nationalgrid

Thomas R. Teehan
Senior Counsel

February 22, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket No. 4065 Remand - Review of Capital Structure
Responses to Division Data Requests – Set 33

Dear Ms. Massaro:

Enclosed are ten (10) copies of National Grid's responses to the Division's Thirty-third Set of Data Requests in the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,

Thomas R. Teehan

Enclosure

cc: Docket 4065 Service List
Steve Scialabba
Leo Wold, Esq.

Division 33-1

Request:

Please provide the Narragansett Electric Company's ("Narragansett" or "the Company") balance sheet at 12/31/11.

Response:

The Company's unaudited balance sheet as of 12/31/2011 is provided as Attachment DIV 33-1.

Prepared by or under the supervision of: William R. Richer

NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS

(in thousands of dollars, except per share and number of shares data)

	December 31, 2011 (unaudited)	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,053**	$ 11,861
Restricted cash	**58,762**	47,108
Accounts receivable	**158,153**	204,353
Allowance for doubtful accounts	**(33,301)**	(36,481)
Unbilled revenues	**65,660**	69,688
Gas in storage, at average cost	**23,854**	14,564
Materials and supplies, at average cost	**9,533**	7,478
Derivative contracts	**398**	483
Regulatory assets	**37,368**	25,807
Current deferred income tax assets	**9,603**	16,230
Prepaid taxes	**64,982**	56,165
Prepaid and other current assets	**4,155**	2,555
Total current assets	**404,220**	419,811
Property, plant, and equipment, net	**1,783,214**	1,631,204
Deferred charges and other assets:		
Regulatory assets	**260,046**	262,344
Goodwill	**724,810**	724,810
Derivative contracts	**-**	1,022
Other deferred charges	**11,048**	11,880
Total deferred charges and other assets	**995,904**	1,000,056
Total assets	**$ 3,183,338**	$ 3,051,071

NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars, except per share and number of shares data)

	December 31, 2011 (unaudited)	March 31, 2011
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 133,474**	$ 125,238
Accounts payable to affiliates, net	**1,244**	23,467
Current portion of long-term debt	**1,375**	1,375
Intercompany moneypool	**168,950**	24,000
Taxes accrued	**1,954**	7,620
Customer deposits	**10,406**	8,892
Interest accrued	**10,203**	4,170
Regulatory liabilities	**26,831**	38,063
Derivative contracts	**37,441**	25,947
Other current liabilities	**20,874**	17,320
Total current liabilities	**412,752**	276,092
Deferred credits and other liabilities:		
Regulatory liabilities	**179,096**	214,191
Deferred income tax liabilities	**254,180**	228,257
Derivative contracts	**14,411**	2,109
Postretirement benefits and other reserves	**115,230**	156,206
Environmental remediation	**125,645**	126,182
Other deferred liabilities	**71,595**	65,729
Total deferred credits and other liabilities	**760,157**	792,674
Capitalization:		
Shareholders' equity:		
Common stock, $50 per share, 1,132,487 issued and outstanding	**56,624**	56,624
Cumulative preferred stock, $50 per share, 49,089 issued and outstanding	**2,454**	2,454
Additional paid-in capital	**1,353,559**	1,353,559
Retained earnings	**79,042**	59,996
Accumulated other comprehensive loss	**(84,214)**	(94,667)
Total shareholders' equity	**1,407,465**	1,377,966
Long-term debt	**602,964**	604,339
Total capitalization	**2,010,429**	1,982,305
Total liabilities and capitalization	**$ 3,183,338**	$ 3,051,071

Division 33-2

Request:

Please provide the Company's short-term debt balance for each month of 2011.

Response:

The Company's short-term debt balance for each month of 2011 is provided below:

Jan-2011	19,625,000
Feb-2011	50,000,000
Mar-2011	24,000,000
Apr-2011	49,600,000
May-2011	25,100,000
Jun-2011	45,075,000
Jul-2011	64,150,000
Aug-2011	57,350,000
Sep-2011	87,225,000
Oct-2011	113,150,000
Nov-2011	133,675,000
Dec-2011	168,950,000

Prepared by or under the supervision of: Mustally Hussain

Division 33-3

Request:

Please provide all credit rating reports for Narragansett, its parent (National Grid USA) and its ultimate parent (National Grid PLC) issued since January 1, 2011.

Response:

Please see Attachment DIV 33-3 for the latest credit rating reports for Narragansett, National Grid USA, and its ultimate parent, National Grid plc.

Prepared by or under the supervision of: Mustally Hussain

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

March 3, 2011

Summary:
National Grid USA

Primary Credit Analyst:
Barbara A Eiseman, New York (1) 212-438-7666; barbara_eiseman@standardandpoors.com

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Summary:
National Grid USA

Credit Rating: A-/Stable/A-2

Rationale

The ratings on National Grid USA are based on the consolidated credit profile of parent, U.K.-based National Grid PLC (NG). National Grid USA is also a subsidiary of intermediate holding company National Grid Holdings. National Grid USA's main operating subsidiaries include Niagara Mohawk, KeySpan Corp. and its units, New England Power, Narragansett Electric, Massachusetts Electric, Boston Gas, and Colonial Gas. We rate KeySpan Corp.'s two New York distribution companies KeySpan Delivery New York and KeySpan Delivery Long Island one notch higher than the consolidated corporate credit rating, reflecting the presence of regulatory insulation and their healthier stand-alone financial profiles.

NG has an excellent business risk profile (corporate business risk profiles are ranked from excellent to vulnerable) and a significant consolidated financial risk profile (financial profiles are ranked from minimal to highly leveraged). The ratings on NG and its subsidiaries reflect our view of the strong and predictable cash flows from the group's low-operating risk electricity and gas network operations in the U.K. and the U.S.; regulatory regimes in each of those countries that are relatively supportive of credit quality in most jurisdictions; a consistently applied strategic and financial policy; and a proven track record of managing large acquisitions. These strengths are offset by NG's relatively high financial leverage; a substantial capital expenditure program and unchanged dividend policy that will likely result in negative free cash flows over the medium term; regulatory reset risk in the U.K. and the U.S.; and exposure to foreign exchange risks and inflation, which add volatility to Standard & Poor's adjusted credit measures.

National Grid USA's operations serve about 8 million electric and gas customers in New York, Massachusetts, Rhode Island, and New Hampshire. Also, the 2007 acquisition of KeySpan added about 1,700 MW of generation capacity in Long Island, N.Y. National Grid USA's consolidated business risk profile is also excellent, although slightly weaker at KeySpan due to its riskier nonregulated generation operations. National Grid USA's business position is characterized by a focus on relatively low-risk regulated electric and natural gas transmission and distribution operations and regulatory, market, and operating diversification.

Long-term rate plans, rate moratoriums, and regulatory lag have resulted in earned returns that are below the national average in most jurisdictions. In an effort to increase returns in the U.S. and become more efficient, NG recently announced a restructuring program. The plan involves a regional focus and a reduction in operating costs of about $200 million by March 31, 2012; achieved mainly through a reduction of 7% of the U.S workforce.

On Jan. 20, 2011, the New York Public Service Commission authorized a $112.7 (3.6%) million electric rate hike, about 31% of the revised amount sought by Niagara Mohawk. The order was based on a 9.1% ROE, although the company has the chance to earn 9.3% if it agrees not to file another general rate case before 2012. Of the amount approved, $50 million is temporary, pending the results of an audit of certain expenses and $40 million applies to stranded cost recovery. Niagara Mohawk represents less than 10% of NG's operating income and about 30% of U.S. operating income. Since our ratings on Niagara Mohawk and all the U.S. units are based on the consolidated credit profile of NG, in our opinion, the rate order will not have a material impact on the credit quality of the consolidated entity.

In light of National Grid USA's heavy capital expenditure phase and escalating cost pressures, timely and sufficient rate relief and alternative cost recovery rate mechanisms as well as credit supportive action by management will be important to enhance cash flow and earnings protection. Certain state regulators, however, will be reviewing prospective rate requests at a time of economic weakness, so the subsidiaries' ability to manage regulatory risk will be critical to credit quality.

In late 2010, NG signed an agreement with a subsidiary of Algonquin Power & Utilities for the sale of its Granite State Electric and EnergyNorth businesses in New Hampshire for $285 million, plus an amount related to working capital. NG decided to exit the businesses in New Hampshire since their rate plans represent less than 2% of the U.S. rate base, and do not enable the company to earn acceptable returns. Subject to various regulatory approvals, the sale is expected to close in the second half of 2011.

NG's business risk has not materially changed over the past 12 months, in our view. The group remains focused on owning and operating regulated network assets in the U.K. and U.S., which account for about 95% of consolidated operating profit. NG faces some regulatory reset risk in the U.S. and U.S. revenues remain subject to an element of volume risk, although we expect this to diminish over time as rate plans that protect NG from fluctuations in volumes sold are renewed. In an effort to increase returns in the U.S. and become more efficient, NG recently announced a restructuring program. The plan involves a regional focus and a reduction in operating costs of about $200 million by March 31, 2012, achieved mainly through a reduction of 7% of the U.S. workforce.

The group also remains exposed to risks arising from the regulatory reset in the U.K., currently every five years, with the next price control period starting in April 2013 and currently under consultation at the industry regulator, the Office of Gas and Electricity Markets (Ofgem).

NG reported a robust set of results for the six months ending Sept. 30, 2010, with operating profit up by 31% year on year, to £1.5 billion. Supporting this increase was good performance across all business segments, with hot weather favorably affecting the electricity distribution and generation businesses. According to the company, the strong performance in the first half of the year has continued and improved further in the third quarter of 2010, driven mainly by the cold weather in NG's service areas.

Reported net operating cash flow in the six months to Sept. 30, 2010, increased by 20% to £1.9 billion compared with the same period last year, while reported net debt fell to £19.2 billion compared with £22.1 billion at March 31, 2010. The reduction in the net debt position reflects the £3.2 billion of cash from the rights issue and the impact of the weakening of the dollar-pound exchange rate on the dollar-denominated debt, partly offset by capital investment. Consequently, NG's adjusted funds from operations (FFO)-to-debt ratio is currently above the rating threshold of 12%.

Liquidity

The short-term rating on NG, National Grid USA, and certain subsidiaries is 'A-2' and largely reflects the companies' long-term credit ratings and our view of the group's adequate liquidity under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses, mainly necessary capital expenditures, debt maturities, and dividends, by about 1.2x. NG's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending or sell assets, its sound bank relationships, its solid standing in credit markets, and generally prudent risk management further support our description of liquidity as adequate.

NG's funding requirements are substantial, at about £3 billion annually, due to ongoing debt maturities and annual negative discretionary cash flows (after capex and dividends) of £1 billion-£1.5 billion. The group was, however, able to maintain full access to the bond markets during the financial crisis, and its recent £3.2 billion rights issue was fully underwritten. The rights issue will, in our view, significantly strengthen NG's liquidity position.

As of Dec. 31, 2010, NG had approximately £2.58 billion of unrestricted cash and undrawn committed facilities of £2.7 billion. Against these sources of cash (totaling about £5.28 billion), NG has about £1.65 billion of debt maturing in the next 12 months. During the next 24 months, we expect debt maturities and negative pre-financing cash flows to be about £2.7 billion and £2.9 billion, respectively. NG aims to keep its committed credit lines undrawn, since they provide backup for commercial paper, the issuance of which is limited to the undrawn committed lines available.

Recovery analysis

We assign recovery ratings to First Mortgage Bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the CCR category and the extent of the collateral coverage. The investment grade FMB recovery methodology is based on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and our view that the factors that supported those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance when assigning issue ratings to utility FMBs. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories. (See Criteria: Changes To Collateral Requirements For '1+' Recovery Ratings On U.S. Utility First Mortgage Bonds, published Sept. 6, 2007.)

Niagara Mohawk, Colonial Gas, and Narragansett Electric's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' for each subsidiary and an issue rating one notch above the CCR.

Outlook

The stable outlook on National Grid USA and subsidiaries mirrors that of ultimate parent, NG and reflects our view that the group's operational and financial performance will continue to be solid. It also reflects our belief that NG will continue to focus on regulated gas and electricity network businesses in the U.K. and the U.S., while maintaining consolidated adjusted FFO to total debt of more than 12%. A downgrade could occur if NG's financial performance were to deviate materially from our forecasts without the implementation of offsetting measures, or if the group were to undertake a significant acquisition. In that regard, if consolidated FFO to total debt were to decline to 10%-11% due to higher capital outlays and acquisitions and associated debt financing, ratings could be lowered. Although we view the May 2010 rights issue as providing a more comfortable degree of headroom than existed previously at the current rating level, we continue to view an upgrade as unlikely because of NG's ambitious growth plans and our view on its future financial performance.

Related Criteria And Research

- Use Of CreditWatch And Outlooks, Sept. 14, 2009.
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008.
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009.
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004.
- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010.

MOODY'S
INVESTORS SERVICE

Credit Opinion: National Grid Plc

Global Credit Research - 07 Jun 2011

London, United Kingdom

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	(P)P-2
National Grid Generation LLC	
Outlook	Stable
Issuer Rating	Baa1
National Grid Electricity Transmission plc	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2
Other Short Term	(P)P-2
National Grid Gas Plc	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2
Other Short Term	(P)P-2

Contacts

Analyst	Phone
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Joanna Fic/London	
Monica Merli/London	

Key Indicators

National Grid Plc

	Mar-2009	[1]Mar-2008	[1]Mar-2007
EBITA Margin	16.6%	28.3%	29.9%
FFO Interest Coverage	3.1x	3.1x	3.7x
FFO / Net Debt	11.5%	13.5%	19.1%
RCF/ Net Debt	8.1%	9.2%	13.6%
RCF / Capex + Investments (net of disposals)	62.9%	26.7%	71.4%
Debt / Book Capitalisation	81.0%	71.5%	72.0%

[1] Restated

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

National Grid Plc ("National Grid", rated Baa1/P-2) is the holding company for a range of largely regulated businesses focusing on the ownership and operation of electricity and gas networks in the UK and the US.

In the UK, National Grid Electricity Transmission plc ("NGET", rated A3), owns the high-voltage electricity transmission network in England and Wales and operates the system across Great Britain. National Grid Gas plc ("NGG", rated A3) owns and operates the high pressure gas transmission system in Britain and its distribution business delivers gas to 11 million homes and commercial customers.

In the US, National Grid distributes electricity to nearly five million customers in Massachusetts, New Hampshire, New York and Rhode Island. Owning 4,000 megawatts of electricity generation, it is the largest power producer in New York State - carrying power to over one million customers on Long Island. It is also the largest distributor of natural gas in the northeastern US, delivering gas to 3.4 million customers in New York, Massachusetts, New Hampshire and Rhode Island.

National Grid also has a number of related unregulated businesses such as Liquefied Natural Gas importation and storage, land remediation and metering. These operate mostly in the UK and are modest in the context of the group as a whole, accounting for around 5% of revenue and 3% of operating profit in the year to March 2011.

Recent Developments

National Grid reported its preliminary results for 2010/11 on 19 May 2011, announcing:

- Pre-tax profit up 25%

- Operating profit up 15%

- Capital investment of £3.6 billion including £2.1 billion in the UK regulated businesses

Moody's notes that timing differences, accounting for GBP433 million, were a significant contributor to the GBP476 million growth in operating profit for 2010/11. However, net regulated income also increased, by GBP203 million, due to the emerging benefit of recent rate case settlements for the group's US operations together with customer growth and higher volumes in the US (see comment on decoupling in Ability to Recover Costs and Earn Returns below). With low inflation/deflation during 2009 limiting allowed tariff increases under the regulatory RPI-X formula, operating profit for the UK transmission business grew by 4% whilst that for gas distribution fell by 2%.

With gains in the US being offset, to a large extent by higher post-retirement costs (up by GBP89 million) and depreciation (up by GBP41 million), the increase in operating profit on a constant currency basis and excluding timing differences was only around 1%.

Ofgem, the regulator for the electricity and gas markets in Great Britain, is continuing consultations on its new RIIO (which stands for Revenues, Incentives, Innovation and Outputs) approach to price controls. As the next part of this process, NGG and NGET will submit business plans for the period from April 2013 to March 2021 in July 2011. These plans will include National Grid's proposals for matters including incentives and transitional arrangements regarding proposed changes to asset depreciation.

In January 2011, National Grid announced a restructuring of its US operations and an efficiency programme targeting a USD200 million per annum cost reduction which it expects to achieve by the end of the 2011/12 financial year.

Rating Rationale

Moody's rating assessment of National Grid is based on the rating agency's methodologies for (i) Regulated Electric and Gas Utilities published in August 2009 and (ii) complex European utility groups (see European Regulated Utility Groups: Methodology Update, January 2007). The ratings reflect the clear and conservative business strategy of the group with its focus on regulated operations in the UK and US but also the high level of debt, a large ongoing capital investment programme and the level of shareholder returns.

DETAILED RATING CONSIDERATIONS

The following factors influence National Grid's ratings:

FACTOR 1: REGULATORY FRAMEWORK

In the UK, NGG and NGET are subject to regulation by Ofgem whilst National Grid's regulated US subsidiaries are variously subject to regulation by FERC, New York PSC, Massachusetts DPU, Rhode Island PUC and New Hampshire PUC.

There are some similarities between the regulatory regimes in the US and UK. For example, each is based on a building block approach intended to allow the regulated entity to recover its operating costs, pay tax, receive regulatory depreciation and earn a return on past investments. However, there are important differences: (i) the US system is often based on historic rather than prospective costs although this is not the case in New York and Rhode Island; (ii) returns are determined on a nominal basis in the US but a real basis in the UK; (iii) US regulators take account of the actual rather than a notional capital structure; and (iv) US utilities are able to make full or partial filings as necessary rather than being bound by a fixed regulatory timetable as is the case in the UK. We note also that the US system is quasi-judicial with multiple parties including government bodies and officials, consumer advocacy groups and various energy consumers, who have differing concerns, but generally a common objective of limiting rate increases.

Whilst noting the continuing RIIO process, Moody's considers the regulatory regime in the UK to be stable and predictable with a track record that demonstrates a high degree of transparency and hence limited regulatory uncertainty. For NGG and NGET we assign a score of Aaa for Regulatory Framework. This is consistent with the score assigned for the stability and predictability of the regulatory regime for other regulated network businesses in the UK.

National Grid's US operating subsidiaries benefit from well developed regulatory frameworks but they are not considered by Moody's to be as predictable or transparent as the regime in the UK. In particular there is evidence of some inconsistency or unpredictability in their application inter alia due to political considerations or pressure. On this basis, we assign a score of Baa for Regulatory Framework for the US subsidiaries and a blended score of Aa for the group as a whole for this rating factor.

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

National Grid's ability to recover its costs and earn returns differs across the different subsidiaries and regulatory jurisdictions although, further to our comments on the different regulatory frameworks, the extent of the variation is limited. In the UK, NGG and NGET benefit from a tariff formula that allows for the recovery of efficient expenditure and depreciation set by Ofgem at five-yearly periodic reviews (expected to be extended to eight years under RIIO). Rate/tariff reviews and cost recovery in the US is considered to be fairly predictable with new plans providing a generally fair return on investments with limited instances of regulator challenge.

A number of National Grid's regulated US subsidiaries have suffered poor returns over recent years as they have reached the end of long-term (10 year) rate plans. This has been due to higher than anticipated capital expenditure (capex), bad debts and increasing pension and healthcare costs and the achieved return on equity for the group had, in some cases, fallen below 5%. Since January 2008, new rate cases have come into effect for all of National Grid's US rate base and the group has been largely but not wholly successful in achieving an allowed return on equity in excess of 10% and meeting its goals including revenue decoupling, pension and other true ups and capex trackers. The most recent rate case settlement, for the Niagara Mohawk electric business, which accounts for 25% of National Grid's US rate base, was announced in January 2011 with the New York PSC approving a 9.3% return on equity and a USD119 million rate increase, some way short of what was requested.

For 2010/11, National Grid reported an achieved return on equity for its US operations of 8.2%, up from 6.9% for the prior year but still very much below the 11.9% three year average RoE for the group as a whole (as calculated by National Grid). Further rate case filings for the US businesses are anticipated as the group tries to improve returns, particularly in the 11% of its rate base that it describes as `underperforming' and we also note the ongoing cost cutting exercise.

Following the approval of decoupling plans for NG's Rhode Island business, all of the group's continuing US distribution businesses will feature decoupling as part of their rate plans. We do not, therefore, anticipate the group benefitting in the future from hot summers, as was the case for year to March 2011. Conversely, the group will not be exposed to lower demand.

We assign a score of single-A for Ability to Recover Costs and Earn Returns under the methodology on a blended basis. This score recognises that rate/tariff review outcomes across the group are fairly predictable with a generally fair return on investments albeit there is a tendency toward politically motivated challenge or intervention in the US which would result in some of those subsidiaries being scored in the Baa category for this factor. A majority of the issuers covered by the methodology are scored in the single-A/Baa categories.

FACTOR 3: DIVERSIFICATION

Diversification is considered under the Regulated Electric and Gas Methodology as, in general, a balance among several different businesses, geographic regions or regulatory regimes reduces the risk that a company will experience a sudden or rapid deterioration in its overall creditworthiness because of an adverse development specific to any one part of its operation.

National Grid has material operations in gas transmission and distribution, electricity transmission, distribution and generation across a number of different regions and regulatory regimes and thus enjoys the benefit of significant diversification. We thus assign a score of Aa for this factor .

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

National Grid demonstrated solid performance in terms of its key financial metrics for the year to March 2010, reflecting strong earnings growth for the regulated UK electricity and gas transmission and distribution businesses. Key ratios for the year to March 2011 will benefit from receipt of the GBP3.2 billion rights issue proceeds and also the impact of the weakening USD/GBP exchange rate on the group's USD denominated debt. However, the group reported only a 2% reduction in net finance costs for FY11 with higher interest charges for the group's index-lined debt offsetting the reduction in net debt due to the rights issue.

The credit metrics for National Grid under the Regulated Electric and Gas Methodology result in scores in the Baa range.

As was the case prior to the introduction of the Regulated Electric and Gas Methodology, we will continue to focus on the RCF/Net Debt and FFO Interest Cover ratios for the group as a whole. Moody's considers that these two metrics effectively capture the group's financial performance and allow the rating agency to provide clear guidance to the group and the market. Moody's guidance for the group's current ratings are FFO interest cover of at least 3.0x and RCF to Net Debt of at least 9.0%.

In its analysis, Moody's also considers the debt capacity of the group. We calculate the excess debt capacity at each operating company i.e. debt capacity at the current rating level less the amount of debt then outstanding. We then compare the aggregate debt capacity across all of the operating companies with the debt at National Grid plc to see if it is adequately supported. Our analysis suggested that this was the case as at March 2010 and the rights issue will have provided further headroom.

Liquidity

As at 31 March 2011, National Grid had cash and cash equivalents of GBP384 million, GBP2,939 million of financial instruments and around GBP2.6 billion of undrawn committed bank facilities.

National Grid enjoys good access to the capital markets although issuance was limited during FY11 following receipt of the rights issue proceeds. Indeed, to manage its cash resources efficiently, the group used around GBP1.3 billion of cash to redeem a range of debt securities and bank loans during the year.

National Grid's liquidity profile is generally characterised by cash inflows from dividends and intercompany interest from its regulatory ring fenced subsidiaries. These cash streams fund the company's dividend and interest, although the latter is predominantly serviced from USD cash streams derived from the US operations. The regulatory frameworks in the US and the UK provide some degree of restriction in terms of dividend distributions, whereby lock-ups will usually be triggered as soon as the operating entity is at the risk of losing its investment-grade rating. For the US subsidiaries also certain leverage levels are applied, which if breached would trigger distribution lock-ups. As such these dividend inflows are of less quality to the group than actual cash reserves, but Moody's acknowledges that at current rating and leverage levels there remains adequate headroom for dividend payments from the operating subsidiaries.

Moody's notes National Grid's large capital programme. For the financial year ending March 2011, the group invested a total of GBP3.6 billion, GBP265 million more than in the prior year (but GBP300 million less than previously anticipated by the group). Over the four years to March 2015, the group plans to invest around GBP19 billion. These investments are primarily driven by a need for asset replacement, but also changes in sources of gas supply and electricity generation. The management of the capital programme and the associated funding is considered a key challenge for the group, as the plan relates largely to non-discretionary capex.

National Grid has a US CP programme (USD3.0 billion) and ECP programme (USD1.5 billion), which are utilised for working capital management and to help hedge the group's US investments exposure. As of 31 March 20011 there was no outstanding issuance under the programmes. Moody's notes management's treasury policy to limit issuance at any one time to the amount of its committed back-up facilities, to the extent that these lines are not already utilised to back up National Grid USA's, NGET's or NGG's CP issuance.

Structural Considerations

National Grid's assigned Baa1/P-2 ratings take into account structural subordination of current and future anticipated debt. The ratings thereby reflect bondholders' distance from the operating companies' cash flows, the size of current and anticipated future debt carried by the operating entities and the possible negative consequences of the regulatory ring-fencing applicable to the UK operating companies for bondholders at National Grid. Moody's notches the holding company by one notch down from the consolidated group's credit quality, which is seen as low single-A, in line with the methodology grid implied A3 rating shown in the table below.

Rating Outlook

The 2010 rights issue strengthened National Grid's balance sheet, establishing a degree of headroom within the current rating categories which has, in recent years, been absent. This headroom is, however, expected to be eroded over the medium term by the continuing capital investment programme and dividend payments.

