in the northeastern United States.

Julie T. Davies

RABQSA Certified Environmental Auditor in the Environmental Management Systems Scheme
Using the Pacific Sustainability Index (PSI), a system developed to score corporate environmental and social disclosure and performance, the Roberts Environmental Center at Claremont McKenna College, CA ranked the world’s largest energy and utility companies in July 2005. The 46 energy and utility companies studied were listed on the 2004 Fortune Global 500 or the Fortune 1000. National Grid Transco received the highest PSI score, which considers 140 environmental and social topics.

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Note: Released July, 2005
For More Information

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The web address for National Grid’s U.S. environmental pages is:  
www.nationalgridus.com/commitment/d2-1_environment.asp

To visit the website for any of our individual companies, go to www.nationalgrid.com.

For a progress report on how we are meeting the principles of our Framework for Responsible Business, please visit:  
www.nationalgrid.com/responsibility/goals-progress/fr-goals-progress.htmls

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Westborough MA 01582  
E-mail: feedback@us.ngrid.com

National Grid employees, the Karner Blue butterfly and Perkins Park were photographed by Randy Calkins. The cover and seasonal photographic images are by Patrick Pacheco Zephyr, Pelham, MA.