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June 11, 2012

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Assistant General Counsel and Director
National Grid
40 Sylvan Road
Waltham, MA 024510

Elizabeth Quirk-Hendry
General Counsel-Northeast Region
NRG Energy, Inc.
211 Carnegie Center
Princeton, NJ 08540

RE: Case 12-E-0136 - Petition of Dunkirk Power LLC and NRG Energy, Inc. For
Waiver of Generator Retirement Requirements.

Dear Mr. Galaburda and Ms. Quirk-Hendry,

On March 14, 2012, NRG filed its notice (NRG Notice) pursuant to the Public Service Commission's (Commission) Order Adopting Notice Requirements for Generation Unit Retirements¹ to indicate that NRG would "mothball" Dunkirk units 1 through 4 no later than September 10, 2012. The NRG Notice also requested waiver of the 180-day notice period so that NRG could mothball these units prior to the expiration of the notice period. This matter has been assigned to Case 12-E-0136, and notice of NRG's request for a waiver was published in the State Register on April 11, 2012.

The Commission is reviewing the local reliability impacts associated with mothballing Dunkirk units 1 through 4 with the assistance of National Grid and the New York Independent

¹ Case 05-E-0889, Policies and Procedures Regarding Generating Unit Retirements, Order Adopting Notice Requirements for Generation Unit Retirements (issued December 20, 2005) (adopting a 180-day notice requirement for generating units 80 MW or larger that intend to retire).

System Operator, Inc. (NYISO). In connection with its review of reliability impacts, the Commission was advised by National Grid on March 30, 2012 that National Grid expects “the proposed mothballing of [NRG’s] Dunkirk units 1-4 will result in significant detrimental impacts to transmission system reliability in western NY.” Subsequent analysis has confirmed a local reliability need for generation facilities, which include at least some of the Dunkirk units, until such time as National Grid has implemented an alternative reliability solution.

This letter will advise you that Staff intends to recommend that the Commission exercise its authority within the 180-day notice period to ensure adequate generation facilities have been procured to meet local reliability needs. Although this process will address a local reliability need outside of the NYISO’s planning process, the costs will be recovered in the same manner as when bulk system needs are addressed through the NYISO’s Attachment Y process. Pursuant to Attachment Y, the “[c]osts related to regulated non-transmission reliability projects will be recovered...in accordance with the provisions of New York Public Service Law.”²

Staff understands that National Grid and NRG are discussing, on an informal basis, the terms which might be used in an agreement for the procurement of adequate generation resources during NRG’s mothball period. National Grid and NRG should plan to inform the Commission no later than July 12, 2012 (i.e., 60 days prior to the end of the 180-day notice period), as to whether an agreement has been reached for the procurement of generation resources during that period. Without elaborating on the other considerations which would guide the terms of any such agreement, we note that the mothball status which NRG seeks would allow it to reenter the marketplace when more favorable economic conditions are present (e.g, higher natural gas fuel prices) and, therefore, this agreement may differ from an agreement to address a permanent retirement of a generation facility.

The Commission understands that FERC maintains jurisdiction over wholesale sales of energy. Therefore, it is anticipated that any determination made by the Commission as to the structure and level of compensation to be provided in a contract between National Grid and NRG, while expected to be made in our Case 12-E-0136, may also be reviewed by FERC to ensure that it will not inappropriately interfere with the NYISO’s markets (i.e., that appropriate mitigation measures are in place) or that it does not implicate any matters otherwise within FERC’s jurisdiction. It is anticipated that any Commission Order setting the terms for payments to NRG during the mothball period would provide for prompt cost recovery of such payments by National Grid through a surcharge or similar mechanism.

I also note that, in the event a mutually agreeable arrangement is reached between National Grid and NRG, such arrangement would likely render NRG’s request for waiver of the 180-day notice period moot, at least in part.

If the parties are at an impasse on July 12, 2012 and cannot report that an agreement has been reached, National Grid and NRG should each propose, as part of their respective July 12, 2012 informational filings, proposed terms recommended by each for consideration by the Commission. Further guidance may be provided in the future regarding additional information for inclusion as part of that filing. In addition, you should be aware that Staff may seek additional information from you prior to July 12, 2012, to prepare for its evaluation of any

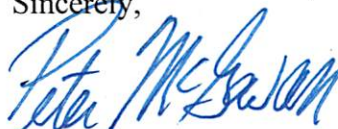
² NYISO OATT, Attachment Y, §31.4.1.6.

agreement reached between National Grid and NRG or, in the alternative, and in the absence of any such agreement, to prepare to evaluate the competing proposals made by National Grid and NRG in their July 12, 2012 filings. If no agreement is reached, the parties should expect a Commission Order establishing a temporary compensation rate, subject to refund and retroactive adjustment as a result of further Commission processes to ensure the rate is just and reasonable.

Finally, you should also be aware that the procurement negotiations between National Grid and NRG should not be regarded as subject to Rule 3.9 of the Commission's regulations. Rather, at this stage, any such negotiations should be regarded as occurring outside this docket.

Please feel free to contact me if you have any questions or concerns about this contemplated approach. Thank you for your assistance.

Sincerely,



Peter McGowan
General Counsel

cc: Service List