What Could Change the Rating - Down

Moody's anticipates that National Grid will demonstrate that it is able to achieve ratios of (i) consolidated RCF to Net Debt in excess of 9.0% and (ii) FFO Interest Cover in excess of 3.0x in 2011/12 and beyond and a failure to do so would likely lead to negative rating pressure.

We anticipate that any large expansion of the capital investment programme or material acquisitions will be supported by balance sheet strengthening.

What Could Change the Rating - Up

The rights issue announced in May 2010 left National Grid and its subsidiaries better positioned in their rating categories. Moody's notes however the large capital investment programme for the UK and the possibility of additional investment in the US (above and beyond what is currently planned) which will most likely reduce financial flexibility over time. The rating agency further considers that the group will favour using free cash flow to fund shareholder distributions and/or support growth rather than to reduce gearing. On this basis, upward rating pressure for National Grid and its subsidiaries is considered unlikely in the medium term.

Rating Factors

National Grid Plc

Regulated Electric and Gas Utilities	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
Factor 1: Regulatory Framework (25%)		X				
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (10%)		X				
b) Generation and Fuel Diversity (0%)						
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)				X		
b) FFO Interest Cover				X		
c) FFO / Debt				X		
d) RCF / Debt				X		
e) Debt / Capitalization						X
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**Baa1**			

* 3-year average

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MOODY'S
INVESTORS SERVICE

Credit Opinion: National Grid USA

Global Credit Research - 21 Jun 2011

Westborough, Massachusetts, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Parent: National Grid Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	(P)P-2
National Grid Generation LLC	
Outlook	Stable
Issuer Rating	Baa1
KeySpan Corporation	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Subordinate Shelf	(P)Baa2
Preferred Shelf	(P)Baa3
KeySpan Trust I	
Outlook	Stable
Bkd Preferred Shelf	(P)Baa2

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Key Indicators

National Grid USA[1]

	3/31/2010	3/31/2009	3/31/2008	3/31/2007	3/31/2006
CFO pre-WC + Interest/ Interest	5.8x	2.7x	4.3x	5.8x	6.1x
CFO pre-WC / Debt	21.8%	13.0%	18.3%	30.2%	30.7%
CFO pre-WC - Dividends / Debt	20.1%	13.0%	17.8%	24.2%	29.5%
Debt / Capitalization	38.9%	33.3%	34.8%	31.2%	32.5%

[1] All ratios are calculated using Moody's Standard Adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

National Grid USA ("NG USA") is a wholly owned subsidiary of National Grid plc ("National Grid" rated Baa1/Prime-2), a holding company headquartered in the United Kingdom for a range of largely regulated businesses operating in the United Kingdom and United States.

NG USA is the holding company for five local electricity distribution subsidiaries and one electric transmission subsidiary conducting activities in New York, Massachusetts, Rhode Island and New Hampshire. These include New England Power Company (rated A3), Massachusetts Electric Company (rated A3), The Narragansett Electricity Company ("NEC", rated A3) and Niagara Mohawk Power Corporation (rated A3). In addition, NG USA is the holding company for KeySpan Corporation ("KeySpan", rated Baa1), which was acquired in August 2007 and operates six regulated utilities that distribute natural gas in New York City, Long Island, Massachusetts and New Hampshire including Boston Gas Company (rated Baa1), Colonial Gas Company (rated A3), Brooklyn Union Gas Company and KeySpan Gas East Corporation (rated A3).

KeySpan also owns and operates electric generating plants in Nassau and Suffolk Counties on Long Island and is among the largest investor owned electric generation operators in New York State. Under contractual arrangements, it also provides power, electric transmission and distribution services, billing and other customer services for approximately one million customers of Long Island Power Authority.

The outlook on all ratings is stable.

Recent Developments

Moody's downgraded the ratings of NG USA to Baa1/Prime-2 from A3/Prime-2 on 23 May 2011. This rating action followed the announcement that 50% of NG USA's ordinary shares had been converted into preference shares indirectly held by NG USA's parent, National Grid Holdings Inc ("NGHI"). Based on Moody's methodology for hybrid instruments (see Revisions to Moody's Hybrid Tool Kit) and NGHI's 100% ownership of NG USA, the preference shares were considered to significantly increase gearing at NG USA to the detriment of its stand-alone credit profile. In particular, the preference shares substantially eliminated excess debt capacity which had previously supported NG USA's rating above the Baa1 level implied by Moody's methodology for complex European utility groups.

National Grid reported its preliminary results for 2010/11 on 19 May 2011, announcing:

- Pre-tax profit up 25%

- Operating profit up 15%

- Capital investment of £3.6 billion including £2.1 billion in the UK regulated businesses

Moody's notes that timing differences, accounting for GBP433 million, were a significant contributor to the GBP476 million growth in operating profit for 2010/11. However, net regulated income also increased, by GBP203 million, due to the emerging benefit of recent rate case settlements for the group's US operations together with customer growth and higher volumes in the US (see comment on decoupling in Ability to Recover Costs and Earn Returns below). With low inflation/deflation during 2009 limiting allowed tariff increases under the regulatory RPI-X formula, operating profit for the UK transmission business grew by 4% whilst that for gas distribution fell by 2%.

With gains in the US being offset, to a large extent by higher post-retirement costs (up by GBP89 million) and depreciation (up by GBP41 million), the increase in operating profit on a constant currency basis and excluding timing differences was only around 1%.

In January 2011, National Grid announced a restructuring of its US operations and an efficiency programme targeting a USD200 million per annum cost reduction which it expects to achieve by the end of the 2011/12 financial year.

Rating Rationale

Moody's rating assessment of NG USA is based on the rating agency's methodologies for (i) Regulated Electric and Gas Utilities published in August 2009 and (ii) complex European utility groups (see European Regulated Utility Groups: Methodology Update, January 2007). The rating reflects NG USA's focus on regulated operations in the US but also the high level of debt, a sizeable ongoing capital investment programme and the dividend payments made to National Grid. NG USA's ratings are also subject to the cap of the overall credit quality of the National Grid group, which we currently assess in low single-A.

DETAILED RATING CONSIDERATIONS

The following factors influence NG USA's ratings under the Regulated Electric and Gas Utilities methodology:

FACTOR 1: REGULATORY FRAMEWORK

NG USA's subsidiaries are subject to regulation by the local state commissions, including the New York Public Service Commission ("NY PSC"), the Massachusetts Department of Public Utilities, the Rhode Island Public Utilities Commission and the New Hampshire Public Service Commission. The Federal Energy Regulatory Commission also has some jurisdiction with respect to transmission activities.

Moody's has a generally favourable view of the regulatory environments in which the NG USA businesses operate. However, we also consider that the US regulatory framework poses a number of challenges for the utilities and is less attractive than that covering National Grid's regulated UK operations.

There are similarities between the regulatory regimes in the US and UK. For example, each is based on a building block approach intended to allow the utility to recover its operating costs, pay tax, receive regulatory depreciation and earn a return on past investments. However, there are important differences: (i) in many states, the system is based on historic rather than prospective costs as in the UK; (ii) returns are determined on a nominal basis in the US but a real basis in the UK; (iii) US regulators take account of the actual rather than a notional capital structure; and (iv) US utilities are able to make full or partial filings as necessary rather than being bound by a fixed regulatory timetable as in the UK. Finally, the US system is quasi-judicial with multiple parties including government bodies and officials, consumer advocacy groups and various energy consumers, who have differing concerns, but generally a common objective of limiting rate increases.

Whilst the regulatory framework in the US is, in general, well developed, it can be politically charged and challenging for the utility. This is not helped by the fact that transmission/distribution utilities often bill customers for both the cost of transmission/distribution and the energy that they consume and regulators look at the total impact on bills of each decision that they make. Particularly when general economic conditions are difficult, it can be hard for regulated US utilities to achieve support for planned investments and what they may consider an adequate level of returns in new rate case applications.

We assign NG USA a score of Baa for the Regulatory Framework sub-factor under the Regulated Electric and Gas Utilities methodology recognising the established framework but also the associated challenges for the regulated companies. This is in line with the score assigned to many of the rated US utilities for this sub-factor but below the Aa assigned to the parent company, National Grid plc. The parent company score reflects the regulatory framework for the US subsidiaries and also Moody's favourable view of the regime which applies to the group's UK operations.

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

National Grid has made rate case filings with respect to all of its US rate base since 2008 and has largely but not always achieved its goals in terms of plans for its US subsidiaries. The most recent rate case settlement, for the Niagara Mohawk electric business, which accounts for 25% of National Grid's US rate base, was announced in January 2011 with the NY PSC approving a 9.3% return on equity and a USD119 million rate increase, some way short of what was requested. Further rate case filings are anticipated over the short to medium term as the group tries to improve returns, particularly in the 11% of its rate base that it describes as 'underperforming'.

Following the approval of decoupling plans for NG's Rhode Island business, all of the group's continuing US distribution businesses will feature decoupling as part of their rate plans. We do not, therefore, anticipate the group benefitting in the future from hot summers, as was the case for the year to March 2011. Conversely, the group will not be exposed to lower demand.

We assign a score of A for this sub-factor under the Regulated Electric and Gas Utilities methodology recognising that rate reviews for NG USA's subsidiaries are conducted within an established framework but are nevertheless prone to political interference and challenge resulting in a degree of uncertainty about the company's ability to recover its costs and earn the targeted level of returns. This scoring, which reflects the portfolio of businesses and regulatory regimes, is above that assigned, for example, to NEC (Baa) but in line with that for many other rated US utilities and that for National Grid plc, which reflects the group's US and UK operations.

FACTOR 3: DIVERSIFICATION

Diversification is considered under the Methodology as, in general, a balance among several different businesses, geographic regions or regulatory regimes reduces the risk that a company will experience a sudden or rapid deterioration in its overall creditworthiness because of an adverse development specific to any one part of its operation.

We assign a score of single-A to NG USA under this sub-factor recognising that it has material operations in a number of states and therefore benefits from diversification in both markets and regulation. This scoring is in line with that assigned to a number of the larger US utilities but below the Aa scoring for National Grid as a group.

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

We assign a score in the Baa range for financial strength based on the key metrics under the Methodology.

NG USA maintains a sufficient level of liquidity primarily by supplementing dividends received from its subsidiaries through participation in a money pool, the purpose of which is to utilise family cash resources more effectively and reduce the need for external short-term borrowing. Participating subsidiary companies and the parent contribute their excess cash to the pool which is first used to meet the short-term borrowing needs of eligible subsidiaries. Companies borrowing from the pool pay rates linked to A1/P-1 30-day commercial paper rates. Any remaining cash is typically invested into Aaa rated money funds with same day liquidity. As a measure of additional security National Grid plc has the ability to increase the amount of cash in the pool through direct loans to NG USA. Alternatively, NG USA can also issue commercial paper and medium term notes in lieu of or to supplement direct loans from the UK parent.

As of March 31, 2010, NG USA had about USD100 million of unrestricted cash on hand and approximately USD275 million of short-term debt outstanding to affiliates under the money pool. NG USA's next long-term debt maturity is a EUR20 million medium term note due in May 2012.

Rating Outlook

The outlook for NG USA's ratings is stable reflecting Moody's outlook on the credit quality of the National Grid group as a whole.

What Could Change the Rating - Down

A deterioration in the consolidated credit quality of the National Grid group, even if unrelated to NG USA, which resulted in the consolidated credit profile being viewed as below single-A, would be likely to negatively impact NG USA's ratings. NG USA's ratings could come under downward pressure if the ratio of CFO Pre-W/C to Debt appeared likely to remain below mid-teens over the medium term.

What Could Change the Rating - Up

The 2010 rights issue left National Grid and its subsidiaries better positioned in their rating categories. Moody's notes however the large capital investment programme for the UK and the possibility of additional investment in the US (above and beyond what is currently planned) which will most likely reduce financial flexibility over time. The rating agency further considers that the group will favour using free cash flow to fund shareholder distributions and/or support growth rather than to reduce gearing. On this basis, upward rating pressure for National Grid and its subsidiaries is considered unlikely in the medium term.

Rating Factors

National Grid USA
543500

Regulated Electric and Gas Utilities Industry [1][2]	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)						
a) Regulatory Framework				X		
Factor 2: Ability To Recover Costs And Earn Returns (25%)						
a) Ability To Recover Costs And Earn Returns			X			
Factor 3: Diversification (10%)						
a) Market Position			X			

b) Generation and Fuel Diversity						
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)						
a) Liquidity				X		
b) CFO pre-WC + Interest/ Interest (3 Year Avg)				X		
c) CFO pre-WC / Debt (3 Year Avg)				X		
d) CFO pre-WC - Dividends / Debt (3 Year Avg)			X			
e) Debt/Capitalization (3 Year Avg)			X			
Rating:						
a) Indicated Rating from Grid				Baa1		
b) Actual Rating Assigned				Baa1		

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2010; Source: Moody's Financial Metrics

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Moody's
INVESTORS SERVICE

Credit Opinion: Narragansett Electric Company

Global Credit Research - 28 Jun 2011

Providence, Rhode Island, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	(P)A1
Senior Unsecured	A3
Pref. Stock	Baa2
Ult Parent: National Grid Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	(P)P-2
Parent: National Grid USA	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2

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Key Indicators

Narragansett Electric Company[1]

	3/31/2010	3/31/2009	3/31/2008	3/31/2007
CFO pre-WC + Interest/ Interest	11.1x	7.0x	8.6x	10.8x
CFO pre-WC / Debt	16.0%	16.2%	63.5%	52.9%
CFO pre-WC - Dividends / Debt	-20.7%	16.2%	63.5%	24.4%
Debt / Capitalization	36.9%	23.5%	9.3%	11.6%

[1] All ratios are calculated using Moody's Standard Adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Narragansett Electric Company ("NEC") is a retail distribution company providing electric service to approximately 487,000 customers and gas service to approximately 255,000 customers in 38 cities and towns in Rhode Island. For the year ended March 31, 2010, NEC reported operating revenues for electricity of USD879 million (2009: USD1,128 million) and for gas of USD464 million (2009: USD464 million).

NEC is a wholly owned subsidiary of National Grid USA ("NG USA" rated Baa1/Prime-2, stable) whose ultimate parent is National Grid plc (rated Baa1/Prime-2, stable), a holding company for a range of largely regulated businesses, including transmission and distribution networks in the UK and the Northeastern US.

Recent Developments

Moody's downgraded the ratings of NG USA to Baa1/Prime-2 from A3/Prime-2 on 23 May 2011. This rating action followed the announcement that 50% of NG USA's ordinary shares had been converted into preference shares indirectly held by NG USA's parent, National Grid Holdings Inc ("NGHI"). Based on Moody's methodology for hybrid instruments (see Revisions to Moody's Hybrid Tool Kit) and NGHI's 100% ownership of NG USA, the preference shares were considered to significantly increase gearing at NG USA to the detriment of its stand-alone credit profile. In particular, the preference shares substantially eliminated excess debt capacity which had previously supported NG USA's rating above the Baa1 level implied by Moody's methodology for complex European utility groups.

National Grid reported its preliminary results for 2010/11 on 19 May 2011, announcing:

- Pre-tax profit up 25%

- Operating profit up 15%

- Capital investment of £3.6 billion including £2.1 billion in the UK regulated businesses

Moody's notes that timing differences, accounting for GBP433 million, were a significant contributor to the GBP476 million growth in operating profit for 2010/11. However, net regulated income also increased, by GBP203 million, due to the emerging benefit of recent rate case settlements for the group's US operations together with customer growth and higher volumes in the US. With low inflation/deflation during 2009 limiting allowed tariff increases under the regulatory RPI-X formula, operating profit for the UK transmission business grew by 4% whilst that for gas distribution fell by 2%.

With gains in the US being offset, to a large extent by higher post-retirement costs (up by GBP89 million) and depreciation (up by GBP41 million), the increase in operating profit on a constant currency basis and excluding timing differences was only around 1%.

In January 2011, National Grid announced a restructuring of its US operations and an efficiency programme targeting a USD200 million per annum cost reduction which it expects to achieve by the end of the 2011/12 financial year.

Rating Rationale

Moody's rating assessment of NEC is based on the rating agency's rating methodology for Regulated Electric and Gas Utilities published in August 2009, and primarily reflects the company's favourable business and operating risk profile underpinned by its natural monopoly position and strong cash flow generation from its regulated activities. The rating also takes into account the company's ownership by National Grid in light of Moody's methodology for complex European utility groups (see European Regulated Utility Groups: Methodology Update, January 2007).

DETAILED RATING CONSIDERATIONS

The following factors influence Narragansett's rating under the Regulated Electric and Gas Utilities methodology.

FACTOR 1: REGULATORY FRAMEWORK

Moody's has a generally favourable view of the regulatory environment in which NEC operates but it is considered less attractive than that covering National Grid's regulated UK subsidiaries and poses a number of challenges for the company.

NEC is subject to regulation by the Rhode Island Public Utilities Commission ("RIPUC") and the Federal Energy Regulatory Commission ("FERC") with respect to the rates that it charges its customers. The RIPUC regulates retail services, including the distribution and sale of natural gas and electricity to consumers. FERC regulates interstate natural gas transportation and electric transmission and has jurisdiction over certain wholesale natural gas sales and wholesale electric sales.

The US regulatory framework has some similarities with that in the UK. For example, each is based on a building block approach intended to allow the utility to recover its operating costs, pay tax, receive regulatory depreciation and earn a return on past investments. However, there are important differences: (i) in many states, the system is based on historic rather than prospective costs; (ii) returns are determined on a nominal rather than a real basis; (iii) US regulators take account of the actual rather than a notional capital structure; and (iv) US utilities are able to make full or partial filings as necessary rather than being bound by a fixed regulatory timetable. Finally, the US system is quasi-judicial with multiple parties including government bodies and officials, consumer advocacy groups and various energy consumers, who have differing concerns, but generally a common objective of limiting rate increases.

Whilst the regulatory framework in the US in general and for NEC specifically is well developed, it can be politically charged and challenging for the utility. This is not helped by the fact that NEC bills many of its customers (including most if not all residential customers) for both the cost of transmission/distribution and the energy that they consume and regulators look at the total impact on bills of each decision that they make. Particularly when general economic conditions are difficult, it can be hard for regulated US utilities to achieve support for planned investments and what they may consider an adequate level of returns in new rate case applications.

We assign NEC a score of Baa for the Regulatory Framework sub-factor under the Methodology recognising the established framework but also the associated challenges for the operator. This is in line with the score assigned to many of the rated US utilities for this sub-factor but below the Aa assigned to the parent company, National Grid plc. The parent company score reflects the regulatory framework for the US subsidiaries and also Moody's favourable view of the regime which applies to the group's UK subsidiaries.

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

In June 2009, NEC filed a rate case application for its electricity distribution business seeking inter alia a revenue increase of USD75.3 million per year (a 34% increase) based on a return on equity of 11.6%, rate decoupling (meaning that future revenues would not be exposed to electricity consumption) and a capital tracker adjustment designed to match actual capital expenditures incurred to amounts recovered in base rates. The requested revenue increase was subsequently revised downwards to USD67.5 million.

In February 2010, the RIPUC allowed an increase in distribution revenue of approximately USD23.5 million, based on a return on equity of 9.8% with effect from the beginning of that year. The regulator disapproved several of NEC's other proposals including revenue decoupling and the capital tracker adjustment. NEC filed a petition with the Rhode Island Supreme court appealing the RIPUC's decision in April 2010.

In May 2010, Rhode Island enacted decoupling legislation that provides for the annual reconciliation of the revenue requirement allowed in NEC's base distribution rates to actual revenue received for both the electric and gas business. The law also provided for the submission and approval of annual infrastructure spending plans that would provide for a reconciling allowance for anticipated capital spending on utility infrastructure and other costs related to maintaining system safety and reliability on an annual basis, without having to file a full base rate case.

The achieved return on equity for the electric business in 2010 was 11.8%.

In November 2008, the RIPUC approved a rate plan which provided for a 10.9% increase in gas distribution revenues based on a 10.5% allowed ROE together with a full reconciliation of pension and postretirement benefits other than pensions and a capital investment reconciliation. As for electricity, the RIPUC denied a revenue decoupling proposal, however, the May 2010 legislation discussed above, also applies to NEC's gas business and provides for decoupling as is typically employed by gas utilities in the US. NEC filed its decoupling plan for gas and electricity in October 2010 and, once approved, this is expected to apply retrospectively from April 2011.

The achieved return on equity for the gas business in 2010 was 1.7% but, according to National Grid, would have been 8.4% if the new rate plan had been in effect for the full year.

We assign a score of Baa for this sub-factor under the Methodology recognising that rate reviews for NEC are conducted within an established framework but are nevertheless prone to political interference and challenge resulting in a degree of uncertainty about the company's ability to recover its costs and earn the targeted level of returns. This scoring is in line with that for many other rated US utilities but below the single-A assigned to National Grid plc, reflecting the group's US and UK operations.

FACTOR 3: DIVERSIFICATION

Diversification is considered under the Methodology as, in general, a balance among several different businesses, geographic regions or regulatory regimes reduces the risk that a company will experience a sudden or rapid deterioration in its overall creditworthiness because of an adverse development specific to any one part of its operation.

We assign a score of Ba to NEC under this sub-factor recognising the limited scale of its operations and very significant exposure to the decisions of the RIPUC. This scoring is below that assigned to the larger US utilities, many of which are scored in the Baa to single-A range and the Aa scoring for National Grid as a group.

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

NEC has historically had very robust financial metrics, typical of what we might expect to see for a Aa rated utility. With increasing borrowing (NEC issued USD550 million of bonds in March) and the payment of dividends (USD320 million during 2010), the key metrics have weakened but are nevertheless consistent with a rating in low single-A.

Liquidity

NEC maintains a sufficient level of liquidity primarily by supplementing its internally generated cash flow through participation in the NG USA money pool, the purpose of which is to utilise family cash resources more effectively and reduce the need for external short-term borrowing. Participating subsidiary companies contribute their excess cash to the pool which is first used to meet the short-term borrowing needs of eligible subsidiaries. Companies borrowing from the pool pay rates linked to A1/P-1 30-day commercial paper rates. Any remaining cash is typically invested into Aaa rated money funds with same day liquidity. As a measure of additional security, NG USA's parent, the UK-based National Grid plc, has the ability to increase the amount of cash in the pool through direct loans to NG USA. Alternatively, NG USA can also issue commercial paper and medium term notes in lieu of or to supplement direct loans from the UK parent.

As of March 31, 2010, NEC had about US$7.7 million of unrestricted cash on hand and approximately US$71 million of short-term debt outstanding to affiliates under the money pool. Aside from modest sinking fund payments in the future, NEC's next long-term debt maturity is not until a US$14.5 million first mortgage bond issue matures on April 1, 2018.

We note the sale by NEC in March 2010 of USD550 million of 10 and 30-year bonds. According to the company, proceeds are to be used to (i) retire short-term debt, (ii) to finance future capital expenditure and/or (iii) for general corporate purposes, including the payment of dividends. Capital expenditures for the fiscal year ended March 31, 2010 were about USD155 million (2009: USD122 million) and are expected to be at least that amount or slightly more for the 2011 fiscal year as the company continues its Reliability Enhancement Program and participation in regional transmission projects with other utilities.

Rating Outlook

The outlook for NEC rating is stable reflecting Moody's outlook on the credit quality of the National Grid group as a whole.

What Could Change the Rating - Up

The 2010 rights issue left National Grid and its subsidiaries better positioned in their rating categories. Moody's notes however the large capital investment programme for the UK and the possibility of additional investment in the US (above and beyond what is currently planned) which will most likely reduce financial flexibility over time. The rating agency further considers that the group will favour using free cash flow to fund shareholder distributions and/or support growth rather than to reduce gearing. On this basis, upward rating pressure for National Grid and its subsidiaries is considered unlikely in the medium term.

What Could Change the Rating - Down

On a stand-alone basis, NEC's ratings could come under pressure if coverage of interest and debt by cash flow from operations (exclusive of the effects of changes in working capital) were to fall below 4.5x and 22%. However, further to the comments above, we consider the company's ratings in the context of the National Grid group as a whole. Accordingly, whilst we may maintain the current rating even if ratios were to weaken below the above levels, there would be negative rating pressure if Moody's were to consider that the overall credit quality of the National Grid group had deteriorated.

Rating Factors

Narragansett Electric Company
525500

Regulated Electric and Gas Utilities Industry [1][2]	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)						
a) Regulatory Framework				X		
Factor 2: Ability To Recover Costs And Earn Returns (25%)						
a) Ability To Recover Costs And Earn Returns				X		
Factor 3: Diversification (10%)						
a) Market Position					X	
b) Generation and Fuel Diversity						
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)						
a) Liquidity				X		
b) CFO pre-WC + Interest/ Interest (3 Year Avg)	X					
c) CFO pre-WC / Debt (3 Year Avg)				X		
d) CFO pre-WC - Dividends / Debt (3 Year Avg)					X	
e) Debt/Capitalization (3 Year Avg)	X					
e) Net Debt / Regulated Asset Value (3 Year Avg)						
Rating:						
a) Indicated Rating from Grid				Baa1		
b) Actual Rating Assigned			A3			

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2010; Source: Moody's Financial Metrics

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September 26, 2011

Narragansett Electric Co.

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Narragansett Electric Co.

Major Rating Factors

Corporate Credit Rating

A-/Stable/A-2

Strengths:

- Consistent focus on low-risk electricity and natural gas transmission and distribution operations.
- Predictable revenues and cash flows from regulated activities, which account for over 97% of operating profits.
- Operating, market, and regulatory diversity in the U.K. and the U.S.
- Relatively supportive regulatory environments.
- Proven track record of managing large acquisitions.

Weaknesses:

- High consolidated financial leverage as a result of previous acquisitions.
- Substantial capital expenditures and dividends that will likely result in negative free cash flows over the medium term.
- Regulatory reset risk in U.K. and in the U.S.
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures.

Rationale

Standard & Poor's Ratings Services bases the ratings on Narragansett Electric Co. on the consolidated credit profile of its ultimate parent, U.K.-based gas and electricity network operator National Grid PLC (NG PLC) and its family of companies. Narragansett Electric is a wholly owned subsidiary of U.S.–based utility holding company National Grid USA, a wholly owned subsidiary of NG PLC. National Grid USA is also a subsidiary of intermediate holding company National Grid Holdings Inc. National Grid USA's main operating subsidiaries include Niagara Mohawk Power Corp., KeySpan Corp. and its units, New England Power Co., Narragansett Electric, Massachusetts Electric Co., Boston Gas Co., and Colonial Gas Co.

The ratings on NG PLC and its subsidiaries reflect our view of the strong and predictable cash flows from the group's low operating risk electricity and gas network operations in the U.K. and the U.S.; regulatory regimes in each of those countries that we consider to be broadly supportive of credit quality; a consistently applied strategic and financial policy; and a proven track record of managing large acquisitions.

These strengths are offset by NG PLC's relatively high financial leverage; a substantial capital expenditures (capex) program and unchanged dividend policy that together will likely result in negative free cash flows over the medium term; regulatory reset risk in the U.S. and the U.K.; and exposure to foreign exchange risks and inflation, which add volatility to Standard & Poor's-adjusted credit measures.

NG PLC has an excellent business risk profile (corporate business risk profiles are ranked from excellent to vulnerable) and a significant consolidated financial risk profile (financial profiles are ranked from minimal to highly leveraged). (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

National Grid USA delivers electric service to approximately 3.3 million electric customers in New York, Massachusetts, Rhode Island, and New Hampshire, and manages the electricity network on Long Island under an agreement with the Long Island Power Authority (LIPA) that expires in 2013. The company also owns over 4,000 megawatts of contracted generation that provides power to more than 1 million LIPA customers. National Grid USA also distributes natural gas to about 3.4 million customers in the same four states.

National Grid USA's consolidated business risk profile is also excellent, although weaker at KeySpan Corp. due to its riskier nonregulated generation operations. National Grid USA's business position is characterized by a focus on relatively low-risk regulated electric and natural gas transmission and distribution operations and regulatory, market, and operating diversification.

Narragansett Electric is a retail distribution company providing electric and gas service in Rhode Island. Narragansett Electric also has an excellent business risk position, reflecting relatively low-risk distribution operations, offset somewhat by regulation in Rhode Island, which we view as less credit supportive. In March 2011, the Rhode Island Public Utilities Commission approved a $3.3 million electric distribution rate increase and a $1.8 million gas rate hike. And, on July 26, 2011, the commission approved the company's request for revenue decoupling, which removes the link between revenues and sales so that the company is indifferent to changes in usage.

Historically, regulation in National Grid USA's service territory has been reasonably supportive of creditworthiness, but long-term rate plans, rate moratoriums, and regulatory lag have resulted in earned returns that are below the national average in some jurisdictions. However, with full realization of rate relief and authorization of various rate mechanisms and trackers, earned returns for certain subsidiaries have improved. In that regard, the U.S. business achieved an 8.2% return on equity (ROE) in 2010-2011 compared with 6.9% ROE in 2009-2010. In an effort to continue to increase returns in the U.S. and become more efficient, NG PLC announced a restructuring program in early 2011. The plan involves a regional focus and a reduction in operating costs of about $200 million by March 31, 2012, achieved mainly through a 7% reduction of the U.S workforce. The cost cuts, future rate relief, and mechanisms such as decoupling, capital trackers, and true-ups for commodity-related bad debt and pensions and other postretirement benefits should help to lift financial metrics and allow the utilities to earn closer to their allowed returns.

In light of National Grid USA's heavy capital expenditure phase and escalating cost pressures, timely and sufficient rate relief and alternative-cost-recovery rate mechanisms, as well as credit supportive action by management, will be important to enhance cash flow and earnings protection. Certain state regulators, however, will be reviewing prospective rate requests at a time of economic weakness, so the subsidiaries' ability to manage regulatory risk will be critical to credit quality.

In late 2010, NG PLC signed an agreement with a subsidiary of Algonquin Power & Utilities for the sale of its Granite State Electric and EnergyNorth businesses in New Hampshire for $285 million, plus an amount related to working capital. NG PLC decided to exit the businesses in New Hampshire, since their rate plans represent less than 2% of the U.S. rate base and do not enable the company to earn acceptable returns. Subject to various regulatory approvals, the sale is expected to close in the second half of 2011.

Key business and profitability developments

NG PLC reported a robust set of results for the 12 months ended March 31, 2011, with operating profit before exceptional items up by 15% year on year, to £3.6 billion. This increase resulted mainly from timing items of £433 million that will not be repeated this year. Pretax profit increased by 25% over the same period and financing costs decreased by 2% as higher costs related to the effect of inflation in the U.K. on indexation of inflation-linked debt (about 30% of NG PLC's long-term debt) were offset by lower net pension charges and lower overall net debt, reflecting the benefit of the cash proceeds of a rights issue.

NG PLC completed the £3.2 billion rights issue to support funding for a significant increase in the group's capex program. The program allows for £22 billion of capex in the next five years, compared with £14 billion in the five years up to March 2010. We expect the rights issue to position NG PLC more comfortably within the existing ratings, and to provide a degree of headroom that was previously lacking. In our opinion, the rights issue also underlines NG's unchanged goal of maintaining an 'A' category rating for its U.K. operating subsidiaries.

We believe that NG PLC's results will return to more moderate levels of growth in the next financial year. In our view, the increase in inflation in 2010-2011 will lead to higher inflation-linked regulated revenues in 2011-2012, which will be partially offset by an increase in financing costs on inflation-linked debt.

NG PLC's business risk has not materially changed over the past 12 months, in our view. The group remains focused on owning and operating regulated network assets in the U.K. and U.S., which account for over 97% of consolidated operating profit. NG PLC faces some regulatory reset risk in the U.S., and U.S. revenues remain subject to an element of volume risk, although this has significantly diminished with the renewal of rate plans that protect NG PLC from fluctuations in volumes sold. In an effort to increase returns in the U.S. and become more efficient, NG PLC recently announced a restructuring program. The plan involves a regional focus and a reduction in operating costs of about $200 million by March 31, 2012, achieved mainly through a 7% reduction of the U.S. workforce.

The group also remains exposed to risks arising from the regulatory reset in the U.K. (currently every five years). The next price control period starts in April 2013 and is currently under consultation at the industry regulator, the Office of Gas and Electricity Markets (Ofgem).

Key developments in consolidated cash flow and capital structure

NG PLC's robust performance in 2010-2011 resulted in strengthened credit metrics for the group. Reported operating cash flow in the 12 months ended March 31, 2011, was up 12% to £4.7 billion, while reported net debt decreased to £18.7 billion from £22.1 billion a year ago. The reduction in the net debt position reflects the £3.2 billion of cash from the rights issue and the effect of the weakening exchange rate between the U.S. dollar and British pound sterling on the U.S.-dollar-denominated debt, which was partly offset by capital investment.

Consequently, the ratio of NG PLC's adjusted funds from operations (FFO) to debt was about 17%, which compares positively with the rating threshold of above 12%.

Liquidity

The 'A-2' short-term rating on NG PLC, National Grid USA, and subsidiaries largely reflects the companies' long-term credit ratings and our view that the group's liquidity is adequate. Projected sources of liquidity (mainly operating cash flow and available bank lines) exceed projected uses (mainly necessary capex, debt maturities, and dividends) by more than 1.2x. NG PLC's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to reduce capital spending or sell assets, its sound bank relationships, its solid standing in credit markets, and its generally prudent risk management further support our opinion of liquidity as adequate.

The following factors also support our assessment of NG PLC's adequate liquidity:

- Access to unrestricted short-term cash and short-term marketable securities of £2,866 million as of June 30, 2011;
- Undrawn committed credit facilities of £2,676 million with a maturity longer than 12 months; and
- Our expectation that NG PLC will generate modest and slightly higher adjusted funds from operations (FFO) in 2011-2012 than the €3,565 million achieved in 2010-2011.

These factors compare with our expectation that in 2011-2012 NG PLC will face:

- About £3,600 million in capital expenditures;
- Dividend payments of about £1,000 million; and
- £1,727 million in short-term debt maturing over the next 12 months.

We understand that there are no restrictive covenants in the documentation attached to the group's debt.

Recovery analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the CCR category and the extent of the collateral coverage. We base the investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, when assigning issue ratings to utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

Narragansett Electric's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating one notch above the CCR.

Outlook

The stable outlook on Narragansett Electric mirrors our outlook on ultimate parent NG PLC and reflects our view that the group's operational and financial performances will continue to be solid. It also reflects our belief that NG PLC will continue to focus on its regulated gas and electricity network businesses in the U.K. and the U.S., while maintaining consolidated, adjusted FFO to total debt of more than 12%.

Ratings downside could occur if NG PLC's financial performance were to deviate materially from our forecasts without the implementation of offsetting measures, or if the group were to undertake a significant acquisition. In that regard, if consolidated FFO to total debt were to decline to 10%-11% due to higher capital outlays and acquisitions and associated debt financing, we could lower the ratings.

Although we view the May 2010 rights issue as providing more headroom than NG PLC previously had at the current rating level, we continue to view ratings upside as unlikely because of the company's ambitious capital expenditure plans and our expectations regarding its financial performance.

Business Description

NG PLC is a U.K.-based investor-owned utility. Through subsidiary National Grid Electricity Transmission PLC (NGET; A-/Stable/A-2), it owns and operates the high-voltage electricity transmission system in England and Wales, and through subsidiary National Grid Gas PLC (NGG; A-/Stable/A-2), it owns the U.K. gas transmission network and four local gas distribution networks. Following the acquisition of KeySpan in 2007, NG PLC is, through National Grid USA, also the second-largest utility in the U.S., as measured by customer numbers. National Grid USA has a significant presence in electricity transmission and distribution and gas distribution in Massachusetts, Rhode Island, New York, and New Hampshire.

NG PLC directly serves around 19 million customers in both markets and employs more than 28,000 people. In the financial year ending March 31, 2011, NG PLC reported revenues of £14.34 billion, with operating profit before exceptional items up by 15% year on year to £3.6 billion, although timing items of £433 million that will not be repeated next year contributed considerably to this figure.

Rating Methodology

In accordance with our parent-subsidiary rating criteria, the ratings on NG PLC and its subsidiaries reflect the consolidated corporate credit profile of the whole group, including the operating companies NGET, NGG, and the subsidiaries of National Grid USA. We rate the long-term debt at the holding-company level 'BBB+', one notch below the corporate credit rating, to reflect the structural subordination of holding-company debt to operating-company liabilities. Structural subordination affects debt or guarantees issued at NG, National Grid USA, and NGG Finance PLC (not rated; guaranteed by National Grid Holdings One PLC and NG PLC).

The ratings on KEDNY and KEDLI are one notch higher than NG PLC's corporate credit rating, reflecting the presence of regulatory insulation and their healthier stand-alone financial profiles.

Business Risk Profile: Excellent, With Stable And Predictable Cash Flow From Regulated Businesses, And Good Quality Operations

The major strengths of NG PLC's excellent business risk profile are:

- NG PLC's credit quality, which is underpinned by the strong, stable economies in which the group operates and the favorable regulation that offsets demand volatility. Virtually all of NG PLC's operating profits come from the U.K. and the U.S.
- The contribution from stable and predictable cash flows derived from regulated networks, which generate over 97% of the group's earnings. Although they vary between U.K. and U.S., the regulatory regimes are transparent and generally supportive of credit quality.
- NG PLC's solid operating performance and frequent outperformance of efficiency targets. Furthermore, it has a good track record of cost reduction and successful integration following acquisitions or mergers. NG PLC met or exceeded most of its operational targets in 2010-2011. Under the U.K. regulatory framework, it achieved system

reliability of 99.99% in electricity and 100% in gas transmission, as in previous years. Similarly, there were no reliability issues in U.K. gas distribution. In U.S. transmission and distribution, NG PLC fully met its targets for network reliability.

- The fact that the U.K.'s remuneration is cost-plus based and not a function of electricity or gas demand. This has been a supporting factor in the past few years' recessionary environment. Future operating profit margins are, however, mostly reliant on NG PLC's ability to control costs while managing capital projects required to sustain or improve network quality and match performance requirements.

These strengths are mitigated by the following constraints:

- Uncertainty about the impact of a new U.K. transmission and distribution regulatory framework. As part of RIIO (Revenue = Incentives + Innovation + Outputs regulatory review), Ofgem published a decision that the life of new electricity distribution assets will change from 20 to 40 years. This change will take effect with the start of the next regulatory period, on April 1, 2015. We think the slow depreciation of assets will constrain cash flow generation in the medium term, although to a different extent for each network operator. At the same time, the slow depreciation should reduce leverage in terms of debt to regulatory capital value. We do not yet factor this change in our ratings because, first, the impact will depend on the overall package of regulatory decisions, and second, Ofgem has stated its willingness to consider transitional arrangements to smooth the impact.
- Substantial capex of about £22 billion over the next five years. This is likely to increase operational challenges in the short term, but should lead to operational improvements in the medium to long term. The capex, of which £15.1 billion is to be used in the U.K.-regulated business, derives from the need to reconfigure the electricity transmission network to handle large quantities of intermittent renewable power and to remodel the gas network to accommodate an increase in imports, especially liquefied natural gas.
- NG PLC's highly acquisitive strategy, including in nondomestic markets. However, the group has so far demonstrated a good track record of cost reduction and successful integration following acquisitions or mergers.
- Regulatory reset risk and volume risk in the U.S. Historically, regulation has been reasonably supportive of creditworthiness, but long-term rate plans, rate moratoriums, and regulatory lag have resulted in earned returns that are below the national average in most jurisdictions. U.S. revenues also remain subject to an element of volume risk. We believe that the subsidiaries' ability to manage regulatory risk remains critical to credit quality.

Financial Risk Profile: Significant, With High Leverage And Material Capex Requirements

The main weaknesses of NG PLC's significant financial risk profile are:

- High consolidated financial leverage as a result of previous acquisitions.
- Negative cash flow generation, anticipated over the next five years, due to the company's large capex program (£22 billion to 2015) and dividend payments. However, we anticipate adjusted FFO to debt to maintain a cushion above our 12% target for the rating.
- An aggressive policy of raising dividends by about 8% annually, resulting in a payout ratio of about 68% as of March 31, 2011.
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures. NG PLC mitigates currency risk on its cash flows by matching the currency of its debt; however, it remains exposed to translation risk. A high retail price index increases the amount of inflation-linked debt indexation that we deduct

from FFO in accordance with our criteria.

These weaknesses are partially mitigated by:

- A significant degree of cash flow predictability, since regulated businesses generate 95% of the group's cash flow.
- Management that publicly aims to maintain the current rating and is therefore committed to maintaining adjusted FFO to debt of more than 12%. The recent rights issue underlines NG PLC's unchanged goal of maintaining an 'A' category rating for its U.K. operating subsidiaries.
- NG PLC's good access to bank financing and the capital markets, with well-diversified funding sources. The group was able to maintain full access to the bond markets during the financial crisis, and its recent £3.2 billion rights issue was fully underwritten.

Financial Statistics/Adjustments

NG PLC's last full, consolidated accounts, for the fiscal year to March 31, 2011, were prepared according to International Financial Reporting Standards.

We make a number of adjustments to NG PLC's reported figures (see table 3). The most important are as follows:

- To debt, we add operating lease liabilities of £593.3 million, representing the present value of future operating lease obligations.
- We also add postretirement benefit obligations of £1,198 million to debt. We view pension deficits as debt-like obligations.
- We subtract surplus cash of £2,938 million from debt. This comprises unrestricted cash and marketable securities, and investments in short-term money market funds.
- In line with our criteria, we also subtract from debt the difference between the debt shown on the balance sheet and the value of debt that is locked in through principal hedges. Therefore, for NG PLC, we subtract a positive value of principal hedges on currency derivatives of £1,130 million from debt. This amount reflects the difference between reported debt and the value of foreign currency debt that has been locked in to maturity through currency derivatives.
- We subtract £238 million in replacement expenditures (repex) from cash flow from operations, representing the reclassification of 50% of repex from capex to operating expenditure. This adjustment reflects the regulatory treatment.
- We subtract from FFO indexation of £248 million, in line with our criteria for inflation-linked debt (see "New Methodology For Inflation-Linked Debt Has No Immediate Effect On Ratings On U.K. Regulated Utilities," published April 8, 2009).

Table 1

National Grid PLC -- Peer Comparison

Industry Sector: Electric Utility

	National Grid PLC	Elia System Operator S.A./N.V.	Terna SpA	Red Electrica Corporacion S.A.	Bord Gais Eireann	Fingrid Oyj	N.V. Nederlandse Gasunie
Rating as of Sept. 26, 2011	A-/Stable/A-2	A-/Stable/A-2	A/Negative/A-1	AA-/Stable/A-1+	BBB+/Negative/A-2	AA-/Stable/A-1+	AA-/Watch Neg/A-1+

Table 1

National Grid PLC -- Peer Comparison (cont.)

	--Fiscal year ended March 31, 2011--	--Fiscal year ended Dec. 31, 2010--					
(Mil. mixed currency)							
	£	€	€	€	€	€	€
Revenues	14,343.0	1,122.8	1,533.1	1,412.5	1,508.5	463.3	1,523.0
EBITDA	5,092.4	462.7	1,177.8	993.6	330.4	141.8	941.6
Net income from continuing operations	2,159.0	402.0	466.7	390.2	114.0	41.8	453.7
Funds from operations (FFO)	3,565.8	295.7	818.5	848.5	236.7	120.5	837.8
Capital expenditures	2,958.0	282.1	1,077.8	802.8	164.2	159.8	1,113.2
Free operating cash flow	1,040.8	137.6	(380.6)	(5.7)	21.3	(43.7)	(202.8)
Discretionary cash flow	182.8	71.0	(781.4)	(204.5)	(9.9)	(50.4)	(618.7)
Cash and short-term investments	0.0	423.6	0.1	18.3	29.7	71.7	158.5
Debt	21,007.7	3,088.4	5,230.1	4,816.9	1,930.5	949.2	4,981.2
Equity	9,104.3	2,432.4	2,760.8	1,624.6	1,479.3	514.2	5,260.8
Adjusted ratios							
EBITDA margin (%)	35.5	41.2	76.8	70.3	21.9	30.6	61.8
EBITDA interest coverage (x)	3.9	3.1	9.1	7.6	3.4	6.5	4.0
EBIT interest coverage (x)	2.9	2.2	6.4	5.1	2.1	3.5	3.3
Return on capital (%)	11.6	6.8	10.6	11.5	5.7	5.1	7.6
FFO/debt (%)	17.0	9.6	15.6	17.6	12.3	12.7	16.8
Free operating cash flow/debt (%)	5.0	4.5	(7.3)	(0.1)	1.1	(4.6)	(4.1)
Debt/EBITDA (x)	4.1	6.7	4.4	4.8	5.8	6.7	5.3
Total debt/debt plus equity (%)	69.8	55.9	65.5	74.8	56.6	64.9	48.6

Table 2

National Grid PLC -- Financial Summary

Industry Sector: Electric Utility

	--Fiscal year ended March 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A/Watch Neg/A-1
(Mil. £)					
Revenues	14,343.0	13,988.0	15,624.0	11,423.0	8,778.0
EBITDA	5,092.4	4,589.6	3,773.0	4,024.1	3,398.2
Net income from continuing operations	2,159.0	1,386.0	919.0	1,572.0	1,308.0
Funds from operations (FFO)	3,565.8	3,212.5	2,540.3	2,575.6	2,127.3
Capital expenditures	2,958.0	3,037.8	3,290.8	2,839.2	2,037.0
Dividends paid	858.0	688.0	838.0	806.0	756.0
Debt	21,007.7	25,164.1	24,919.1	18,589.1	13,615.2
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	9,104.3	4,235.5	4,006.3	5,372.6	4,103.8
Debt and equity	30,111.9	29,399.6	28,925.5	23,961.7	17,719.0
Adjusted ratios					
EBITDA margin (%)	35.5	32.8	24.1	35.2	38.7
EBIT interest coverage (x)	2.9	2.7	2.0	2.9	2.9
FFO interest coverage (x)	3.5	3.3	2.8	3.3	3.2
FFO/debt (%)	17.0	12.8	10.2	13.9	15.6
Discretionary cash flow/debt (%)	0.9	(0.4)	(5.4)	(5.6)	(4.1)
Net cash flow/capital expenditures (%)	91.5	83.1	51.7	62.3	67.3
Debt/debt and equity (%)	69.8	85.6	86.1	77.6	76.8
Return on capital (%)	11.6	10.6	9.2	13.6	13.9
Return on common equity (%)	32.6	33.9	19.7	33.2	34.4
Common dividend payout ratio (unadjusted) (%)	49.3	64.4	91.2	52.9	59.5

Table 3

Reconciliation Of National Grid PLC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. £)

--Fiscal year ended March 31, 2011--

National Grid PLC reported amounts

	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	23,198.0	9,060.0	14,343.0	4,997.0	3,745.0	1,140.0	4,858.0	4,858.0	858.0	2,958.0
Standard & Poor's adjustments										
Operating leases	593.3	--	--	37.4	37.4	37.4	49.6	49.6	--	--
Postretirement benefit obligations	1,198.0	35.3	--	33.0	33.0	--	280.1	280.1	--	--
Surplus cash and near cash investments	(2,938.0)	--	--	--	--	--	--	--	--	--

Table 3

Reconciliation Of National Grid PLC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. £) (cont.)

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Capitalized interest	--	--	--	--	--	129.0	--	--	--	--
Share-based compensation expense	--	--	--	25.0	--	--	--	--	--	--
Asset retirement obligations	86.4	--	--	--	--	2.0	(20.9)	(20.9)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	32.0	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(930.0)	(930.0)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(185.0)	--	--
Minority interests	--	9.0	--	--	--	--	--	--	--	--
Debt -- other	(1,130.0)	--	--	--	--	--	--	--	--	--
Working capital -- other	--	--	--	--	--	--	248.0	--	--	--
FFO -- other	--	--	--	--	--	--	(486.0)	(486.0)	--	--
Total adjustments	(2,190.3)	44.3	--	95.4	102.4	168.4	(859.2)	(1,292.2)	--	--
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	21,007.7	9,104.3	14,343.0	5,092.4	3,847.4	1,308.4	3,998.8	3,565.8	858.0	2,958.0

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, October 28, 2004

Ratings Detail (As Of September 26, 2011)*

Narragansett Electric Co.	
Corporate Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (3 Issues)	A

Ratings Detail (As Of September 26, 2011)*(cont.)	
Senior Unsecured (2 Issues)	A-
Corporate Credit Ratings History	
24-Aug-2007	A-/Stable/A-2
24-Feb-2006	A/Watch Neg/A-1
04-Dec-2001	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Boston Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Unsecured (18 Issues)	A-
Colonial Gas Co.	
Issuer Credit Rating	A-/Stable/--
Senior Secured (5 Issues)	A
KeySpan Corp.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (6 Issues)	A-
KeySpan Energy Delivery Long Island	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (1 Issue)	A
KeySpan Energy Delivery New York	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (10 Issues)	A
KeySpan Generation LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A
Lattice Group PLC	
Issuer Credit Rating	A-/Stable/--
Massachusetts Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (1 Issue)	A-
Senior Unsecured (4 Issues)	A-/A-2
National Grid Electricity Transmission PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (25 Issues)	A-
Senior Unsecured (1 Issue)	BBB+
National Grid Gas Holdings PLC	
Issuer Credit Rating	A-/Stable/--
National Grid Gas PLC	
Issuer Credit Rating	A-/Stable/A-2

Ratings Detail (As Of September 26, 2011)*(cont.)	
Senior Unsecured (43 Issues)	A-
National Grid Holdings Inc.	
Issuer Credit Rating	A-/Stable/--
National Grid Holdings One PLC	
Issuer Credit Rating	A-/Stable/A-2
National Grid PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (10 Issues)	BBB+
National Grid USA	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (7 Issues)	BBB+
New England Power Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (4 Issues)	A-/A-2
Niagara Mohawk Power Corp.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (3 Issues)	BBB
Senior Secured (5 Issues)	A
Senior Unsecured (5 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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September 30, 2011

National Grid PLC

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National Grid PLC

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Consistent focus on low-risk electricity and natural gas transmission and distribution operations.
- Predictable revenues and cash flows from regulated activities, which account for over 97% of operating profits.
- Operating, market, and regulatory diversity in the U.K. and the U.S.
- Supportive regulatory environments.
- Proven track record of managing large acquisitions.

Weaknesses:

- High consolidated financial leverage as a result of previous acquisitions.
- Substantial capital expenditures and dividends that will likely result in negative free cash flows over the medium term.
- Regulatory reset risk in the U.K. and the U.S.
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures.

Rationale

The ratings on U.K.-based gas and electricity network operator National Grid PLC (NG) and its subsidiaries reflect Standard & Poor's Ratings Services' view of the strong and predictable cash flows from the group's low-risk electricity and gas network operations in the U.K. and the U.S.; regulatory regimes in each of those countries that we consider to be broadly supportive of credit quality; a consistently applied strategic and financial policy; and a proven track record of managing large acquisitions.

These strengths are offset by NG's relatively high financial leverage; a substantial capital expenditures (capex) program and as yet unchanged dividend policy, which together will likely result in negative free cash flows over the medium term; regulatory reset risk in the U.S. and the U.K.; and exposure to foreign exchange risks and inflation, which add volatility to Standard & Poor's-adjusted credit measures.

Key business and profitability developments

NG reported a robust set of results for the 12 months ended March 31, 2011, with operating profit before exceptional items up by 15% year on year, to £3.6 billion. This increase was mainly driven by one-off items of £433 million that will not recur this year. Pretax profit increased by 25% over the same period, and financing costs fell by 2% as higher costs related to the effect of inflation in the U.K. on the indexation of inflation-linked debt (about 30% of NG's long-term debt) were offset by lower net pension charges and lower overall net debt. The latter reflected the benefit of the cash proceeds from a rights issue announced in May 2010.

We believe that NG's results will return to more moderate levels of growth in the next financial year. In our view, the increase in inflation in 2010-2011 will be reflected in higher inflation-linked regulated revenues in 2011-2012, which will be partially offset by an increase in financing costs on inflation-linked debt.

NG's business risk has not materially changed over the past 12 months, in our view. The group remains focused on owning and operating regulated network assets in the U.K. and U.S., which account for over 97% of consolidated operating profit. NG faces some regulatory reset risk in the U.S., and U.S. revenues remain subject to an element of volume risk, although this has significantly diminished as rate plans that protect NG from fluctuations in volumes sold have been renewed. In an effort to increase returns in the U.S. and become more efficient, NG recently announced a restructuring program. The plan involves a regional focus and a reduction in operating costs of about $200 million by March 31, 2012, achieved mainly through a 7% reduction of the U.S. workforce.

The group also remains exposed to risks arising from regulatory reset in the U.K. (currently every five years). The next price control period starts in April 2013, is expected to last for eight years, and is currently under consultation at the industry regulator, the Office of Gas and Electricity Markets (Ofgem). For further information on the next price control period, see: "Credit FAQ: How The Proposed RIIO Regulatory Framework Could Affect Ratings On U.K. Energy Utilities," published Sept. 13, 2011, on RatingsDirect on the Global Credit Portal.

On Jan. 20, 2011, the New York Public Service Commission authorized a $112.7 million (3.6%) electricity rate hike, about 31% of the revised amount sought by Niagara Mohawk. Niagara Mohawk represents less than 10% of NG's operating income and about 30% of its U.S. operating income and therefore, in our opinion, the rate order will not have a material effect on the credit quality of the consolidated entity.

Key cash flow and capital-structure developments

NG's robust performance in 2010-2011 resulted in strengthened credit metrics for the group. Reported operating cash flow in the 12 months to March 31, 2011, was up 12% to £4.7 billion, while reported net debt fell to £18.7 billion from £22.1 billion a year ago. The reduction in net debt reflects £3.2 billion of cash from the rights issue and the effect of the weakening of the U.S. dollar-British pound sterling exchange rate on the U.S. dollar-denominated debt, partly offset by capital investment.

Consequently, NG's adjusted funds from operations (FFO)-to-debt ratio was about 17% in the 12 months to March 31, 2011, which compares positively with the rating threshold of more than 12%.

On May 20, 2010, NG announced a £3.2 billion rights issue to support funding for a significant increase in the group's capex program. The program allows for £22 billion of capex in the next five years, compared with £14 billion in the five years to March 31, 2010. We continue to expect the rights issue to position NG more comfortably within the existing ratings, and to provide a degree of headroom that was previously lacking. In our opinion, the rights issue also underlines NG's stated commitment of maintaining an 'A' category rating for its U.K. operating subsidiaries.

Liquidity

The 'A-2' short-term rating on NG, National Grid USA (NG USA; A-/Stable/A-2), and subsidiaries, is 'A-2'. This largely reflects the companies' long-term corporate credit ratings and our view of the group's adequate liquidity. Projected sources of liquidity (mainly operating cash flow and available bank lines), exceed projected uses (mainly necessary capex, debt maturities, and dividends) by more than 1.2x. NG's ability to absorb high-impact, low-probability events and retain a limited need for refinancing; its flexibility to reduce capital spending or sell assets; its sound bank relationships; its solid standing in credit markets; and its generally prudent risk management further support our opinion of liquidity as adequate.

Our assessment of NG's adequate liquidity is also underpinned by its:

- Access to unrestricted short-term cash and short-term marketable securities of about £2.9 billion as of June 30, 2011;
- Undrawn £2.7 billion committed credit facilities with a maturity longer than 12 months; and
- Our expectation that NG will generate modest and slightly higher adjusted funds from operations (FFO) in 2011-2012 than in 2010-2011, when it was about €3.6 billion.

This compares with our forecast that, in 2011-2012, NG faces:

- About £3.6 billion in capital expenditures;
- Dividend payments of about £1.0 billion; and
- £1.7 billion in short-term debt maturing over the next 12 months.

We understand that there are no restrictive covenants in the documentation attached to the group's debt.

Outlook

The stable outlook reflects our view that the group's operational and financial performances will continue to be solid. It also reflects our belief that NG will continue to focus on its regulated gas and electricity network businesses in the U.K. and the U.S., while maintaining consolidated, adjusted FFO to total debt of more than 12%.

Ratings downside could occur if NG's financial performance were to deviate materially from our forecasts without the implementation of offsetting measures, or if the group were to undertake a significant acquisition. In that regard, if consolidated FFO to total debt were to decline to 10%-11% due to higher capital outlays and acquisitions, and associated debt financing, we could lower the ratings.

Although we view the May 2010 rights issue as providing a more comfortable degree of headroom than existed previously at the current rating level, we continue to view ratings upside as unlikely because of NG's ambitious capex plans and our forecast for its financial performance.

Business Description

NG is a U.K.-based, investor-owned utility. It owns and operates the high-voltage electricity transmission system in England and Wales through its subsidiary National Grid Electricity Transmission PLC (NGET; A-/Stable/A-2); and the U.K. gas transmission network and four local gas distribution networks (GDNs) through its subsidiary National Grid Gas PLC (NGG; A-/Stable/A-2). Following the acquisition of KeySpan in 2007, NG is also, through NG USA, the second-largest utility in the U.S. by number of customers. NG USA has a significant presence in electricity transmission and distribution and gas distribution in the north-eastern U.S. states of Massachusetts, Rhode Island, New York, and New Hampshire.

NG directly serves about 19 million customers in both markets, and employs more than 28,000 people. In the financial year ending March 31, 2011, NG reported revenues of £14.34 billion, with operating profit before exceptional items up by 15%, year on year, to £3.6 billion. However, this increase was mainly driven by one-off items of £433 million that will not recur next year.

Rating Methodology

In accordance with our parent-subsidiary rating criteria, the ratings on NG and its subsidiaries reflect the consolidated corporate credit profile of the whole group, including the operating companies NGET, NGG, and the subsidiaries of NG USA. We rate the long-term debt at the holding company level at 'BBB+', one notch below the corporate credit rating, to reflect the structural subordination of holding company debt to operating company liabilities. Structural subordination affects debt or guarantees issued at NG, NG USA, and NGG Finance PLC (not rated; guaranteed by National Grid Holdings One PLC and NG).

Business Risk Profile: Excellent; With Stable And Predictable Cash Flow From Regulated Businesses, And Good-Quality Operations

The major strengths of NG's excellent business risk profile are:

- NG's credit quality, which is underpinned by the strong, stable economies in which the group operates and the favorable regulation that offsets demand volatility. Virtually all of NG's operating profits come from the U.K. and the U.S.
- The contribution of stable and predictable cash flows from regulated networks, which generate over 97% of the group's earnings. Although regulation varies between U.K. and U.S., the regulatory regimes are transparent and generally supportive of credit quality.
- NG's solid operating performance and frequent outperformance of efficiency targets, along with its good track record of cost reduction and successful integration following acquisitions or mergers. NG met or exceeded most of its operational targets in 2010-2011. Under the U.K. regulatory framework, NG achieved system reliability of 99% in electricity and 100% in gas transmission, as in previous years. Similarly, there were no reliability issues in U.K. gas distribution. In U.S. transmission and distribution, NG fully met its targets for network reliability.
- The fact that the U.K. business's remuneration is based on cost plus a margin and is not a function of electricity or gas demand. This has been a supporting factor during the recession of the past few years. Future operating profit margins are, however, mostly reliant on NG's ability to control costs while managing capital projects required to sustain or improve network quality and match performance requirements.

These strengths are mitigated by the following constraints:

- Uncertainty about the effects of the new U.K. transmission and distribution regulatory framework. As part of the regulatory review for the RIIO (revenue = incentives + innovation + outputs) model, Ofgem published a decision that the lives of new electricity distribution assets will depreciate over 40 years, as opposed to 20 years previously. This change will take effect at the start of the next regulatory period on April 1, 2013. We think that the slow depreciation of assets will constrain cash flow generation in the medium term, although to a different extent for each network operator. At the same time, the slow depreciation should reduce leverage in terms of debt to regulatory capital value. We do not yet factor the proposed regulatory changes into our ratings for two reasons: First, the overall effect will depend on the overall package of regulatory decisions; and second, Ofgem has stated its willingness to consider transitional arrangements to reduce the impact of the changes.
- Substantial capex of about £22 billion over the next five years. This is likely to increase operational challenges in the short term, but should lead to operational improvements in the medium to long term. The capex, of which about £15 billion is to be used in the U.K. regulated business, is driven by the need to reconfigure the electricity

transmission network to handle large quantities of intermittent renewable power and to remodel the gas network to accommodate an increase in imports, especially liquefied natural gas.

- NG's highly acquisitive strategy, including in nondomestic markets. However, the group has so far demonstrated a good track record of cost reduction and successful integration following acquisitions or mergers.
- Regulatory reset risk and volume risk in the U.S. Historically, regulation has been reasonably supportive of creditworthiness, but long-term rate plans, rate moratoriums, and regulatory lag have resulted in earned returns that are below the national average in most jurisdictions. U.S. revenues also remain subject to an element of volume risk. We believe that the subsidiaries' ability to manage regulatory risk remains critical to credit quality.

Financial Risk Profile: Significant; With High Leverage Levels And Material Capex Requirements

The main weaknesses of NG's significant financial risk profile are:

- High consolidated financial leverage as a result of previous acquisitions.
- Negative cash flow generation, which we anticipate over the next five years, due to the group's large capex program (£22 billion to 2015) and dividend payments. However, we also anticipate that NG will maintain adjusted FFO to debt above our 12% guidance for the rating.
- An aggressive policy of raising dividends by about 8% annually, resulting in a payout ratio of about 68% as of March 31, 2010.
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures. NG mitigates currency risk on its cash flows by matching the currency of its debt, although it remains exposed to translation risk. A high retail price index increases the amount of inflation-linked debt indexation that we deduct from FFO in accordance with our criteria.

These weaknesses are partially mitigated by:

- A significant degree of cash flow predictability, since regulated businesses generate 95% of the group's cash flow.
- A publicly stated aim to maintain the current rating. Management is therefore committed to maintaining adjusted FFO to debt of more than 12%. The recent rights issue underlines NG's unchanged goal of maintaining an 'A' category rating for its U.K. operating subsidiaries.
- NG's good access to bank financing and the capital markets, with funding sources being well-diversified. The group was able to maintain full access to the bond markets during the financial crisis, and its recent £3.2 billion rights issue was fully underwritten.

Financial Statistics/Adjustments

NG's last full, consolidated accounts, for the financial year to March 31, 2011, were prepared according to International Financial Reporting Standards. We make a number of adjustments to NG's reported figures. The adjustments for financial 2010-2011 are shown in table 1. The most important are as follows:

- We add to debt operating lease liabilities of £593.3 million, representing the present value of future operating lease obligations.
- We also add to debt postretirement benefit obligations of £1,198 million. We view pension deficits as debt-like obligations.

- We subtract surplus cash of £2,938 million from debt. This comprises unrestricted cash and marketable securities, and investments in short-term money market funds.
- In line with our criteria, we also subtract from debt the difference between the debt shown on the balance sheet, and the value of debt that is locked in through principal hedges. Therefore we subtract a positive value of principal hedges on currency derivatives of £1.1 billion from debt. This amount reflects the difference between reported debt and the value of foreign currency debt that has been locked into maturity through currency derivatives.
- We subtract from cash flow from operations £238 million of replacement expenditure (repex), representing the reclassification of 50% of repex from capex to operating expenditure. This adjustment reflects the regulatory treatment of repex.
- We subtract from FFO indexation of £248 million, in line with our criteria for inflation-linked debt (see "New Methodology For Inflation-Linked Debt Has No Immediate Effect On Ratings On U.K. Regulated Utilities," published April 8, 2009).

Table 1

Reconciliation Of National Grid PLC Reported Amounts With Standard & Poor's Adjusted Amounts

	--Fiscal year ended March 31, 2011--									
National Grid PLC reported amounts										
(Mil. £)	**Debt**	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	23,198.0	9,060.0	14,343.0	4,997.0	3,745.0	1,140.0	4,858.0	4,858.0	858.0	2,958.0
Standard & Poor's adjustments										
Operating leases	593.3	--	--	37.4	37.4	37.4	49.6	49.6	--	--
Postretirement benefit obligations	1,198.0	35.3	--	33.0	33.0	--	280.1	280.1	--	--
Surplus cash and near cash investments	(2,938.0)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	129.0	--	--	--	--
Share-based compensation expense	--	--	--	25.0	--	--	--	--	--	--
Asset retirement obligations	86.4	--	--	--	--	2.0	(20.9)	(20.9)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	32.0	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(930.0)	(930.0)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(185.0)	--	--

Table 1

Reconciliation Of National Grid PLC Reported Amounts With Standard & Poor's Adjusted Amounts (cont.)

Minority interests	--	9.0	--	--	--	--	--	--	--	--
Value of principal hedges on currency derivatives	(1,130.0)	--	--	--	--	--	--	--	--	--
Indexation on inflation-linked debt	--	--	--	--	--	--	248.0	--	--	--
Reclassification of replacement expenditure				--	--	--	(238.0)	(238.0)	--	--
Indexation on inflation-linked debt	--	--	--	--	--	--	(248.0)	(248.0)	--	--
Total adjustments	(2,190.3)	44.3	0.0	95.4	102.4	168.4	(859.2)	(1,292.2)	0.0	0.0

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	21,007.7	9,104.3	14,343.0	5,092.4	3,847.4	1,308.4	3,998.8	3,565.8	858.0	2,958.0

Table 2

National Grid PLC Peer Comparison

	National Grid PLC	Elia System Operator S.A./N.V.	Terna SpA	Red Electrica Corporacion S.A.	Bord Gais Eireann	Fingrid Oyj	N.V. Nederlandse Gasunie
Rating as of Sept. 30, 2011	A-/Stable/A-2	A-/Stable/A-2	A+/Negative/A-1	AA-/Stable/A-1+	BBB+/Negative/A-2	AA-/Stable/A-1+	AA-/Watch Neg/A-1+
	--Fiscal year ended March 31, 2011--	**--Fiscal year ended Dec. 31, 2010--**					
(Mil. mixed currencies)	**£**	**€**	**€**	**€**	**€**	**€**	**€**
Revenues	14,343.0	1,122.8	1,533.1	1,412.5	1,508.5	463.3	1,523.0
EBITDA	5,092.4	462.7	1,177.8	993.6	330.4	141.8	941.6
Net income from continuing operations	2,159.0	402.0	466.7	390.2	114.0	41.8	453.7
Funds from operations (FFO)	3,565.8	295.7	818.5	848.5	236.7	120.5	837.8
Capital expenditures	2,958.0	282.1	1,077.8	802.8	164.2	159.8	1,113.2
Free operating cash flow	1,040.8	137.6	(380.6)	(5.7)	21.3	(43.7)	(202.8)
Discretionary cash flow	182.8	71.0	(781.4)	(204.5)	(9.9)	(50.4)	(618.7)

Table 2

National Grid PLC Peer Comparison (cont.)

Cash and short-term investments	0.0	423.6	0.1	18.3	29.7	71.7	158.5
Debt	21,007.7	3,088.4	5,230.1	4,816.9	1,930.5	949.2	4,981.2
Equity	9,104.3	2,432.4	2,760.8	1,624.6	1,479.3	514.2	5,260.8
Adjusted ratios							
EBITDA margin (%)	35.5	41.2	76.8	70.3	21.9	30.6	61.8
EBITDA interest coverage (x)	3.9	3.1	9.1	7.6	3.4	6.5	4.0
EBIT interest coverage (x)	2.9	2.2	6.4	5.1	2.1	3.5	3.3
Return on capital (%)	11.6	6.8	10.6	11.5	5.7	5.1	7.6
FFO/debt (%)	17.0	9.6	15.6	17.6	12.3	12.7	16.8
Free operating cash flow/debt (%)	5.0	4.5	(7.3)	(0.1)	1.1	(4.6)	(4.1)
Debt/EBITDA (x)	4.1	6.7	4.4	4.8	5.8	6.7	5.3
Total debt/debt plus equity (%)	69.8	55.9	65.5	74.8	56.6	64.9	48.6

Table 3

National Grid PLC Financial Summary

	--Fiscal year ended March 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A/Watch Neg/A-1
(Mil. £)					
Revenues	14,343.0	13,988.0	15,624.0	11,423.0	8,778.0
EBITDA	5,092.4	4,589.6	3,773.0	4,024.1	3,398.2
Net income from continuing operations	2,159.0	1,386.0	919.0	1,572.0	1,308.0
Funds from operations (FFO)	3,565.8	3,212.5	2,540.3	2,575.6	2,127.3
Capital expenditures (capex)	2,958.0	3,037.8	3,290.8	2,839.2	2,037.0
Dividends paid	858.0	688.0	838.0	806.0	756.0
Debt	21,007.7	25,164.1	24,919.1	18,589.1	13,615.2
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	9,104.3	4,235.5	4,006.3	5,372.6	4,103.8
Debt and equity	30,111.9	29,399.6	28,925.5	23,961.7	17,719.0
Adjusted ratios					
EBITDA margin (%)	35.5	32.8	24.1	35.2	38.7
EBIT interest coverage (x)	2.9	2.7	2.0	2.9	2.9
FFO interest coverage (x)	3.5	3.3	2.8	3.3	3.2

Table 3

National Grid PLC Financial Summary (cont.)					
FFO/debt (%)	17.0	12.8	10.2	13.9	15.6
Discretionary cash flow/debt (%)	0.9	(0.4)	(5.4)	(5.6)	(4.1)
Net cash flow/capex (%)	91.5	83.1	51.7	62.3	67.3
Debt/debt and equity (%)	69.8	85.6	86.1	77.6	76.8
Return on capital (%)	11.6	10.6	9.2	13.6	13.9
Return on common equity (%)	32.6	33.9	19.7	33.2	34.4
Common dividend payout ratio (unadjusted; %)	49.3	64.4	91.2	52.9	59.5

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- How The Proposed RIIO Regulatory Framework Could Affect Ratings On U.K. Energy Utilities, Sept. 13, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004

Ratings Detail (As Of September 30, 2011)*	
National Grid PLC	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (10 Issues)	BBB+
Corporate Credit Ratings History	
24-Aug-2007	A-/Stable/A-2
24-Feb-2006	A/Watch Neg/A-1
31-Jan-2002	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Debt Maturities	
On March 31, 2011: Between one and three years: £ 2.6 bil. Between three and five years: £ 2.0 bil. More than five years: £ 14.7 bil.	
Related Entities	
Boston Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Unsecured (18 Issues)	A-

Ratings Detail (As Of September 30, 2011)* **(cont.)**	
Colonial Gas Co.	
Issuer Credit Rating	A-/Stable/--
Senior Secured (5 Issues)	A
KeySpan Corp.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (6 Issues)	A-
KeySpan Energy Delivery Long Island	
Issuer Credit Rating	A/Stable/--
Senior Unsecured (1 Issue)	A
KeySpan Energy Delivery New York	
Issuer Credit Rating	A/Stable/NR
Senior Unsecured (10 Issues)	A
KeySpan Generation LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A
Lattice Group PLC	
Issuer Credit Rating	A-/Stable/--
Massachusetts Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (1 Issue)	A-
Senior Unsecured (4 Issues)	A-/A-2
Narragansett Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (3 Issues)	A
Senior Unsecured (2 Issues)	A-
National Grid Electricity Transmission PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (25 Issues)	A-
Senior Unsecured (1 Issue)	BBB+
National Grid Gas Holdings PLC	
Issuer Credit Rating	A-/Stable/--
National Grid Gas PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (43 Issues)	A-
National Grid Holdings Inc.	
Issuer Credit Rating	A-/Stable/--
National Grid Holdings One PLC	
Issuer Credit Rating	A-/Stable/A-2
National Grid USA	
Issuer Credit Rating	A-/Stable/A-2

Ratings Detail (As Of September 30, 2011)* **(cont.)**	
Commercial Paper	
Local Currency	A-2
Senior Unsecured (7 Issues)	BBB+
New England Power Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (4 Issues)	A-/A-2
Niagara Mohawk Power Corp.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (3 Issues)	BBB
Senior Secured (5 Issues)	A
Senior Unsecured (5 Issues)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Additional Contact:
Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Division 33-4

Request:

Please provide the Company's position on its appropriate ratemaking capital structure based on its 12/31/11 balance sheet. (Provide actual capitalization balances and ratios.) In providing the response, please state whether the Company believes that the goodwill on the balance sheet should be removed from capital structure for ratemaking purposes. In addition identify all other adjustments that the Company believes are appropriate for the ratemaking capital structure.

Response:

Please see Table 1 (below) for Narragansett's capital structure as of 12/31/11.

Table 1
The Narragansett Electric Company Capital Structure
As of December 31, 2011

	Amount (in $1,000s)	Percent of Total
Long-Term Debt	$604,339	39.2%
Short-Term Debt	168,950	11.0%
Preferred Stock	2,454	0.2%
Total Common Equity[1]	764,415	49.6%
Total Capitalization	$1,540,158	100.0%

As noted in Table 1, the Common Equity balance excludes both Goodwill and Accumulated Other Comprehensive Income ("AOCI"). It is the Company's view that, as a general matter, neither of those items supports capital assets included in the rate base and, as such, neither should be included in the ratemaking capital structure.

Just as neither Goodwill nor AOCI supports the Company's permanent assets, it also is important to determine whether the current level of Short-Term Debt is an appropriate representation of the proportions of capital used to finance rate base assets over the long term. As noted in the Company's response to Data Request Commission 18-2, conventional corporate financing practice matches the duration of the sources of capital with the expected lives of the assets being financed. To that end, the Company intends to refinance much of the Short-Term Debt outstanding as of December 31, 2011 with long-term debt. As a practical matter, therefore, the

[1] Excludes Goodwill and Accumulated Other Comprehensive Income.

Division 33-4 (continued, p2)

December 31, 2011 capital structure does not represent the long-term target, or sustainable capital structure. Consistent with its position that, to the extent neither Goodwill nor AOCI supports rate base assets and, therefore, both should be removed from the ratemaking capital structure, the Company also believes that the capital structure should be adjusted to reflect the expected refinancing of temporary Short-Term Debt balances with appropriate levels of Long-Term Debt. Consequently, the Company does not believe that the Short-Term Debt balance included in Table 1 is appropriate for the purpose of establishing the ratemaking capital structure.

Prepared by or under the supervision of: James Holodak and Mustally Hussain

Division 33-5

Request:

Please identify all long-term debt issues on the balance sheet (e.g., at 12/31/11) of Narragansett's parent and ultimate parent used to finance investments in subsidiaries, including Narragansett. In each case, please identify the amount of debt outstanding and the cost rate.

Response:

Below is a table showing the debt outstanding as of 12/31/11 at Narragansett, which is used to finance investments in Narragansett. The financial statements as of 12/31/11 for National Grid plc, Narragansett's ultimate parent, and for National Grid USA, the direct parent, are not available at this time because that information is only published for fiscal year period ending March 31. National Grid plc's and National Grid USA Consolidated's financial statements as of March 31, 2011 were provided in the Company's response to Data Request DIV 33-6, including the long-term debt issues of National Grid plc (Pages 165-166) and National Grid USA (Page 8). The parent and ultimate parent's long-term debt issues do not pertain to financing long-term investments in Narragansett. For further information, please refer to the Company's response to Data Request DIV 18-2.

	Amount Outstanding in $000	Interest Rate
Unsecured notes:		
Senior Note	$250,000	4.534%
Senior Note	300,000	5.638%
First mortgage bonds		
FMB Series N	10,000	9.630%
FMB Series O	12,500	8.460%
FMB Series P	6,875	8.090%
FMB Series R	10,500	7.500%
FMB Series S	14,464	6.820%

Prepared by or under the supervision of: Mustally Hussain

Division 33-6

Request:

Please provide the consolidated balance sheets and unconsolidated holding company balance sheets at 12/31/11 for Narragansett's parent and ultimate parent.

Response:

Narragansett's ultimate parent is National Grid plc. The financial statements of National Grid plc and National Grid USA consolidated are published once a year for period ending March 31. The financial statements for National Grid USA are in Attachment 33-6(a). The financial statements for National Grid plc are in Attachment 33-6(b).

Prepared by or under the supervision of: Mustally Hussain

nationalgrid

National Grid USA and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2011 and March 31, 2010

NATIONAL GRID USA AND SUBSIDIARIES

TABLE OF CONTENTS

Report of Independent Auditors

To the Stockholder and Board of Directors of
National Grid USA:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, retained earnings, capitalization and cash flows present fairly, in all material respects, the financial position of National Grid USA and its subsidiaries at March 31, 2011 and March 31, 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 13, 2011

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in millions of dollars, except per share and number of shares data)	**March 31,**	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,498**	$ 768
Restricted cash	**141**	230
Accounts receivable	**2,274**	2,350
Allowance for doubtful accounts	**(409)**	(389)
Accounts receivable from affiliates, net	**23**	52
Unbilled revenues	**701**	614
Gas in storage, at average cost	**197**	275
Materials and supplies, at average cost	**163**	178
Derivative contracts	**26**	40
Regulatory assets	**779**	986
Current deferred income tax assets	**202**	108
Prepaid and other current assets	**280**	956
Current assets related to assets held for sale	**67**	59
Total current assets	**5,942**	6,227
Equity investments	**181**	148
Property, plant, and equipment, net	**20,126**	19,058
Deferred charges		
Regulatory assets	**4,785**	5,547
Goodwill	**7,133**	7,275
Intangible assets, net	**118**	136
Derivative contracts	**143**	130
Accumulated deferred income tax assets	**-**	-
Other deferred charges	**476**	542
Deferred assets related to assets held for sale	**438**	517
Total deferred charges	**13,093**	14,147
Total assets	**$ 39,342**	39,580

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in millions of dollars, except per share and number of shares data)	March 31, 2011	March 31, 2010
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable	**$ 1,305**	$ 1,314
Commercial paper	**735**	-
Current portion of long-term debt	**67**	2,044
Taxes accrued	**46**	116
Customer deposits	**96**	101
Interest accrued	**91**	187
Regulatory liabilities	**212**	150
Intercompany moneypool	**527**	770
Current portion of accrued Yankee nuclear plant costs	**15**	15
Derivative contracts	**117**	218
Payroll and benefits accurals	**322**	201
Other current liabilities	**239**	292
Liabilities related to assets held for sale	**22**	31
Total current liabilities	**3,794**	5,439
Deferred credits and other liabilities		
Regulatory liabilities	**2,893**	2,736
Asset retirement obligations	**69**	70
Deferred income tax liabilities	**3,505**	3,211
Postretirement benefits and other reserves	**2,987**	3,704
Environmental remediation costs	**1,305**	1,312
Derivative contracts	**161**	239
Other deferred liabilities	**1,607**	1,277
Liabilities related to assets held for sale	**202**	185
Total deferred credits and other liabilities	**12,729**	12,734
Capitalization		
Common stock, par value $.10 per share, issued and outstanding 1,289 and 1,556 shares	**-**	-
Preferred stock, par value $.10 per share, issued and outstanding 267 and 0 shares	**-**	-
Cumulative preferred stock, par value $100 and $50 per share, issued and outstanding 372,638 shares	**35**	35
Additional paid-in capital	**13,043**	13,044
Retained earnings	**2,383**	2,592
Accumulated other comprehensive loss	**(716)**	(811)
Total shareholders' equity	**14,745**	14,860
Non-controlling interest	**10**	16
Total equity	**14,755**	14,876
Long-term debt	**8,064**	6,531
Total capitalization	**22,819**	21,407
Total liabilities and capitalization	**$ 39,342**	$ 39,580

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in millions of dollars)	Years Ended March 31, 2011	2010
Revenues		
Gas distribution	**$ 5,738**	$ 5,621
Electric services	**7,545**	7,401
Other	**64**	143
Total revenues	**13,347**	13,165
Operating expenses		
Gas purchased for resale	**3,114**	3,134
Electricity purchased for resale	**2,374**	2,461
Contract termination charges and nuclear shutdown charges	**17**	20
Operations and maintenance	**4,178**	3,891
Depreciation and amortization	**820**	785
Impairment of intangibles and property, plant and equipment	**70**	18
Amortization of regulatory assets, stranded costs and rate plan deferrals	**689**	657
Other taxes	**963**	921
Total operating expenses	**12,225**	11,887
Operating income	**1,122**	1,278
Other income and (deductions)		
Interest on long-term debt	**(332)**	(300)
Other interest expense, including affiliate interest	**(91)**	(158)
Equity income in subsidiaries	**23**	26
Gain on disposal of assets	**46**	5
Other income, net	**47**	89
Total deductions	**(307)**	(338)
Income taxes		
Current	**164**	(382)
Deferred	**96**	891
Total income taxes	**260**	509
Income from continuing operations before non-controlling interest	**555**	431
(Loss) income from discontinued operations, net of taxes	**(60)**	12
Net income	**495**	443
Net income attributable to non-controlling interest	**(4)**	(4)
Net income attributable to NGUSA	**$ 491**	$ 439

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of dollars)	Years Ended March 31,	
	2011	2010
Operating activities:		
Net income attributable to NGUSA	**$ 491**	$ 439
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**820**	785
Amortization of regulatory assets, stranded costs and rate plan deferrals	**689**	657
Impairment of intangibles and property, plant and equipment	**70**	18
Provision for deferred income taxes	**96**	891
Equity (loss) income in subsidiaries, net of dividends received	**(9)**	3
Loss (income) from discontinued operations, net of taxes	**60**	(12)
Other non-cash items	**24**	(51)
Net prepayments and other amortizations	**(58)**	(51)
Net pension and other postretirement expense	**(91)**	(290)
Net environmental payments	**(115)**	(219)
Changes in operating assets and liabilities:		
Accounts receivable, net	**20**	187
Storage and materials	**91**	195
Accounts payable and accrued expenses	**(43)**	(67)
Prepaid taxes and accruals	**780**	(783)
Accounts payable to affiliates, net	**29**	(44)
Other, net	**228**	(22)
Net cash provided by operating activities	**3,082**	1,636
Investing activities:		
Capital expenditures	**(1,691)**	(1,577)
Net proceeds from disposal of subsidiary assets	**31**	10
Derivative margin calls	**50**	59
Restricted cash	**39**	(55)
Other, including cost of removal	**(153)**	(135)
Net cash used in investing activities	**(1,724)**	(1,698)
Financing activities:		
Dividends paid to parent	**(700)**	(200)
Payments on long-term debt	**(1,694)**	(828)
Proceeds from long-term debt	**1,258**	2,600
Commercial paper issuance	**735**	-
Changes in intercompany moneypool	**(243)**	(1,206)
Debt issuance cost	**(3)**	(15)
Net cash (used in) provided by financing activities	**(647)**	351
Net increase in cash and cash equivalents	**711**	289
Net cashflow from discontinued operations - operating	**49**	76
Net cashflow from discontinued operations - investing	**(30)**	(21)
Cash and cash equivalents, beginning of year	**768**	424
Cash and cash equivalents, end of year	**$ 1,498**	$ 768
Supplemental disclosures of cash flow information:		
Interest paid	$ 426	$ 426
Taxes paid	$ 12	$ 415
Capital-related accruals included in accounts payable	$ (23)	$ 50

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of dollars)	Years Ended March 31, 2011	2010
Net income attributable to NGUSA	**$ 491**	$ 439
Other comprehensive income (loss), net of taxes:		
Unrealized (losses) gains on investments	**(5)**	13
Unrealized losses on hedges	**-**	(7)
Change in pension and other postretirement obligations	**(18)**	16
Reclassification adjustment for gains included in net income	**118**	74
Change in other comprehensive income	**95**	96
Total comprehensive income	**586**	$ 535
Related tax expense (benefit):		
Unrealized (losses) gains on investments	**$ (1)**	$ 9
Unrealized losses on hedges	**-**	(5)
Change in pension and other postretirement obligations	**(4)**	11
Reclassification adjustment for gains included in net income	**43**	49
Total tax expense	**$ 38**	$ 64

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in millions of dollars)	Years Ended March 31, 2011	2010
Retained earnings, beginning of year	**$ 2,592**	$ 2,353
Net income	**491**	439
Dividends paid to parent	**(700)**	(200)
Retained earnings, end of year	**$ 2,383**	$ 2,592

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(in millions of dollars, except per share and number of shares data)

	March 31,			
	2011	2010	**2011**	2010
Shareholders' equity	**Shares Issued and Outstanding**		**Amounts**	
Common stock, par value $.10 per share	**1,289**	1,556	**$ -**	$ -
Preferred stock, par value $.10 per share	**267**	-	**-**	-
Cumulative preferred stock, par value $100 and $50 per share	**372,638**	372,638	**35**	35
Additional paid-in capital			**13,043**	13,044
Retained earnings			**2,383**	2,592
Accumulated other comprehensive loss			**(716)**	(811)
Total shareholders' equity			**14,745**	14,860
Non-controlling interest in subsidiaries			**10**	16
Long-term debt	**Interest Rate**	**Maturity Date**		
Medium and long-term debt				
European Medium Term Note	1.10%	May 2012 - Jan 2016	**181**	23
Notes payable	3.55% - 9.75%	June 2011 - Apr 2041	**4,645**	4,870
Total medium and long-term debt			**4,826**	4,893
Gas Facilities Revenue Bonds	Variable	Dec 2020 - July 2026	**230**	230
	4.7% - 6.95%	Apr 2020 - July 2026	**411**	411
Total Gas Facilities Revenue Bonds			**641**	641
Promissory Notes to LIPA				
Pollution Control Revenue Bonds	5.15%	March 2016	**108**	108
Electric Facility Revenue Bonds	5.30%	Nov 2023 - Aug 2025	**47**	47
Total Promissory Notes to LIPA			**155**	155
First Mortgage Bonds	6.34% - 9.63%	Apr 2018 - Apr 2028	**130**	132
State Authority Financing Bonds	Variable	Oct 2013 - Aug 2042	**1,200**	1,200
Industrial Development Revenue Bonds	5.25%	June 2027	**128**	128
Committed Facilities	Variable	October 2029	**500**	550
Intercompany Notes	Variable	Nov 2011 - Nov 2015	**550**	867
Subtotal			**8,130**	8,566
Other			**1**	9
Less: current maturities			**67**	2,044
Total long-term debt			**8,064**	6,531
Total capitalization			**$ 22,819**	$ 21,407

The accompanying notes are an integral part of these consolidated financial statements.

NATIONAL GRID USA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

National Grid USA (referred to as "NGUSA", the "Company", "we", "us", and "our") is a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. The Company delivers electricity to approximately 3.3 million customers in Massachusetts, New Hampshire, New York and Rhode Island, and manages the electricity network on Long Island under an agreement with the Long Island Power Authority ("LIPA") which expires in 2013. We also own over 4,000 megawatts ("MW") of contracted electricity generation that provides power to over 1.0 million LIPA customers. The Company is also the largest distributor of natural gas in the northeastern US, serving approximately 3.4 million customers in New York, Massachusetts, New Hampshire and Rhode Island. The Company is an indirectly-owned subsidiary of National Grid plc (the "Parent"), a public limited company incorporated under the laws of England and Wales.

The Company's other operating subsidiaries are primarily involved in gas production and development; underground gas storage; and liquefied natural gas storage. We also invest and participate in the development of natural gas pipelines and other energy-related projects. Additionally, the Company has an equity ownership interest in two hydro-transmission electric companies.

The Company's wholly-owned New England subsidiaries include: New England Power Company ("New England Power"), The Narragansett Electric Company ("Narragansett"), Massachusetts Electric Company ("Massachusetts Electric"), Nantucket Electric Company ("Nantucket"), Granite State Electric Company ("Granite State"), Boston Gas Company ("Boston Gas"), Colonial Gas Company ("Colonial Gas"), and EnergyNorth Natural Gas Inc ("EnergyNorth"). The Company's wholly-owned New York subsidiaries include: Niagara Mohawk Power Corporation ("Niagara Mohawk"), National Grid Generation, LLC ("National Grid Generation"), The Brooklyn Union Gas Company ("Brooklyn Union") and KeySpan Gas East Corporation ("KeySpan Gas East").

At March 31, 2011, the assets and liabilities of EnergyNorth and Granite State are classified as held for sale in the accompanying consolidated balance sheets pending regulatory approvals of its sale to a third party as discussed in Note 14. In addition, in September 2010, the Company's indirectly wholly-owned subsidiary, National Grid Development Holdings sold it's 52.14% interest in Honeoye Storage Corporation, as discussed in Note 14. "Discontinued Operations and Other Dispositions".

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC and a 20.4% interest in Iroquois Gas Transmission System, which are accounted for under the equity method of accounting. In addition, the company owns equity ownership interest in three regional nuclear generating companies whose facilities have been decommissioned as discussed in Note 11. "Commitments and Contingencies" under "Decommissioning Nuclear Units".

The Company has no independent operations or source of income and conducts all of its operations through its subsidiaries and, as a result, we depend on the earnings and cash flow of, and dividends or distributions from, our subsidiaries to provide the funds necessary to meet our debt and contractual obligations. Furthermore, a substantial portion of our consolidated assets, earnings and cash flow is derived from the operations of our regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to us is subject to regulation by state regulatory authorities.

B. Basis of Presentation

The consolidated financial statements for the years ended March 31, 2011 and March 31, 2010, are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), including accounting principles for rate-regulated entities with respect to the Company's subsidiaries engaged in the transmission and distribution of gas and electricity (regulated subsidiaries), and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities having jurisdiction over such entities.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Non-controlling interests of majority-owned subsidiaries are calculated based upon the respective non-controlling interest ownership percentages. All material intercompany transactions have been eliminated in consolidation.

The Company uses the equity method of accounting for its investments in affiliates, which are 50% or less owned, as the Company has the ability to exercise significant influence over the operating and financial policies of the affiliates but does not control the affiliate. The Company's share of the earnings or losses of the affiliates is included as equity income in subsidiaries in the consolidated statements of income.

C. Accounting for the Effects of Rate Regulation

The Federal Energy Regulatory Commission ("FERC") in addition to the New York State Public Service Commission ("NYPSC"), the Massachusetts Department of Public Utilities ("DPU"), the New Hampshire Public Utilities Commission ("NHPUC"), and the Rhode Island Public Utility Commission ("RIPUC") provide the final determination of the rates we charge our customers. In certain cases, the actions of the federal and state regulatory bodies would result in an accounting treatment different from that used by non-regulated companies to determine the rates we charge our customers. In this case, the Company is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. The Company believes its rates are based on its costs and investments and it should continue to apply the current guidance for rate-regulated enterprises.

In the event the Company determines that its net regulatory assets are not probable of recovery, the Company would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. The resulting charge could be material to the Company's reported financial condition and results of operations.

D. Revenue Recognition

Gas Distribution and Electric Services

The Company bills its customers on a monthly cycle and revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. The Company's distribution subsidiaries follow the policy of accruing the estimated amount of base rate revenues for electricity and gas delivered but not yet billed (unbilled revenues), to match costs and revenues. The unbilled revenue at March 31, 2011 and March 31, 2010 was $701 million and $614 million, respectively.

The cost of gas and electricity used is recovered when billed to customers through the operation of commodity cost recovery mechanisms. Any difference is deferred pending recovery from or refund to customers.

Brooklyn Union, KeySpan Gas East, Niagara Mohawk and Narragansett gas utility tariffs contain weather normalization adjustments which largely offset shortfalls or excesses of firm net revenues (revenues less gas costs and revenue taxes) during a heating season due to variations from normal weather as measured by heating degree days. Revenues are adjusted each month the clause is in effect. Gas utility rate structures for the other gas distribution subsidiaries contain no weather normalization feature; therefore their net revenues are subject to weather related demand fluctuations. As a result, fluctuations from normal weather may have a significant positive or negative effect on the results of these operations.

Additionally, certain of our gas and electric distribution utilities have revenue decoupling mechanisms that permit each utility company to reconcile actual revenue per customer to target revenue per customer for certain customer classes on an annual basis. The revenue decoupling mechanism is designed to eliminate the disincentive to implement energy efficiency programs.

The gas distribution business is influenced by seasonal weather conditions. Annual revenues are principally realized during the heating season (November through April) as a result of the large proportion of heating sales in these months. Accordingly, results of operations are most favorable in the first calendar quarter of the year, followed by the fourth calendar quarter. Operating losses are generally incurred in the second and third calendar quarters.

Included in electric services are revenues associated with our three contracts with LIPA, as discussed in Note 11. "Commitments and Contingencies" under "Power Supply Agreement"**.**

Other Revenues
Revenues earned for service and maintenance contracts associated with small commercial and residential appliances are recognized as earned or over the life of the service contract, as appropriate.

E. Property, Plant and Equipment

Property, plant, and equipment are stated at original cost. The cost of additions to property, plant, and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and an allowance for funds used during construction ("AFUDC"). Replacement of minor items of property, plant, and equipment and the cost of current repairs and maintenance are charged to expense. Whenever property, plant, and equipment is retired, its original cost, together with cost of removal, less salvage, is charged to accumulated depreciation.

F. Goodwill and Intangible Assets

Goodwill
Goodwill represents the excess of the purchase price of a business combination over the fair value of tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment on an annual basis and, on an interim basis, when certain events or circumstances exist.

The goodwill impairment analysis is comprised of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The Company can consider both an income-based approach using projected discounted cash flows and a market-based approach using valuation multiples of comparable companies to determine fair value. The Company's estimate of fair value of each reporting unit is based on a number of subjective factors, including: (i) the appropriate weighting of valuation approaches (income-based approach and market-based approach), (ii) estimates of the future revenue and cash flows, (iii) discount rate for estimated cash flows, (iv) selection of peer group companies for the market-based approach, (v) required levels of working capital, (vi) assumed terminal value, (vii) the time horizon of cash flow forecasts; and (viii) control premium.

If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and no further analysis is required to be performed. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value, then a second step is performed to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The Company utilizes a discounted cash flow approach incorporating its most recent business plan forecasts together with a projected terminal year calculation in the performance of the annual goodwill impairment test. Critical assumptions used in the Company's analysis include a discount rate of 5.9% and a terminal year growth rate of 2.4% based upon expected long-term average growth rates. Within its calculation of forecasted returns, the Company made certain assumptions with respect to the amount of pension and environmental costs to be recovered in future periods. Should the Company not continue to receive the same level of recovery in these areas, the result could be a reduction in fair value of the Company, which in turn could give rise to an impairment of goodwill. Our forecasts assume long-term recovery and rate of returns that are in line with historical levels within the utility industry. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required for our continuing operations at March 31, 2011 and March 31, 2010.

Intangible Assets
Amortizable intangible assets are amortized over their estimated useful lives and reviewed for impairment when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the

intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value.

Indefinite-lived intangible assets are not amortized but are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. For indefinite-lived intangible assets, impairment exists when the carrying amount exceeds its fair value.

G. Cash and Cash Equivalents

The Company classifies short-term investments with an original maturity of three months or less as cash equivalents. These short-term investments are carried at cost which approximates fair value.

H. Restricted Cash

Restricted cash consists of margin accounts for commodity hedging activity, health care claims deposits, New York State Department of Conservation securitization for certain site cleanup, and workers' compensation premium deposits.

I. Income and Other Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected on the Company's consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns.

Other taxes in the accompanying consolidated statements of income primarily include excise tax, property tax and payroll tax. We report our collections and payments of excise taxes on a gross basis.

J. Comprehensive Income

Comprehensive income is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income is reported as net income, the other components include amounts related to defined benefit pension and postretirement plans, deferred gains and losses on derivative contracts associated with hedging activity, and unrealized gains and losses associated with certain investments held as available for sale.

K. Employee Benefits

The Company follows the provisions of the FASB accounting guidance related to the accounting for defined benefit pension and postretirement plans which requires employers to fully recognize all postretirement plans' funded status on the balance sheet as a net liability or asset and required an offsetting adjustment to accumulated other comprehensive income in shareholders' equity upon implementation or, in the case of regulated enterprises, to regulatory assets or liabilities. Consistent with past practice, and as required by the guidance, the Company values its pension and postretirement benefits other than pensions ("PBOP") assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

L. Supplemental Executive Retirement Plans

The Company has corporate assets recorded on the consolidated balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies. The Company records changes in the value of these assets in accordance with Accounting for the Purchase of Life Insurance. As such, increases and decreases in the value of these assets are recorded through earnings in the consolidated statements of income concurrent with the change in the value of the underlying assets.

M. Derivatives

We employ derivative instruments to hedge a portion of our exposure to commodity price risk. Whenever hedge positions are in effect, we are exposed to credit risks in the event of non-performance by counterparties to derivative contracts, as well as non-performance by the counterparties of the transactions against which they are hedged. We believe the credit risk related to derivative instruments is no greater than that associated with the primary commodity contracts which they hedge.

Commodity Derivative Instruments – Regulated Utilities
We use derivative financial instruments to reduce cash flow variability associated with the purchase price for a portion of future natural gas and electricity purchases associated with our gas and electric distribution operations. Our strategy is to minimize fluctuations in firm gas and electricity sales prices to our regulated customers. The accounting for these derivative instruments is subject to the FASB accounting guidance applicable to entities subject to the certain types of regulation. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities on the consolidated balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers consistent with regulatory requirements.

Certain of our contracts for the physical purchase of natural gas are derivatives as defined by current accounting literature. As such, these contracts are recorded on the consolidated balance sheets at fair market value. However, since such contracts were executed for the purchases of natural gas that is sold to regulated firm gas sales customers, and pursuant to the requirements for accounting for the effects of rate regulation, changes in the fair market value of these contracts are recorded as a regulatory asset or regulatory liability on the consolidated balance sheets.

Commodity Derivative Instruments – Hedge Accounting
We also use derivative financial instruments, such as futures, options and swaps, for the purpose of hedging cash flow variability associated with forecasted purchases and sales of various energy-related commodities. All such derivative instruments are accounted for pursuant to the requirements of current accounting guidance for derivative instruments and hedging activities. With respect to those commodity derivative instruments that are designated and accounted for as cash flow hedges, the effective portion of periodic changes in the fair market value of cash flow hedges is recorded as accumulated other comprehensive income on the consolidated balance sheets, while the ineffective portion of such changes in fair value is recognized in earnings. For the year ended March 31, 2011 there was no ineffective portion. Unrealized gains and losses (on such cash flow hedges) that are recorded as accumulated other comprehensive income are subsequently reclassified into earnings concurrent to when hedged transactions impact earnings. With respect to those commodity derivative instruments that are not designated as hedging instruments, such derivatives are accounted for on the consolidated balance sheets at fair value, with all changes in fair value reported in earnings.

Treasury Financial Instruments
We continually assess the cost relationship between fixed and variable rate debt. Consistent with our objective to minimize our cost of capital, we periodically enter into hedging transactions that effectively convert the terms of underlying debt obligations from fixed rate to variable rate or variable rate to fixed rate. Payments made or received on these derivative contracts are recognized as an adjustment to interest expense as incurred. Hedging transactions that effectively convert the terms of underlying debt obligations from fixed to variable are designated and accounted for as fair-value hedges pursuant to the requirements of the FASB accounting guidance on derivative instruments and hedging activities. Hedging transactions that effectively convert the terms of underlying debt obligations from variable to fixed are considered cash flow hedges.

N. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;

Level 3 — unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

O. Storage and Materials

Storage and materials is comprised primarily of gas in storage and materials and supplies. Gas in storage is recorded initially at average weighted cost and is expensed when delivered to customers as gas purchased for resale. Materials and supplies are recorded when purchased and expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete materials and supplies.

The Company evaluates the value of storage and materials at the lower of cost or market. Existing rate orders allow the Company to pass through the cost of gas purchased for resale directly to the rate payers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to the rate payers are subject to periodic regulatory approval and are reported periodically to the relevant regulatory authorities.

P. Emission Allowance Credit

The US Environmental Protection Agency issued the Clean Air Interstate Rule ("CAIR") which was intended to permanently cap emission of sulfur dioxide and nitrogen oxide ("NOx") in 28 eastern states and the District of Columbia. The CAIR requirements were supplemental to the existing emission reductions required under the Clean Air Act. Additionally, the Regional Greenhouse Gas Initiative is a cooperative effort by ten northeastern states to reduce emissions of carbon dioxide. The Company has an emission allowance credit of $26 million and $29 million at March 31, 2011 and March 31, 2010, respectively, which is recorded in "materials and supplies, at average cost" on the consolidated balance sheets. On a periodic basis, the emission allowance credit is reviewed for impairment at the balance sheet date the allowance could have been traded or sold in an active market. For the years ended March 31, 2011 and March 31, 2010, we reduced the inventory value resulting in a charge to "operations and maintenance" on the consolidated statements of income of $3 million and $7 million, respectively.

Q. Change In Accounting Estimate

The Company calculates its bad debt reserve on its customer accounts receivable (including purchased receivables) based on the bad debt write-offs compared to actual billed sales and transportation revenues (with a six month lag). All receivables over 360 days past due are 80% reserved. Certain identified "at risk" customers are 100% reserved. As of March 31, 2011, there were no "at risk" customers identified. Economic conditions and other factors are considered in addition to the historic write-off rate. The Company reduced the write-off rate for the year ended March, 31 2011, for improved economic conditions which were evidenced by improved collection patterns for overdue receivables. The aggregate effect of these changes in methodology for calculating the bad debt reserve resulted in a pre-tax benefit of $24 million.

R. Recent Accounting Pronouncements

Prospective Accounting Pronouncements

In the preceding twelve months, the FASB had issued numerous updates to GAAP. The Company has evaluated various guidelines and has either deemed them as not applicable based on its nature of operations or has implemented the new standards. A discussion of the more significant and relevant updates is as follows:

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This update seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. The Company is now required to consecutively present the statement of income and statement of comprehensive income and also present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. This update does not change the items that are reported in other comprehensive income or any reclassification of items to net income. Additionally, the update does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance is effective for public companies for fiscal years, and interim periods within that year, beginning after December 15, 2011, and it is to be applied retrospectively. Early adoption is permitted. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

In April 2011, the FASB issued accounting guidance that substantially amended existing guidance with respect to the fair value measurement topic ("the Topic"). The guidance seeks to amend the Topic in order to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements as well as changing specific applications of the Topic. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to, fair value measurement of a portfolio of financial instruments, fair value measurement of premiums and discounts and additional disclosures about fair value measurements. This guidance is effective for financial statements issued for interim and annual periods beginning after December 15, 2011. The early adoption of this guidance is not permitted and can only be applied prospectively. The Company is currently determining the potential impact of the guidance on its financial position, results of operations and cash flows.

In March 2011, the FASB issued updated guidance over the agreements between two entities to transfer financial assets. Prior to this update, an entity could recognize this transfer when it was deemed that the transferee had effective control over the transferred asset, specifically whether the entity has the ability to repurchase substantially the same asset based on the transferor's collateral. This accounting update evaluates the effectiveness of the entity's control by focusing on the transferor's contractual rights and obligations as opposed to the entity's ability to perform on those rights and obligations. This update also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This guidance is treated prospectively and effective for annual or interim reporting periods beginning on or after December 15, 2011. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

In December 2010, the FASB issued an accounting update to address inconsistencies in the application of accounting guidance related to reporting pro forma revenue and earnings of business combinations. This update is effective for entities who entered into an acquisition and whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. This disclosure requires revenue and earnings of the combined entity to be disclosed as though the combination had occurred at the beginning of the prior reporting period. The supplemental disclosure related to this activity now is required to provide a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The Company does not expect the adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

In December 2010, the FASB issued an accounting update that modified the goodwill impairment procedures necessary for entities with zero or negative carrying value. The FASB created this guidance to require entities to complete Step 2 of the impairment test, which requires the entity to assess whether or not it was likely that impairment existed throughout the period. To do this, an entity should consider whether there were adverse qualitative factors throughout the period that would contribute to impairment. This update is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

Recently Adopted Accounting Pronouncements

In March 2010, the FASB issued updated guidance that provides for scope exceptions applicable to financial instrument contracts with embedded credit derivative features. This FASB guidance is effective for financial statements issued for interim periods beginning after June 15, 2010. On an ongoing basis, the Company evaluates new and existing transactions and agreements to determine whether they are derivatives, or have provisions that meet the characteristics of embedded derivatives. Those transactions designated for any of the elective accounting treatments for derivatives must meet specific, restrictive criteria, both at the time of designation and on an ongoing basis. None of the financial instrument contracts or credit agreements the Company has entered were identified and designated as meeting the criteria for derivative or embedded derivative treatment. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In February 2010, the FASB issued an amendment to certain recognition and disclosure requirements for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The amendment applies to both issued financial statements and financial statements revised as a result of either a correction of an error or retrospective application of GAAP. The new provisions require non-public entities to disclose both the date that the financial statements were issued, or available to be issued, and the date the revised financial statements were issued or available to be issued. The amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In January 2010, the FASB issued an amendment to the accounting guidance for fair value measurements that will provide for additional disclosures about (a) the different classes of assets and liabilities measured at fair value, (b) the valuation techniques and inputs used, (c) the activity in Level 3 fair value measurements, and (d) the transfers between Levels 1, 2, and 3. This FASB guidance is effective for financial statements issued for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers and servicing of financial assets and extinguishment of liabilities. The objective of the amendment is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets, and effects of a transfer on its financial position, financial performance and cash flows, and transferor's continuing involvement, if any, in transferred financial assets. The new provisions must be applied as of the beginning of each reporting entity's first annual reporting period beginning after November 15, 2009 and are to be applied to transfers occurring on or after the date of adoption. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The objective of the amendment is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amendment requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The new requirements shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In May 2009, the FASB issued accounting guidance establishing the general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this FASB guidance requires enhanced disclosures about (a) events or transactions that may occur for potential recognition or disclosure in the financial statements in the period after the balance sheet date, (b) circumstances under which an entity should recognize such events, and (c) date through which an entity has evaluated subsequent events, including the basis for that date, and whether that date represents the date the financial statements were issued or available to be issued. The FASB guidance is effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the reporting period beginning April 1, 2010 and noted no impact on the Company's financial position, results of operations or cash flows due to the adoption of this standard.

S. Reclassifications

Certain reclassifications have been made to conform prior periods' data to the current presentation. Certain components of accounts receivable were reclassified to regulatory assets. In addition, the Company reclassed asset balance of executive retirement plans from equity investments to other deferred charges. Further, prior year assets and liabilities of Granite State and EnergyNorth are reclassified as "assets held for sale" and "liabilities related to assets held for sale".

The Company also determined that certain derivative contracts or discrete, separable components of derivative contracts do not qualify for hedge or derivative accounting and should therefore, be excluded from the balance sheet. The Company adjusted the prior period by decreasing the net derivative liabilities and net regulatory assets by $119 million in the accompanying consolidated balance sheet.

These reclassifications had no effect on the Company's results of continuing operations and cash flows.

Note 2. Rates and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2011 and March 31, 2010:

(in millions of dollars)	March 31,	
	2011	2010
Regulatory assets included in accounts receivable:	**$ 12**	$ 92
Regulatory liabilities included in accounts payable:	**(54)**	(67)
Regulatory assets – current		
Stranded costs	**455**	529
Derivative instruments	**115**	218
Pension and postretirement benefit plans	**90**	82
Yankee nuclear decommissioning costs	**15**	15
Other	**104**	142
Total current regulatory assets	**779**	986
Regulatory assets – non-current		
Pension and postretirement benefit plans	**1,553**	2,176
Deferred environmental restoration costs	**1,909**	1,820
Stranded costs	**-**	454
Derivative contracts	**161**	218
Regulatory tax asset	**118**	114
Storm cost recoveries	**212**	211
Yankee nuclear decommissioning costs	**73**	67
Loss on reacquired debt	**35**	40
Long-term portion of standard offer under-recovery	**-**	43
Merger savings	**228**	-
Transportation marketer credit	**117**	113
Other	**379**	291
Total non-current regulatory assets	**4,785**	5,547
Total regulatory assets	**5,564**	6,533
Regulatory liabilities – current		
Rate adjustment mechanisms	**(124)**	(42)
Derivative contracts	**(26)**	(29)
Other	**(62)**	(79)
Total current regulatory liabilities	**(212)**	(150)
Regulatory liabilities – non-current		
Removal costs recovered	**(1,453)**	(1,409)
Stranded costs	**(130)**	(170)
Pension and postretirement plans fair value deferred gain	**(150)**	(138)
Derivative contracts	**(138)**	(127)
Environmental response fund and insurance recoveries	**(164)**	(96)
Storm costs reserve	**(22)**	(18)
Other	**(836)**	(778)
Total non-current regulatory liabilities	**(2,893)**	(2,736)
Total regulatory liabilities	**(3,105)**	(2,886)
Net regulatory assets	**$ 2,459**	$ 3,647

The regulatory items above are not included in the utility rate base. The Company record carrying charges, as appropriate, on the regulatory items for which cash expenditures have been made and are subject to recovery or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. The Company anticipates recovering these costs in the gas rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

Rate Matters

The Company's regulated operating companies are involved in several regulatory rate cases, as follows:

New England Power

New England Power ("NEP") has received authorization from the FERC to recover through contract termination charges ("CTCs'), substantially all of the costs associated with its former generating business not recovered through their divestiture. Additionally, the FERC enables transmission companies to recover their specific costs of providing transmission service. Therefore, substantially all of NEP's business, including the recovery of its stranded costs, remains under cost-based rate regulation.

Under settlement agreements approved by state commissions and the FERC, NEP is permitted to recover costs associated with its former generating investments (nuclear and nonnuclear) and related contractual commitments that were not recovered through the sale of those investments (stranded costs). Stranded costs are recovered from NEP's affiliated former wholesale customers with whom it has settlement agreements through a CTC. NEP's affiliated former wholesale customers in turn recover the stranded cost charges through delivery charges to their distribution customers. NEP earns a return on equity ("ROE") of approximately 11% on stranded cost recovery. Most stranded costs have been fully recovered through CTCs by the end of 2010 and NEP intends to recover remaining stranded costs through 2020.

NEP is a Participating Transmission Owner ("PTO") in the New England Regional Transmission Organization ("RTO") which commenced operations effective February 1, 2005. The Independent System Operator for New England ("ISO-NE") has been authorized by the FERC to exercise the operations and system planning functions required of RTOs and is the independent regional transmission provider under the ISO-NE Open Access Transmission Tariff ("ISO-NE OATT"). The ISO-NE OATT is designed to provide non-discriminatory open access transmission services over the transmission facilities of the PTOs and recover their revenue requirements. The FERC issued a series of orders in 2004 and 2005 that approved the establishment of the RTO and resolved certain issues concerning the New England Transmission Owners ("NETOs"). Other ROE issues were set for hearing in the 2004 order.

Effective on the RTO operations date of February 1, 2005, NEP's transmission rates began to reflect a proposed base ROE of 12.8%, subject to refund, plus an additional 0.5% incentive return on regional network service ("RNS") rates that the FERC approved in March 2004. An additional 1.0% incentive adder was also applicable to new RNS transmission investment, subject to refund. Approximately 70% of NEP's transmission costs are recovered through RNS rates.

NEP and other NETOs participated in FERC proceedings to resolve outstanding ROE issues, including base ROE and the proposed 1.0% ROE incentive for new transmission investment. On October 31, 2006, the FERC issued an order approving the proposed 1.0% ROE adder for all new transmission investment approved through the regional system planning process as an incentive to build new transmission infrastructure. The resulting ROE varied depending on whether costs are recovered through RNS rates or local network service ("LNS") rates, and whether the costs are for existing or new facilities. For the locked-in period (February 2005 to October 2006), the resulting ROEs were 10.7% (including a 0.5% RTO participation adder) for recovery of existing transmission through RNS rates; 11.7% (including 0.5% and 1.0% adders) for new transmission costs recovered through RNS; and 10.2% (base ROE only) for LNS. For the prospective period beginning November 1, 2006, those ROEs increased to 11.4%, 12.4% and 10.9%, respectively, as a result of a FERC adjustment to reflect updated bond data. Overall, the ROEs approved by the FERC increased the Company's last authorized ROE of 10.25%.

On rehearing, the FERC issued an order in March 2008 increasing NEP's base ROE for all classes of transmission plant by 24 basis points retroactive to February 1, 2005 and limiting the 1.0% ROE adder to new transmission plant placed in service on or before December 31, 2008. In December 2008, certain parties in the underlying FERC proceeding filed an appeal of the Commission's orders with the US Court of Appeals for the District of Columbia Circuit arguing that the Commission's approval of the 1.0% ROE adder was unjustified. The appeal was denied by the Court in January 2010.

In September 2008, NEP, The Narragansett Electric Company, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the New England East-West Solution ("NEEWS"), pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS, estimated to cost a total of $2.1 billion, consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. The Narragansett Electric Company's share is estimated to be $0.6 billion and NEP's share is estimated to be $0.2 billion. Effective November 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentives have sought rehearing of the FERC order. NEP cannot predict the outcome of this attempt for a rehearing.

For the year ended March 31, 2011, NEP's NEEWS-related CWIP and in-service investment related to NEEWS totaled $31.2 and $15.9 million, respectively. In April 2011 NEP and Northeast Utilities jointly filed with the FERC to transfer the recovery of 100% of NEEWS-related CWIP from its Local Network Service Rate to the Regional Network Service ("RNS") Rate under section II of the ISO-NE OATT. The Massachusetts Attorney General has filed a Motion to Intervene, Partial Protest and Request for Relief. On May 27th 2011, NEP received approval from the FERC and expects to begin recovery of NEEWS CWIP through the RNS rate beginning in June 2011.

Under the terms of its FERC Electric Tariff No. 1, The Company operates its transmission facilities and those of its New England affiliates as a single integrated system and reimburses its affiliates for the cost of those facilities, including a return. The Company's costs under Tariff No. 1 are then allocated among transmission customers in New England in accordance with the terms of the ISO-NE OATT. On December 30, 2009, NEP filed with the FERC a proposed amendment to Tariff No.1 (1) to adjust depreciation rates and PBOPs according to recent depreciation and actuarial studies updating such costs, and (2) to update rate formulas applicable to Massachusetts Electric Company. The result of the proposed rate change would be an overall rate decrease of $1.6 million. In March 2010, the FERC issued an order establishing hearing and settlement procedures for this filing and made the new rates effective January 1, 2010, subject to refund, pending the outcome of the proceeding. In March 2011, the Company filed an uncontested settlement agreement with the FERC resolving all issues raised by the Massachusetts Attorney General in this proceeding. At this time, the FERC has not acted on the proposed settlement.

Niagara Mohawk

Niagara Mohawk's key regulatory agreements include the Master Restructuring Agreement ("MRA") initiated under the Master Restructuring Plan ("MRP") and the Gas Rate Plan Joint Proposal. This MRP was initiated in January 2002 to affect the restructuring of Niagara Mohawk's integrated electric power and delivery business. Under the MRP and MRA, Niagara Mohawk divested its electric generation assets and related contracts and is permitted to recover any "stranded" unrecovered costs from its distribution customers. Recovery of these stranded costs will take several years lasting through 2015. The MRA requires several rate filings and other proceedings to address changes and adjustments to estimates or stranded costs from restructuring.

Electric Rate Case Filing

In January 2010, Niagara Mohawk filed an application with the NYPSC for the new electricity base rates, effective January 2011, which would terminate the MRP one year early. Niagara Mohawk filed for an increase in the base transmission and distribution revenue of $361.2 million based on a return on equity of 11.1% and equity ratio of 50.01% for rate year 2011. While Niagara Mohawk filed for a three-year rate case commencing January 1, 2011 through December 31, 2013, NYPSC staff responded to a one-year rate case and Niagara Mohawk adopted the one-year rate case in this proceeding. In January 2011, the NYPSC granted the request for an increase in revenue of approximately $112 million, including recovery of $40 million in competitive transition charges, with a 9.1% return on equity. The NYPSC gave Niagara Mohawk the option of receiving a 9.3% return on equity, which would result in a revenue requirement increase of approximately $119 million, if it agreed not to file another general rate case prior to January 1, 2012. In a correspondence dated January 31, 2011, Niagara Mohawk advised the NYPSC staff that it was accepting the option and filing tariffs to reflect a 9.3% return on equity. Of the increase granted, $50 million in revenue is due to temporary rates and is subject to the results of the NYPSC's audit of service company costs allocated to Niagara Mohawk. The NYPSC also established a fixed level of $29.7 million per year for Niagara Mohawk's costs associated with the site investigation and remediation ("SIR") of former manufactured gas plants ("MGPs") and other environmental sites. While Niagara Mohawk had previously recovered all prudently incurred SIR costs, for any annual spend above the fixed level, 80% will now be placed into a deferral account for recovery in a future rate case and the other 20% will be the responsibility of Niagara Mohawk. For any annual spend below the fixed level, a credit will be applied to the deferral account.

The NYPSC adopted the capital expenditures stipulation entered into between Niagara Mohawk, Department of Public Service ("DPS") Staff, and Multiple Intervenors in the rate case, which addresses, among other things, Niagara Mohawk's capital budget and investments for fiscal years 2011 and 2012. The amount of capital reflected in Niagara Mohawk's rates for calendar year 2011 is subject to refund to customers if Niagara Mohawk fails to invest at the levels agreed in the stipulation. In addition, the NYPSC approved the revenue decoupling stipulation entered into between Niagara Mohawk, DPS Staff, the New York Power Authority, and Pace/NRDC which allows for the implementation of a revenue decoupling mechanism whereby Niagara Mohawk's base rates are adjusted annually as a result of the reconciliation between allowed revenue and billed revenue.

Gas Rate Case Filing

In May 2009, the NYPSC approved a joint proposal that provides for a two-year rate plan, with an annual increase of $39.4 with incremental adjustments in the second year to reflect changes in certain expenses based on an allowed return on equity of 10.2 % and a equity ratio of 43.7%. The joint proposal also includes a revenue decoupling mechanism, negative revenue adjustments for failure to meet certain service quality performance metrics and a commodity-related bad debt recovery mechanism that adjusts for fluctuations in commodity prices. The new rates went into effect on May 20, 2009. In April 2010, Niagara Mohawk filed to increase rates by approximately $13.9 million effective May 20, 2010 based on increases in certain costs. The NYPSC ordered the new rates to go into effect on a temporary basis and in August 2010, the NYPSC approved the rates on a permanent basis effective with the date of such order.

Transmission Rate Case Filing

In February 2008, Niagara Mohawk filed with the FERC a formula transmission rate for customers that take service under the NYISO tariff. The rate took effect on October 1, 2008 subject to refund. The FERC directed hearing and settlement judge proceedings to resolve the remaining contested issues in the proceeding. On April 6, 2009, Niagara Mohawk filed a settlement agreement which was accepted by the FERC by its order issued on June 22, 2009, and which resolved all issues in the proceeding. The settlement provided for an authorized return on equity of 11.5%. The effective date for the settlement was January 30, 2009 with a phase-in of the settlement rate over the period January 30 through June 30, 2009. In July 2009, Niagara Mohawk refunded to customers a total of $7.1 million, inclusive of FERC required interest, for amounts collected in excess of the settlement rates for the period of October 2008 through June 2009. Under the tariff, Niagara Mohawk is required to provide an annual informational filing to the FERC. Annual Update filings have been made in June of 2009 and 2010. In response thereto, certain parties raised issues with Niagara Mohawk's 2009 and 2010 filings. In February 2010, FERC accepted a proposed Stipulation and Agreement to modifying the calculation of the Long-Term Debt Cost of Capital Rate. In January 2011 the FERC accepted in an unpublished letter order Niagara Mohawk's negotiated settlement of the limited issues raised by the parties on the 2010 Annual Update filing, including removal from the formula rate a component reflecting the Temporary State Assessment under Section 18-a of the New York Public Service Law to prevent duplicate charging of that 18-a assessment to entities who are directly assessed or are otherwise exempt from such assessment. The 2011 Annual Update was filed in June 2011. The revenues resulting from the formula rate are charged to wholesale transmission customers and credited back to retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Other Regulatory Matters

In February 2011, the NYPSC instituted a statewide investigation to review its policies regarding the funding mechanisms supporting SIR expenditures and directing the state's utilities to assist the Commission in developing a comprehensive record of: (1) the current and future scope of utility SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of costs among customers and potentially shareholders; and (4) methods for recovering costs appropriately borne by ratepayers in a way that minimizes the impact. The NYPSC has requested that the Administrative Law Judge provide a presentation of recommendations before the end of 2011.

In November 2010, FERC commenced an audit of Niagara Mohawk for the period from January 1, 2009 through December 31, 2009 to evaluate Niagara Mohawk's compliance with the FERC's: (1) Uniform System of Accounts for public utilities; (2) Form No. 1 Annual report requirements of major electric utilities; and (3) Form No. 3–Q, Quarterly financial report of electric utilities. The audit is currently ongoing. No formal findings have been communicated by the FERC to date.

Niagara Mohawk made a filing in November 2007 proposing certain financial protections for Niagara Mohawk as required by the NYPSC in the order approving the KeySpan merger which was adopted by NYPSC in March 2008 which provide, among other things, a prohibition on the implementation of a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock, the holder of which would have voting rights that limit Niagara Mohawk's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of such share of stock. In April 2010, Niagara Mohawk petitioned the NYPSC for authorization to issue its Golden Share to GSS Holdings, Inc. ("GSS") under the same arrangements as its sister utilities, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island, made with GSS, which terms were filed with the NYPSC on November 19, 2009. On May 24, 2011, subject to the modifications that Niagara Mohawk amend its Certificate of Incorporation to provide for the issuance of the Golden Share and modify its Services and Indemnity Agreement with GSS to include a contractual obligation for GSS to vote the Golden Share in the best interests of New York State, the NYPSC authorized the issuance of a Golden Share by Niagara Mohawk to GSS

Niagara Mohawk received federal income tax refunds covering the tax years of 1991 through 1995 in the amount of $25.6 million, inclusive of $13.3 million of interest, from the Internal Revenue Service ("IRS") in March 2003 and August 2004. Niagara Mohawk made a filing with the NYPSC and proposed to credit $7.2 million to its customers and recorded the resulting regulatory liability and earnings impact in March 2009. Niagara Mohawk subsequently entered into a settlement with the parties in connection with certain adjustments which resulted in an additional $18.7 million credit to its customers**,** including approximately $7.3 million in carrying charges (through December 2009) due to the delay in filing the refund notice and $11.4 million in full settlement of all other outstanding issues. In March 2010, Niagara Mohawk made a supplemental filing to provide procedures put in place by Niagara Mohawk to ensure that all future income tax refunds would be timely noticed. In April 2010, the NYPSC issued an order adopting the submitted joint proposal. Niagara Mohawk will continue to accrue carrying charges for gas customers until such time as the deferred amounts are passed back to gas customers.

In October 2007, Niagara Mohawk filed a preliminary application with NYPSC regarding the implementation of the Follow-on Merger Credit associated with the acquisition of KeySpan Corporation ("KeySpan"). Niagara Mohawk indicated that the merger would result in the savings allocable to Niagara Mohawk of approximately $40 million for the period from September 2007 through December 2011. In the second quarter of 2008, the NYPSC issued its decision requiring a Follow-on Merger Credit of approximately $56 million, including $4 million of additional credit based on settlement between Multiple Intervenors, Niagara Mohawk and the NYPSC. In July 2010, the NYPSC adopted the terms of the joint proposal and directed Niagara Mohawk to record the proposed credits accordingly. The deferred gas credit will be in Niagara Mohawk's next general gas rate proceeding.

Capital Investment

In December 2007, Niagara Mohawk filed with the NYPSC a Petition for Special Ratemaking seeking authorization to defer for later rate recovery 50% of the revenue requirement impact during calendar year 2008 of specified capital programs and operating expenses that are directly associated with these programs. In the order approving the KeySpan merger, the NYPSC had found that the rate impacts associated with certain incremental investments during the remaining period of the MRP would be limited to not more than 50% of the total rate impact as ultimately determined by the NYPSC.

In September 2008, the NYPSC issued its order on Niagara Mohawk's December 2007 Petition for Special Ratemaking. The NYPSC stated that Niagara Mohawk's investment program could "conceptually" be considered incremental to the level of investment assumed in the MRP and therefore could be eligible for deferral. In April 2009 and then again in May 2010, Niagara Mohawk filed for authority to defer 2008 actual incremental capital and associated operating expenditures. In May 2010, Niagara Mohawk also filed a request for recovery of incremental investment in 2009 in another Petition for Special Ratemaking to the NYPSC. In May 2011, Niagara Mohawk also filed a request for recovery of incremental investment in 2010 in another Petition for Special Ratemaking to the NYPSC. The NYPSC has not yet ruled on these petitions.

Temporary State Assessment Pursuant to PSL Section 18-a

In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment. The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In subsequent compliance filings in June 2010 and 2011, the Company noted that it intends to maintain its gas and electric Temporary State Assessment surcharges for the July 1, 2010 through June 30, 2011 and July 1, 2011 through June 30, 2012 recovery periods. At March 31, 2011, $11.7 million was deferred pending recovery; $30.0 million was recorded at March 31, 2010.

Massachusetts Electric and Nantucket

Rates for services rendered by Massachusetts Electric are subject to approval by the DPU. In May 2009, Massachusetts Electric, together with its affiliate Nantucket, filed an application for an increase of $111.3 million in electric base distribution rates. In April 2010, the DPU approved an overall increase in base distribution revenue of approximately $43.9 million based upon a 10.35% rate of return on equity and a 43.15% equity ratio. Approximately $6.0 million of the increase relates to storm costs associated with restoration of service following an ice storm in December 2008.

In addition, the DPU approved, with modification, the revenue decoupling mechanism ("RDM") proposed by Massachusetts Electric, as well as the reconciliation of commodity-related bad debt and working capital, and pension and PBOP costs to actual costs. In November 2010 and subsequently revised in February 2011, Massachusetts Electric and Nantucket Electric filed an application of approval under its RDM for recovery of $2.6 million. In March 2011, the DPU opened a proceeding, as requested by the Massachusetts Attorney General Office, for an independent audit related to this filing to recover the revenue requirement associated with the 2009 capital investments. The DPU has not yet established the full scope of this proceeding.

This rate order also allowed recovery of non-capitalized pension and PBOP costs to occur outside of base rates through a separate factor. As a result, Massachusetts Electric is authorized to recover all pension and PBOP expenses from its customers. The difference in the costs of Massachusetts Electric's pension and PBOP plans from the amounts billed through this separate factor is deferred to a regulatory asset to be recovered or refunded over the following three years. Consequently in 2010, Massachusetts Electric reclassified accumulated other comprehensive income of $195.4 million and related accumulated deferred income taxes of $129.1 million to regulatory assets of $324.5 million.

NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities in Massachusetts, including a return on those facilities. In turn, these costs are allocated among transmission customers in New England in accordance with the tariff agreement. In December 2009, NEP filed with the FERC a proposed amendment to the Company's formula rate revenue requirements which decreased the Company's compensation for its electric transmission facilities by approximately $1.7 million. In March 2010, the FERC issued an order establishing hearing and settlement procedures for this filing and made the new rates effective January 1, 2010. In March 2011, NEP filed an uncontested settlement agreement with the FERC resolving all issues raised by the Massachusetts Attorney General in this proceeding.

Other Regulatory Matters

In the general rate case involving Massachusetts Electric's Massachusetts gas distribution affiliates, the DPU opened an investigation to address the allocation and assignment of costs to the gas affiliates by the National Grid service companies. In June 2011, the Attorney General's Office requested DPU to increase the scope of the audit to address the allocation and assignment of costs to Massachusetts Electric by the National Grid service companies and to review the National Grid's cost allocation practices. Massachusetts Electric has agreed to expand the scope of the audit to its Massachusetts electric distribution companies. As of the date of this report, DPU has not yet established the full scope of the audit.

In January 2011, the DPU opened an investigation into Massachusetts Electric and Nantucket Electric's preparation and response to a December 2010 winter storm. The DPU has the authority to issue fines not to exceed approximately $0.3 million for each violation for each day that the violation persists. The maximum fine may not exceed $20 million for any related series of violations. On June 7, 2011, Massachusetts Electric and the Attorney General's Office filed a proposed settlement with a total value of approximately $1.0 million. The settlement requests DPU approval by August 1, 2011.

The DPU has informed Massachusetts Electric and the AG that it will not rule on the settlement but will proceed with its initial investigation.

In addition to the rates and tariffs put into effect following the rate case, Massachusetts Electric continues to be authorized to recover costs associated with the procurement of electricity for its customers, all transmission costs, and costs charged by Massachusetts Electric's affiliate NEP, for stranded costs associated with NEP's former electric generation investments.

Green Communities Act

Pursuant to the Green Communities Act, in October 2009 the DPU approved the Company and Nantucket Electric's proposal to construct, own, and operate approximately 5 MW of solar generation on five separate properties owned by the Company and/or its affiliates in Dorchester, Everett, Haverhill, Revere, and a location on the Sutton/Northbridge border. The estimated total capital cost of the projects is approximately $31 million. As each unit goes into service, the Company and Nantucket Electric are allowed to recover the costs of each site with a return equal to the weighted average cost of capital approved by the DPU in the Company's most recent rate proceeding. The Company and Nantucket Electric requested rate adjustments under this mechanism for the Sutton/Northbridge facility in August 2010 for recovery of approximately $1.0 million, and for the Revere, Everett and Haverhill facilities in February 2011 for recovery of approximately $2.5 million. In each instance, the DPU issued an order approving recovery subject to its ongoing review and further investigation and reconciliation of the Company's costs for the sites. The DPU has not yet issued a final order approving recovery for any of the sites. Construction of the Dorchester site is expected to be completed by the end of 2011.

In May 2010, the Company and Nantucket Electric announced that they entered into a 15-year PPA with Cape Wind Associates, LLC to purchase half of the energy, capacity and renewable energy credits generated by the proposed 468 MW offshore wind project at an adjusted price of 18.7 cents per kilowatt hour beginning in 2013 (escalated for inflation by 3.5% thereafter). In November 2010, the DPU approved the PPA including the Company's proposed cost recovery mechanism. The DPU's decision to approve the PPA has been appealed to the Supreme Judicial Court of Massachusetts with oral arguments to be held in September 2011.

Rates for services rendered by Nantucket are the same as those approved by the DPU for Massachusetts Electric, with the addition of a cable facilities surcharge to cover the costs associated with two 46 kilovolt submarine cables owned by Nantucket that deliver electricity from the mainland to the island of Nantucket.

Narragansett

In June 2009, Narragansett filed an application for an increase of $75.3 million in electric base distribution rates, which it later adjusted to $57.8 million. In February 2010, RIPUC approved an overall increase in base distribution revenue of approximately $23.5 million based upon a 9.8% rate of return on equity and a 42.75% equity ratio. Narragansett's new rates went into effect on March 1, 2010 retroactive to January 1, 2010. The RIPUC approved recovery of the increase in revenue generated by the new rates for January and February 2010 over a 13 month period. On April 21, 2010 Narragansett filed a petition for writ of certiorari with the Rhode Island Supreme Court appealing the RIPUC's decision.

During May 2010, Rhode Island enacted decoupling legislation that provides for the annual reconciliation of the revenue requirement allowed in Narragansett's base distribution rate case to actual revenue billed by the electric and gas business. Narragansett filed a proposal to implement revenue decoupling for both electric and gas in October 2010 for which a RIPUC decision is expected during July 2011. The new law also provides for submission and approval of an annual infrastructure spending plan without having to file a full base rate case. In December 2010, Narragansett filed with RIPUC both the electric and gas plans, subsequently revised in the first quarter of 2011, and included a request for incremental electric revenue of approximately $3.4 million and incremental gas revenue of $2.1 million. The electric plan includes 2012 capital investment and other maintenance costs of approximately $3.4 and the gas plan includes capital investment resulting in a revenue requirement of $1.8 million. Both plans were approved by RIPUC in March 2011.

NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses Narragansett for the cost of its transmission facilities in Rhode Island, including a return on those facilities. In turn, these costs are allocated among transmission customers in New England in accordance with the tariff agreement. In December 2008, the FERC approved the agreement and Narragansett entered into a settlement whereby, Narragansett is compensated for its actual monthly transmission costs with its authorized return on equity ranging from 11.14% to 12.64%. In December 2009, NEP filed with the FERC a proposed amendment to Narragansett's formula rate revenue requirements which decreased Narragansett's compensation for its electric transmission facilities by approximately $0.1 million. In March 2010, the FERC issued an order establishing hearing and settlement procedures for this filing and made the new rates effective January 1, 2010. In March 2011, NEP filed an uncontested settlement agreement with the FERC resolving all issues raised by the Massachusetts Attorney General in this proceeding.

In September 2008, Narragansett, NEP, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS, pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS, estimated to cost a total of $2.1 billion, consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. Narragansett's share of the NEEWS-related transmission investment is approximately $0.6 billion and NEP's share is approximately $0.2 billion. Narragansett is fully reimbursed for its transmission revenue requirements on monthly basis by NEP through NEP's Tariff No. 1. Effective as of November 18, 2008, the FERC granted for NEEWS (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress ("CWIP") in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentives have sought rehearing of the FERC order. We cannot predict the outcome of this attempt for a rehearing.

In August 2010, Narragansett made its annual Distribution Adjustment Charge ("DAC") filing. The DAC was established to provide for the recovery and reconciliation of the costs of identifiable special programs, as well as to facilitate the timely rate recognition of incentive provisions. The prior DAC rate returns approximately $4.1 million to customers. In October 2010, the RIPUC approved the updated proposed DAC rate that resulted in recovery of $3.2 million from customers for the period November 2010 through October 2011.

Narragansett is allowed recovery of all of its electric and gas commodity costs through a fully reconciling rate recovery mechanism.

Renewable Energy

In 2009, Rhode Island passed a law promoting the development of renewable energy resources through long-term contracts for the purchase of capacity, energy, and attributes. In March 2010, Narragansett filed its proposed timetable and method of execution of annual long-term contract solicitations, which was approved by RIPUC in June 2010, with some modifications. The law also required Narragansett to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill. The project, referred to as the Town of Johnston Project, is a combined cycle power plant with an average output of 32 MW for which Narragansett entered into a contract with Rhode Island LFG Genco, LLC in June 2010. The Division of Public Utilities and Carriers issued a certification on July 1, 2010, and filed the contract with the RIPUC in July 2010.

The 2009 legislation also required Narragansett to solicit proposals for a small scale renewable energy generation project of up to eight wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham that also includes a transmission cable to be constructed between Block Island and the mainland of Rhode Island. In October 2009, Narragansett entered into a 20 year Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC and in December 2009, Narragansett filed the PPA with the RIPUC. In March 2010, the RIPUC voted to reject the PPA due to pricing issues, which resulted in certain legislative amendments to specifically authorize Narragansett to enter into an amended PPA with Deepwater, to establish a new standard of review, and to provide for a reduction in the initial fixed price under the prior PPA if certain cost savings could be achieved. In August 2010, the RIPUC approved the amended PPA, and certain parties have appealed the RIPUC's decision. In May 2011, the Rhode Island Supreme Court heard oral argument of the Deepwater appeal and a decision is expected by August 2011.

The Rhode Island legislation permits Narragansett to recover all costs incurred under such contracts and permits Narragansett to recover remuneration equal to 2.75% of the actual annual payments made under the long-term contracts for those projects that are commercially operating.

In November 2010, Narragansett filed a settlement reached on its 2011 Energy Efficiency ("EE") plan with the Energy Efficiency Resources Management Council ("Council"). The EE plan, endorsed by the Council, includes the portfolio of electric and gas energy efficiency programs to be approved by the RIPUC along with the associated budgets and the electric and gas EE program charges, effective January 1, 2011. In December 2010, the RIPUC approved the electric energy efficiency program and the proposed EE budget of approximately $54 million. The RIPUC denied the proposed gas EE program charge and in January 2011, Narragansett filed a revised gas EE program plan conforming to the $0.15 per dth rate with a budget of approximately $4.5 million, which was approved by RIPUC in February 2011. Pursuant to 2011 legislation, on June 15, 2011, Narragansett requested an increase in its gas EE program charge to allow for the expansion of its gas energy efficiency programs for the remainder of the calendar year. This request is pending before the RIPUC.

Other Regulatory Matters

In June 2009, the Company filed an initial application seeking authorization to issue and sell one or more series of new long-term debt. In December 2009, the Division Staff Advocacy Section approved a settlement with NGUSA authorizing an issuance of $550 million in new long-term debt by March 2010. The Company issued this debt on March 22, 2010 in two tranches. In March 2011 the Company notified the Division of its intent to seek permission for an additional issuance in an amount of $290 million.

Brooklyn Union and KeySpan Gas East (the "Companies")

The Companies are currently subject to a five year rate plan through December 2012. Base delivery rates are based on an allowed ROE of 9.8%. From 2008 through 2012, the combined delivery rate surcharge is increased each year by $15 million. However, the incremental revenue from the increase in the delivery rate surcharge will be deferred and used to offset deferred special franchise taxes with incremental revenue above that level deferred and used to offset future increases in rates for costs such as environmental investigation and remediation or other cost deferrals. Cumulative annual earnings above a 10.5% ROE will be shared with customers. During the year ended March 31, 2011, the Companies recorded a combined excess earnings of $34 million related to the rate year 2010. The Companies are not eligible to submit a new rate plan until January 2012 for rates to take effect January 2013.

In January 2010, the Companies filed the status of its regulatory deferrals so that the NYPSC can determine whether in 2011 the Companies should adjust the level of revenue they receive under the existing rate plan to minimize outstanding deferrals. The Companies proposed an increase to 2009 revenues of 1.7% and 2.48%, respectively, through an existing surcharge, to take effect January 1, 2011, subject to NYPSC approval. The Companies are proposing to recover a combined $65.0 million of regulatory assets, which is comprised of a combined annual amortization of deferral balances on the balance sheet at December 31, 2009 of $55.4 million, and a half year annual amortization of the 2010 forecasted deferral balances of $9.7 million. The discovery phase of the proceeding remains ongoing at the NYPSC and a completion date can not be predicted at this time.

In June 2009, the Companies made a compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment. The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In a second compliance filing in June 2010, the Companies increased its combined Temporary State Assessment surcharge to $70.8 million for the period from July 1, 2010 through June 30, 2011. At March 31, 2011, a combined $11.4 million was deferred pending recovery; a combined $15 million was recorded at March 31, 2010. On June 15, 2011, the Companies submitted another compliance filing in which it once again proposed to maintain the surcharge for the July 1, 2011 through June 30, 2012 recovery period.

In April 2008, Brooklyn Union filed with the NYPSC to recover an incentive earned in 2002-2007 relating to lost and unaccounted for ("LAUF") gas. Brooklyn Union was entitled to earn an incentive during that period by reducing LAUF below an amount specified in a prior rate case. Due to an error in the methodology that had been used to calculate LAUF for the years 2002-2007, the incentive amount earned and recovered in rates was understated by approximately $27 million. The 2008 petition sought recovery of the understated amount. The gain contingency is not reflected in the consolidated financial statements. In April 2011, the NYPSC issued a ruling denying Brooklyn Union's request.

Other Regulatory Matters

In December 2009, the NYPSC adopted the terms of a Joint Proposal between NYPSC Staff and the Company that provided for a revenue decoupling mechanism to take effect as of January 1, 2010. The revenue decoupling mechanism applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The revenue decoupling mechanism is designed to eliminate the disincentive for the Company to implement energy efficiency programs. The deferred amount was $10.9 million and $1.4 million at March 31, 2011 and March 31, 2010, respectively, which is fully recoverable from the affected customer class.

In February 2011, in regards to KeySpan Gas East ,the NYPSC instituted a statewide investigation to review its policies regarding the funding mechanisms supporting site investigation and remediation ("SIR") expenditures and directing the state's utilities to assist the Commission in developing a comprehensive record of: (1) the current and future scope of utility site investigation SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of costs among customers and potentially shareholders; and (4) methods for recovering costs appropriately borne by ratepayers in a way that minimizes the impact. The NYPSC has requested that the Administrative Law Judge provide a presentation of recommendations before the end of 2011.

In August 2010, KeySpan Gas East filed an initial Verified Petition for Authority to Issue Securities with the NYPSC seeking multi-year authority to issue, prior to March 31, 2014, up to $1.1 billion in new long-term debt securities, which was revised to $1.0 billion in February 2011. In March 2011, the NYPSC granted this authority and during the same month KeySpan Gas East issued $500 million in long term debt.

Boston Gas and Colonial Gas (the "Gas Companies")

In April 2010, the Gas Companies filed an initial request with the DPU for a combined rate increase of $106 million, which was revised to $104.1 million in September, 2010. In November 2010, the DPU issued an order approving a combined revenue increase of $58 million based upon a 9.75% rate of return on equity and a 50% equity ratio. In May 2011, the Gas Companies made their first filing with the DPU for recovery of capital costs related to infrastructure replacement. The reported combined revenue requirement associated with these capital costs are approximately $10.4 million. Since this amount is below the ordered cap of 1% of the Gas Companies' prior year total revenues, the entire amount is eligible for recovery.

The DPU order also provided for a revenue decoupling mechanism to take effect as of November 1, 2010. The revenue decoupling mechanism applies to the Gas Companies' firm rate classes, excluding gas lamps and negotiated contracts and permits the Gas Companies to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on a seasonal basis. The revenue decoupling mechanism is designed to eliminate the disincentive for the Gas Companies to implement energy efficiency programs. At March 31, 2011, the combined deferred amount under the decouple mechanism was a payable of $17.9 million which is fully refundable to the affected customer classes.

In November 2010, the Gas Companies' filed two motions in response to the DPU order (1) in its motion for recalculation, the Gas Companies have requested that the DPU recalculate certain adjustments that it made in determining the $58 million increases approved in its order. If approved, the rate increase for the Gas Companies would increase by an additional $10.4 million to a total of approximately $68.4 million (2) in its motion for reconsideration and clarification; the Gas Companies are seeking reconsideration of the DPU's disposition of four issues they believe were based on legal error or lack of substantial evidence, and clarification on three non-financial matters. The most significant of the four items for reconsideration involves that DPU's disallowance of $11.3 million from Boston Gas rate base related to certain fixed asset additions from calendar years 1996 to 1998 as well as disallowance of depreciation expenses of approximately $0.8 million per year associated with those assets. These assets have been impaired in the accompanying financial statements. If the Gas Companies are unsuccessful with their request for reconsideration, they could appeal the matter to the Massachusetts Supreme Judicial Court. The motions remain pending at the DPU.

Other Regulatory Matters

In November 2008, Boston Gas, together with Colonial Gas, filed a combined request for approval of a three year gas portfolio optimization agreement with ConocoPhillips, which was approved in April 2009 but limited the term to a one year period. This agreement was extended for one additional year upon the approval of DPU in April 2010. In November 2010, a combined request was filed for approval of a new gas portfolio optimization co-management agreement with BG Energy Merchants, LLC for a term of two years commencing in April 2011, which was rejected by the DPU in May 2011. Since the former ConocoPhillips agreement terminated as of Mach 31, 2011, Boston Gas has been managing and optimizing its assets on its own while the DPU proceeding was pending. Boston Gas is presently evaluating its options with respect to portfolio management in light of the DPU's rejection of the proposed co-management agreement.

On June 1, 2011, in conjunction with the DPU's annual investigation of Boston Gas 's calendar year 2009 pension and PBOP rate reconciliation mechanism, the Massachusetts Attorney General has argued that Boston Gas be obligated to provide carrying charges to the benefit of customers on its PBOP liability balances related to its 2003 to 2006 rate reconciliation filings. In August 2010, the DPU ordered Boston Gas to provide carrying charges on its PBOP liability balances on its 2007 and 2008 rate reconciliation filings, but the order was silent about providing carrying charges prior to those years. The DPU is expected to decide this matter during the summer of 2011.

Green Communities Act

The Gas Companies EE plan is run as a single combined plan. For the calendar years 2010 through 2012, the plan significantly expands EE programs for customers with a concomitant increase in spending. The budget for the Gas Companies in Massachusetts, exclusive of lost base revenue (revenues reduced as a result of installed EE measures) for the calendar years 2010 through 2012 is $203.4 million. In addition to cost recovery, the Company has the opportunity to earn a performance incentive. On March 31, 2011, the DPU approved a combined performance incentive for 2009 of $1.0 million, net of taxes. The DPU also approved an increase to the 2009 EE budget of approximately $8.8 million. The Gas Companies' request for recovery of lost base revenue for 2008 and 2009 is pending before the DPU.

National Grid Generation

In January 2009, our indirectly-owned subsidiary, National Grid Generation filed an application with the FERC for a rate increase of $92 million for the final five year rate term of the fifteen year contract under the power supply agreement. In December 2009, the FERC approved the proposed tariff rates, effective from February 1, 2009 subject to refund and the outcome of any proceedings instituted by the FERC. In October 2009, LIPA and National Grid Generation filed a settlement with the FERC for a revenue requirement of $436 million, an annual increase of approximately $66 million, an ROE of 10.75% and a capital structure of 50% debt and 50% equity, which was approved by the FERC in January 2010. All outstanding balances associated with the revenue increases were settled in March 2010.

Service Company Audit

In November 2008, the FERC commenced an audit of NGUSA, including its service companies and other affiliates in the National Grid holding company system. The audit evaluated our compliance with: 1) cross-subsidization restrictions on affiliate transactions; 2) accounting, recordkeeping and reporting requirements; 3) preservation of records requirements for holding companies and service companies; and 4) Uniform System of Accounts for centralized service companies. The final audit report from the FERC was received in February 2011. In April 2011, NGUSA replied to the FERC and outlined its plan to address the findings in the report, which we are currently in the process of implementing. None of the findings had a material impact on the consolidated financial statements of the Company.

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. If potentially material levels of misallocated or inappropriate service company costs are discovered, at the direction of the NYPSC, the investigation will be expanded to prior years to determine if a material amount of misallocated or inappropriate costs under these service company contracts have been charged to the New York utilities. A report of this review to the NYPSC is anticipated in November 2011. At the present time we are not aware of any material misallocation of costs among our affiliates and we do not expect the audit to result in any material adjustment to our financial statements.

Note 3. Employee Benefits

Summary

The Company and its subsidiaries have defined benefit pension plans which provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit.

Supplemental nonqualified, noncontributory executive retirement programs provide additional defined pension benefits for certain executives. A similar retirement program is provided to non-executive employees who have compensation or benefits in excess of the qualified plan limits.

The Company and its subsidiaries have defined PBOP plans which provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

The Company and its subsidiaries also offer employees a defined contribution plan. Plans are available to all eligible employees. Eligible employees contributing to the plans may receive certain employer contributions including matching contributions.

Funding Policy

The pension contribution for any one year will not be less than the minimum amount required under the Pension Protection Act of 2006 and is expected to exceed the minimum required contribution amounts. For PBOP plans, funding is made in accordance with the requirements of the various regulatory jurisdictions within which the Company operates.

Plan Assets

The target asset allocation for the benefit plans at March 31, 2011 and March 31, 2010 are:

	Pension Benefits		**Non-union PBOPs**		**Union PBOPs**	
	2011	2010	**2011**	2010	**2011**	2010
U.S. equities	**20%**	20%	**45%**	38%	**34%**	34%
Global equities (including US equities)	**7%**	7%	**-**	-	**12%**	12%
Global tactical asset allocation	**10%**	10%	**-**	-	**17%**	17%
Non-U.S. equities	**10%**	10%	**25%**	17%	**17%**	17%
Fixed income	**40%**	40%	**30%**	44%	**20%**	19%
Private equity	**5%**	5%	**-**	1%	**-**	1%
Real estate	**5%**	5%	**-**	-	**-**	-
Infrastructure	**3%**	3%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

The percentage of the fair value of total plan assets at March 31, 2011 and 2010 is:

	Pension Benefits		**Non-union PBOPs**		**Union PBOPs**	
	2011	2010	**2011**	2010	**2011**	2010
U.S. equities	**21%**	23%	**44%**	36%	**34%**	35%
Global equities (including US equities)	**8%**	8%	**-**	-	**12%**	12%
Global tactical asset allocation	**12%**	12%	**-**	-	**16%**	16%
Non-U.S. equities	**11%**	10%	**25%**	17%	**17%**	17%
Fixed income	**40%**	41%	**30%**	46%	**20%**	19%
Private equity	**6%**	6%	**1%**	1%	**1%**	1%
Real estate	**2%**	**-**	**-**	-		-
	100%	100%	**100%**	100%	**100%**	100%

The Company manages the pension and PBOP plans' investments to minimize the long-term cost of operating the pension and PBOP Plan, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the pension and PBOP plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also approved for private equity, real estate, and infrastructure with the objective of enhancing long-term returns while improving portfolio diversification. Investment risk and return is reviewed by an investment committee on a quarterly basis.

The discount rate is the rate at which plan obligations can be settled. The discount rate assumption is based on rates of return on high quality fixed income investments in the market place as of each measurement date (typically March 31). Specifically, the Company uses the Aon Hewitt Top Quartile Discount Curve along with the expected future cash flows from the retirement plans to determine the weighted average discount rate assumption.

The estimated rate of return for various passive asset classes is based on both analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumption. A small premium is added for active management and rebalancing of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumptions Used for Benefits Accounting

The following weighted average assumptions were used to determine the pension and PBOP benefit obligations and net periodic benefit costs for the years ending March 31, 2011 and March 31, 2010:

	Pension Benefits			
	Benefit obligation		**Net periodic benefit cost**	
	2011	2010	**2011**	**2010**
Discount rate	**5.90%**	6.10%	**6.10%**	**7.30%**
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	**3.50%**
Expected long-term rate of return on assets	**7.75%**	8.00%	**8.00%**	**8.00%**

	PBOP			
	Benefit obligation		**Net periodic benefit cost**	
	2011	2010	**2011**	**2010**
Discount rate	**5.90%**	6.10%	**6.10%**	7.30%
Expected long-term rate of return on asset				
Union	**7.75%**	8.00%	**8.00%**	8.25%
Non-union	**7.83%**	7.00%	**7.00%**	6.75%
Health care cost trend rate				
Medical trend rate				
Pre-65	**8.50%**	8.50%	**8.50%**	8.50%
Post-65	**8.00%**	8.50%	**8.50%**	9.50%
Prescription drug trend rate	**8.75%**	9.25%	**9.25%**	n/a
Ultimate rate	**5.00%**	5.00%	**5.00%**	5.00%
Year ultimate rate is reached - medical				
Pre-65	**2018**	2017	**2017**	2015
Post-65	**2017**	2017	**2017**	2016
Year ultimate rate is reached - prescription	**2019**	2019	**2019**	n/a

The expected contributions to the Company's pension and PBOP plans during the year ended March 31, 2012 are $344 million and $321 million, respectively.

Several assumptions affect the pension and other postretirement benefit expense and measurement of their respective obligations. The following is a description of some of those assumptions:

Benefit plan investments
KeySpan manages the pension and PBOP plans' investments to minimize the long-term cost of operating the pension and PBOP plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the pension and PBOP plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income. Equity investments are broadly diversified across U.S. and non-U.S.

stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also approved for private equity, real estate, and infrastructure with the objective of enhancing long-term returns while improving portfolio diversification. Investment risk and return is reviewed by an investment committee on a quarterly basis.

Expected return on assets
The estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumption. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

*Discount rat*e
KeySpan selects its discount rate assumption based upon rates of return on high quality corporate bond yields in the marketplace as of each measurement date (typically each March 31st). Specifically, KeySpan uses the Hewitt Top Quartile Discount Curve along with the expected future cash flows from the KeySpan retirement plans to determine the weighted average discount rate assumption.

Pension Benefits

The Company's net periodic benefit cost for the years ended March 31, 2011 and March 31, 2010 included the following components:

(in millions of dollars)	**2011**	2010
Service cost	**$ 119**	$ 98
Interest cost	**367**	366
Expected return on plan assets	**(398)**	(336)
Amortization of prior service cost	**8**	7
Amortization of loss	**199**	169
Net periodic benefit costs before settlements and curtailments	**295**	304
Settlement and curtailment loss	**2**	3
Special termination benefits	**15**	36
Net periodic benefit cost	**$ 312**	$ 343

The following tables provide the accumulated benefit obligation and the changes in the funded status of the pension plans at March 31, 2011 and March 31, 2010:

(in millions of dollars)		**2011**		2010
Accumulated benefit obligation	**$**	**(5,993)**	$	(5,708)
Reconciliation of benefit obligation:				
Benefit obligation at beginning of year		**(6,164)**		(5,224)
Service cost		**(119)**		(98)
Interest cost		**(367)**		(366)
Actuarial loss		**(183)**		(827)
Benefits paid		**391**		405
Curtailments/settlements		**1**		13
Plan amendments		**(3)**		(31)
Special termination benefits		**(15)**		(36)
Benefit obligation at end of year	**$**	**(6,459)**	$	(6,164)
Fair value of plan assets at beginning of year		**5,019**	$	3,756
Actual return on plan assets		**675**		1,203
Company contributions		**405**		478
Benefits paid		**(391)**		(417)
Settlements		**(3)**		(1)
Fair value of plan assets at end of year	**$**	**5,705**	$	5,019
Funded status	**$**	**(754)**	$	(1,145)

As of March 31, 2011 and March 31, 2010, amounts recognized on the consolidated balance sheets consist of:

(in millions of dollars)		**2011**		2010
Current pension liability	**$**	**(23)**	$	(25)
Noncurrent pension liability		**(731)**		(1,120)
	$	**(754)**	$	(1,145)

As of March 31, 2011 and March 31, 2010, amounts recognized in regulatory assets and accumulated other comprehensive income consist of:

(in millions of dollars)		**2011**		2010
Net actuarial loss	**$**	**1,585**	$	1,876
Prior service cost		**61**		65
Net amount recognized	**$**	**1,646**	$	1,941

As a result of deferral accounting requirements mandated by the regulators, $836 million and $1 billion of the net amount recognized has been recorded in regulatory assets on the consolidated balance sheets for the years ended March 31, 2011 and March 31, 2010, respectively.

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized during the year ended March 31, 2012 are $197 million and $8 million, respectively.

The following pension benefit payments are expected to be paid:

(in millions of dollars)		Pension Benefits
2012	$	394
2013		412
2014		423
2015		440
2016		455
Thereafter		2,462

Defined Contribution Plan

The Company also has several defined contribution pension plans (primarily 401(k) employee savings fund plans) that cover substantially all employees. Employer matching contributions of approximately $32 million and $30 million were expensed in the years ended March 31, 2011 and March 31, 2010.

Postretirement Benefits Other than Pensions

The Company's total net periodic benefit cost of PBOPs for the years ended March 31, 2011 and March 31, 2010 included the following components:

(in millions of dollars)		**2011**		2010
Service cost	**$**	**58**	$	41
Interest cost		**231**		226
Expected return on plan assets		**(110)**		(86)
Amortization of prior service cost		**12**		12
Amortization of net loss		**94**		61
Net periodic benefit cost before special termination benefits		**285**		254
Special termination benefits		**-**		1
Net periodic benefit cost	**$**	**285**	$	255

The following tables provide the changes in the funded status of the PBOP plans at March 31, 2011 and March 31, 2010:

(in millions of dollars)		**2011**		2010
Benefit obligation at beginning of period	**$**	**(3,951)**	$	(3,303)
Service cost		**(58)**		(41)
Interest cost		**(231)**		(226)
Actuarial gain/(loss)		**42**		(569)
Benefits paid		**183**		209
Medicare subsidy		**(8)**		(13)
Plan amendments		**23**		13
Special termination benefits		**-**		(1)
Healthcare Reform Amendment		**-**		(15)
Other		**-**		(5)
Benefit obligation at end of period	**$**	**(4,000)**	$	(3,951)
Fair value of plan assets at beginning of period	**$**	**1,444**	$	1,037
Actual return on plan assets		**206**		396
Company contributions		**247**		219
Benefits paid		**(183)**		(209)
Other		**-**		1
Fair value of plan assets at end of period	**$**	**1,714**	$	1,444
Funded status	**$**	**(2,286)**	$	(2,507)

As of March 31, 2011 and March 31, 2010, amounts recognized on the consolidated balance sheets consist of:

(in millions of dollars)		**2011**		2010
Current assets	**$**	**5**	$	3
Current liabilities		**(30)**		(14)
Noncurrent liabilities		**(2,261)**		(2,496)
Net amount recognized		**(2,286)**		(2,507)

As of March 31, 2011 and March 31, 2010, amounts recognized in regulatory assets and accumulated other comprehensive income (loss), before taxes, consist of:

(in millions of dollars)		**2011**		2010
Net actuarial loss	**$**	**689**	$	923
Prior service cost		**35**		70
Net amount recognized *	**$**	**724**	$	993

* The above amounts are before adjustments for regulatory deferrals and deferred taxes.

As a result of deferral accounting requirements mandated by the regulators, $395 million and $613 million of the net amount recognized has been recorded in regulatory assets on the consolidated balance sheets for the years ended March 31, 2011 and March 31, 2010, respectively.

The estimated net actuarial loss and prior service cost for the PBOP plans that will be amortized during the year ended March 31, 2012 are $89 million and $10 million, respectively.

The following PBOP benefit payments expected to be paid and subsidies expected to be received from the U.S. Federal Government, which reflect expected future services as appropriate are:

(in millions of dollars)		Payments		Subsidies
2012	$	207	$	14
2013		218		15
2014		229		16
2015		239		17
2016		248		19
2017-2021		1,366		110

The assumptions used in health care cost trends have a significant effect on the amounts reported. A 1% change in the assumed rates would have the following effects:

(in millions of dollars)	
Increase 1%	
Total of service cost plus interest cost	44
Postretirement benefit obligation	540
Decrease 1%	
Total of service cost plus interest cost	(37)
Postretirement benefit obligation	(461)

Health Care Reform Act

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 became law. These laws included provisions which resulted in the repeal, with effect from 2012, of the deduction for federal income tax purposes of the portion of the cost of an employer's retiree prescription drug coverage for which the employer received a benefit under the Medicare Prescription Drug Improvement and Modernization Act of 2003. The consequential reduction in the deferred tax asset balance resulted in a net charge to the consolidated statement of income of approximately $138 million for the year ended March 31, 2010.

This was partially offset by the reversal of regulatory liabilities, net of related taxes, which reduced the net impact by approximately $62 million for a net charge to the consolidated statement of income of $76 million for the year ended March 31, 2010.

Workforce Reduction Program

In connection with National Grid plc's acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer ("VERO") in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan had the right to retain that employee for up to three years before VERO payments are made. An employee who accepted the VERO offer but elects to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The VERO is completed and the Company has accrued approximately $158 million of which a portion has been deferred for recovery from customers as part of the synergy savings and cost to achieve calculations.

In connection with the renewal of the collective bargaining agreement with NGUSA employees that are part of Local 101, National Grid plc offered 284 Local 101 union employees a VERO in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of October 15, 2010 and be retirement age eligible in accordance with the pension plan each employee participates in as of May 1, 2011. For eligible employees who have elected to accept the VERO offer, NGUSA has the right to retain that employee for up to one year before VERO payments are made. An employee who accepts the VERO offer, but elects to terminate employment with National Grid plc prior to the one year period without consent of National Grid plc, forfeits all rights to VERO payments. The Company recorded $5 million in accrued cost associated with this VERO package.

Fair Value Measurements of Plan Assets

Investments are reported at fair value. Fair value is the price that would be received to sell the asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants at the measurement date, not the price that would be paid to acquire the asset or received to assume the liability (an entry price). The company used valuation which maximized the use of observable inputs and minimized the use of unobservable inputs.

Following is a description of the valuation methodologies used at March 31, 2011 for plan assets measured at fair value:

Cash equivalents are valued at the investment principal plus all accrued interest. Temporary cash investment and short-term investments are valued at either the investment principal plus all accrued interest or the net asset value of shares held by the Plan at year end.

Common and preferred stocks, and real estate investment trusts are valued using the official close for the National Association of Securities Dealers Automated Quotations ("NASDAQ"), the last trade, or bid of the ask offer price reported on the active market on which the individual securities are traded.

Fixed income securities, convertible securities, collateral received from securities lending (which include corporate debt securities, municipal fixed income securities, US Government and Government agency securities) are comprised of government agency securities, government mortgage-backed securities, index linked government bonds, and state and local bonds. Fixed income securities are valued with an institutional bid valuation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

Derivatives (except certain options traded on an exchange) and forward foreign exchange contracts (comprised of interest rate swaps, credit default swaps, index swaps, financial futures, and other derivatives), and investment of securities lending collateral (comprised of repurchase agreements, asset-backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

Mutual funds are valued at the net asset value of shares held by the Plan at year end. Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (a good faith opinion as to what a buyer in the marketplace would pay for a security–

typically in an institutional round lot-in a current sale), based on proprietary models, or based on the net asset value. Index funds include investments that seek to match the return performance and characteristics of a specified index. The index funds are controlled by investment managers, which balance the funds to track the specified index. Non-US equity funds are typically invested in at least 80% foreign equity securities. Registered investment companies and common and collective trusts, and pooled separate accounts are valued at the net asset value of shares held by the Plans at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table depicted below sets forth by level, within the fair value hierarchy, the NGUSA Master Union Trust Plan pension investments at fair value as of March 31, 2011.

(in millions of dollars)	Fair value measurement level			
Asset type	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2	$ 160	$ -	$ 162
Equity	1,225	1,325	419	2,969
Fixed income securities	474	1,639	340	2,453
Preferred securities	6	-	-	6
Real estate	-	-	115	115
Total	$ 1,707	$ 3,124	$ 874	$ 5,705

The table depicted below sets forth by level, within the fair value hierarchy, the NGUSA Master Union Trust Plan pension investments at fair value as of March 31, 2010.

(in millions of dollars)	Fair value measurement level			
Asset type	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 35	$ 103	$ -	$ 138
Equity	1,111	1,196	351	2,658
Fixed income securities	565	1,416	224	2,205
Futures contracts	2	-	-	2
Preferred securities	8	-	-	8
Real estate	-	-	1	1
Total	$ 1,721	$ 2,715	$ 576	$ 5,012

The table depicted below sets forth by level, within the fair value hierarchy, the NGUSA Master Union Trust Plan retirement benefits other than pension investments at fair value as of March 31, 2011.

(in millions of dollars)	Fair value measurement level			
Asset type	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 4	$ 31	$ -	$ 35
Equity	447	649	41	1,137
Fixed income securities	254	225	62	541
Preferred securities	1	-	-	1
Total	$ 706	$ 905	$ 103	$ 1,714

The table depicted below sets forth by level, within the fair value hierarchy, the NGUSA Master Union Trust Plan retirement benefits other than pension investments at fair value as of March 31, 2010.

(in millions of dollars)	Fair value measurement level			
Asset type	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 64	$ 19	$ -	$ 83
Equity	341	454	40	835
Fixed income securities	217	246	61	524
Preferred securities	1	-	-	1
Total	$ 623	$ 719	$ 101	$ 1,443

The following table sets forth a summary of changes in the fair value of the pension plan's Level 3 investments for the year ended March 31, 2011:

(in millions of dollars)	Equity	Fixed Income Securities	Real Estate	Total
Balance, beginning of year	$ 351	$ 224	$ 1	$ 576
Realized gains	22	-	-	22
Unrealized gains at reporting date	48	23	12	83
Purchases, sales, issuance and settlements (net)	(2)	93	102	193
Balance, end of year	$ 419	$ 340	$ 115	$ 874

The following table sets forth a summary of changes in the fair value of the retirement benefits other than pension plan's Level 3 investments for the year ended March 31, 2011:

(in millions of dollars)	Equity	Fixed Income Securities	Total
Balance, beginning of year	$ 40	$ 61	$ 101
Realized gains	3	1	4
Unrealized gains at reporting date	3	6	9
Purchases, sales, issuance and settlements (net)	(5)	(6)	(11)
Balance, end of year	$ 41	$ 62	$ 103

Note 4. Debt

European Medium Term Note Program

At March 31, 2011, the Company had a Euro Medium Term Note program (the "Program") under which it is able to issue debt instruments ("Instruments") up to a total of the equivalent of 4 billion Euros. At March 31, 2011, $181 million of these notes were issued and outstanding, including the impact of interest rate and currency swaps. At March 31, 2010, $23 million of these notes were outstanding.

Instruments issued under the Program are admitted to trading on the London Stock Exchange. The Program commenced in December 2007 and is expected to be renewed annually for the foreseeable future. The funds raised under the Program may be used for general corporate purposes. Instruments may be issued in bearer form in any currency, with maturities ranging from one month to perpetuity. Instruments may not be offered, sold or delivered within the United States or to a U.S. person except in certain limited circumstances permitted by US regulations. Any fees associated with issuing instruments under the Program are negotiated with the bank(s) managing the issuance at the time. Instruments issued under the Program rank pari passu with each other and with all other unsecured debt obligations of the Company, except to the extent that the other debt obligations may be subordinated. Instruments carry certain positive and negative covenants, including a restriction on the Company's ability to mortgage, pledge, charge or otherwise encumber its assets in order to secure, guarantee or indemnify other listed or quoted debt obligations, as well as cross-acceleration in the event of breach by the Company or its principal subsidiaries of other listed or quoted debt obligations. At March 31, 2011, the Company was in compliance with all covenants.

Notes Payable

At March 31, 2011, the Company had outstanding $4.6 billion of unsecured medium and long-term notes. Between August 2009 and March 2011, the Company issued debt in six tranches totaling $3.1 billion. The interest rates on the unsecured notes range from 3.55% to 9.75% and maturity dates range from 2011 through 2041. The unsecured notes include $15 million of long-term debt, issued at a subsidiary, which has certain restrictive covenants and acceleration clauses. These covenants stipulate that note-holders may declare the debt to be due and payable if total debt becomes greater than 70% of total capitalization at the subsidiary. At March 31, 2011, the total long-term debt was 35% of total capitalization. Additionally, some of these bonds have a sinking fund requirement which totaled $7 million during the year ended March 31, 2011.

On March 18, 2010, the Company settled a derivative financial instrument that it had entered into in connection with two of the fiscal 2010 bond issuances for the purpose of locking-in the risk-free interest rate element of the bond issues. The $11 million loss on the "treasury lock" settlement will be amortized over the life of the bonds to match the corresponding rate treatment.

Gas Facilities Revenue Bonds

At March 31, 2011 and March 31, 2010, the Company had outstanding $641 million of tax exempt gas utility revenue bonds. The Company can issue tax-exempt bonds through the New York State Energy Research and Development Authority ("NYSERDA"). Whenever bonds are issued for new gas facilities projects, proceeds are deposited in trust and subsequently withdrawn to finance qualified expenditures. There are no sinking fund requirements on any of our Gas Facilities Revenue Bonds ("GFRBs"). Of the $641 million, $230 million are variable rate securities due through July 1, 2026. The interest rate is reset weekly and ranged from 0.455% to 2.433% during the year ended March 31, 2011. For the year ended March 31, 2010, the interest rates ranged from 0.4% to 4.00%. The variable-rate auction bonds are currently in the auction rate mode and are backed by bond insurance.

Promissory Notes to LIPA

Certain of the Company's subsidiaries issued promissory notes to LIPA to support certain debt obligations assumed by LIPA in May 1998. At March 31, 2011 and March 31, 2010, $155 million of promissory notes remained outstanding with maturity dates ranging from 2016 to 2025. Interest rates range from 5.15% to 5.30%. Under these promissory notes, the Company is required to obtain letters of credit to secure its payment obligations if its long-term debt is not rated at least in the "A" range by at least two nationally recognized statistical rating agencies. At March 31, 2011, the Company was in compliance with this requirement.

First Mortgage Bonds

At March 31, 2011, the Company had outstanding $130 million of first mortgage bonds. Certain of the first mortgage bond indentures include, among other provisions, limitations/requirements on: (i) the issuance of long-term debt; (ii) engaging in additional lease obligations; (iii) annual sinking fund requirements of $1 million and, (iv) the payment of dividends from retained earnings. At March 31, 2011, these bonds remain outstanding and have interest rates ranging from 6.34% to 9.63% and maturity ranging from 2018 to 2028. At March 31, 2010, $132 million of first mortgage bonds were outstanding with interest rates ranging from 6.82% to 9.63%.

State Authority Financing Bonds

At March 31, 2011, the Company had outstanding $1.2 billion of State Authority Financing Bonds. Of the $1.2 billion outstanding at March 31, 2011, $716 million of these bonds were issued through NYSERDA and the remaining $483 million were issued through various other state agencies.

Approximately $650 million of first mortgage bonds were issued to secure a like amount of tax-exempt revenue bonds, of which $575 million bear interest at short-term variable rates (with an option to convert to other rates, including a fixed interest rate) and ranged from 0.575% to 0.885% for the year ended March 31, 2011. The NYSERDA bonds are currently in the auction rate mode and are backed by bond insurance.

The remaining $75 million of first mortgage bonds are 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company's subsidiary, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which was subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Additionally, the Company has $41 million of Authority Financing Notes 1999 Series A Pollution Control Revenue Bonds due October 1, 2028. The interest rate on these notes is reset based on an auction procedure. The interest rate ranged from 0.50% to 2.00% for the year ended March 31, 2011, at which time the rate was 1.60%. The second Series A bond is a $25 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and ranged from 0.24% to 0.34% for the year ended March 31, 2011, at which time the rate was 0.26%.

At March 31, 2011, the Company had outstanding $430 million of the Pollution Control Revenue Bonds in tax exempt commercial paper mode. These bonds were issued through Business Finance Authority of the State of New Hampshire, the Massachusetts Industrial Finance Agency, and the Connecticut Development Authority. Interest rates ranged from 0.50% to 1.05% for the year ended March 31, 2011. There are no payments or sinking fund requirements due in 2012 through 2016. The Company has Standby Bond Purchase Agreements and Credit Agreements to provide liquidity support for these bonds.

At March 31, 2011, the Company had $53 million of tax exempt Electric Revenue Bonds in commercial paper mode with varying maturity dates from 2016 through 2042 and variable interest rates ranging from 0.70% to 1.00% during the year ended March 31, 2011. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Sinking fund payments of $230 thousand were made during the year ended March 31, 2011. The Company has Standby Bond Purchase Agreements to provide liquidity support for these bonds.

Industrial Development Revenue Bonds

At March 31, 2011 and March 31, 2010, the Company had outstanding $128 million of tax-exempt Industrial Development Revenue bonds. Of these bonds, $53 million were issued on its behalf through the Nassau County Industrial Development Authority for the construction of the Glenwood Energy Center, an electric-generation peaking plant, and $75 million was issued on its behalf by the Suffolk County Industrial Development Authority for the Port Jefferson Energy Center an electric-generation peaking plant.

Committed Facility Agreements

At March 31, 2011, NGUSA had three committed bank loans outstanding totaling $500 million which mature in 2014. These loans are used to provide funds for working capital needs. The interest rates on these bank loans are reset periodically and are set at 0.90% over the London Interbank Offered Rate ("LIBOR").

Intercompany Notes Payable

At March 31, 2011, the Company had intercompany notes due to Parent of $550 million at an interest rate ranging from 0.2% to 0.9% over LIBOR, due February 2011 through November 2015. At March 31, 2010, the Company had an outstanding balance of $867 million, at 5.52% which was repaid in November 2010, the date of its maturity.

Debt Maturity

The following table reflects the maturity schedule for our debt repayment requirements at March 31, 2011:

(in millions of dollars)		
Years Ended March 31,		
2012	$	67
2013		188
2014		558
2015		572
2016		376
Thereafter		6,369
Total	$	8,130

The following table depicts the sinking fund requirements at March 31, 2011:

(in millions of dollars)

Years Ended March 31,		**Amount**
2012	$	7
2013		7
2014		7
2015		4
2016		5
Thereafter		12
Total	$	42

Standby Bond Purchase Agreement

At March 31, 2011, three of the Company's subsidiaries had a Standby Bond Purchase facility of $455 million, expiring in November 2011. At March 31, 2011 and March 31, 2010, there were no bond purchases by the banks under this agreement. The Company is in the process of evaluating all its liquidity support options available in addition to renewing the agreement to support certain tax-exempt State Authority Bonds after the current agreement expires.

Credit Facilities

At March 31, 2011 and March 31, 2010 one of the Company's subsidiaries had two Credit Agreements with banks totaling $75 million, which are available to provide liquidity support for certain tax-exempt State Authority Bonds. There were no borrowings under these facilities at March 31, 2011 or March 31, 2010.

***Commercial Paper and Revolving Credit Agreem*ents**

Commercial Paper

At March 31, 2011, the Company had two commercial paper programs totaling $4 billion; a $2 billion US commercial paper program and a $2 billion Euro commercial paper program. In support of these programs, the Company was a named borrower under National Grid plc credit facilities with $1.5 billion of the facilities being available to the Company. These facilities support both the Parent's and the Company's commercial paper programs for ongoing working capital needs. The facilities expire in 2012-2015.

The credit facilities allow both the Parent and the Company to borrow in Pounds Sterling or US Dollars. The current annual fees range from 0.21% to 0.30%. We do not anticipate borrowing against these facilities; however, if for any reason we were not able to issue sufficient commercial paper or source funds from other sources, this facility could be drawn upon to meet cash requirements. The facility contains certain affirmative and negative operating covenants, including restrictions on the Company's utility subsidiaries' ability to mortgage, pledge, encumber or otherwise subject their utility property to any lien, as well as financial covenants that require the Company and the Parent to limit the total indebtedness in US and non-US subsidiaries to pre-defined limits. Violation of these covenants could result in the termination of the facilities and the required repayment of amounts borrowed thereunder, as well as possible cross defaults under other debt agreements. At March 31, 2011, the Company was in compliance with all covenants.

At March 31, 2011, there was $735 million of borrowings outstanding on the US commercial paper program and no borrowings outstanding on the Euro commercial paper program. At March 31, 2010, there were no borrowings outstanding on either program.

Intercompany Moneypool

NGUSA and subsidiaries are participants in a moneypool to more effectively utilize cash resources and to reduce outside short-term borrowings. The Company can borrow from its Parent and its ultimate shareholder, National Grid plc and National Grid Holdings, Inc. ("NGHI"), for working capital needs on a short-term basis. The moneypool is administered by the NGUSA service company as the agent for the participants. Interest rates associated with the moneypool are designed to approximate the cost of third-party short-term borrowings. Funds may be withdrawn from or repaid to the moneypool at any time without prior notice. NGUSA and KeySpan, collectively, have the ability to borrow up to $3 billion from the Parent for working capital needs, including for the purpose of funding the moneypool, if necessary. At March 31, 2011, the Company had $527 million outstanding under this arrangement, of which $500 million was due to its Parent and $27 million was due to NGHI. At 2010, the Company had $770 million outstanding under this arrangement, all due to NGHI.

Note 5. Property, Plant and Equipment

At March 31, 2011 and March 31, 2010, property, plant and equipment at cost and accumulated depreciation are as follows:

(in millions of dollars)	March 31,	
	2011	2010
Plant and machinery	**$ 21,690**	$ 20,398
Land and buildings	**3,237**	3,111
Assets in construction	**984**	843
Software	**515**	507
Total	**26,426**	24,859
Accumulated depreciation and amortization	**(6,300)**	(5,801)
Property, plant and equipment, net	**$ 20,126**	$ 19,058

AFUDC

The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction includes a debt component and an equity component. AFUDC is capitalized in "property, plant and equipment" with offsetting credits to "other interest, including affiliates interest" for the debt component and "other income" for the equity component. This method is in accordance with an established rate-making practice under which the Company is permitted to recover prudently incurred capital costs through its ultimate inclusion in rate base and in the provision for depreciation. AFUDC capitalized during the years ended March 31, 2011 and March 31, 2010 was $21.0 million and $11 million, respectively.

Depreciation

Depreciation expense is generally determined using the straight-line method. The depreciation rates for the Company's gas and electric subsidiaries are based on periodic studies of the estimated useful lives of the assets and the estimated cost to remove them, net of salvage value. The Company's gas and electric subsidiaries use composite depreciation rates that are approved by the applicable federal and state utility commissions. The cost of property retired is charged to accumulated depreciation in accordance with regulatory accounting guidance. The Company recovers cost of removal through rates charged to customers as a portion of depreciation expense. At March 31, 2011 and March 31, 2010, the Company had cumulative costs recovered in excess of costs incurred totaling $1.5 billion and $1.4 billion, respectively. This amount is reflected as a regulatory liability.

The weighted average service life, in years, for each asset category is presented in the table below:

	Years Ended March 31,	
	2011	2010
Asset Category:		
Electric	**35**	33
Gas	**36**	35
Common	**19**	21

Capitalized interest for the years ended March 31, 2011 and March 31, 2010 was $6 million and $5 million, respectively, and is reflected as a reduction to interest expense.

The Company's repair and maintenance costs, including planned major maintenance for turbine and generator overhauls, are expensed as incurred unless they represent replacement of property to be capitalized. Planned major maintenance cycles primarily range from seven to eight years. Smaller periodic overhauls are performed approximately every 18 months.

Impairment

On December 17, 2010, LIPA requested information associated with its contractual rights under its PSA with the Company to reduce ("Ramp Down") the amount of capacity purchased from the Company. The PSA gives LIPA the right to Ramp Down specified generating units at certain points during the term of the agreement. Per the terms of the PSA, in the event of a Ramp Down: (a) LIPA would pay the Company a percentage of the present value of the remaining capacity charges related to agreed-upon ramped down generating unit(s) due through the end of the current PSA termination date, May 27, 2013 and (b) the Company would then reduce the future monthly capacity charges for the unit(s) billed to LIPA.

The Company and LIPA are currently negotiating the PSA which is scheduled to expire in 2013. Management expects the PSA will be extended and the Company will be able to fully recover its $726 million investment in generation assets.

Following negotiations between the parties on the issue of Ramp Down, on June 16, 2011, the Company and LIPA announced their intent to enter into an amendment to the PSA (the "Ramp Down Amendment"), pursuant to which the parties will agree to Ramp Down generating units located at the Far Rockaway and Glenwood, New York generating facilities. The effectiveness of the Ramp Down Amendment is subject to approval of LIPA's Board of Trustees and receipt of certain regulatory approvals, including (i) the approval of the New York State Comptroller and the New York State Attorney General; and (ii) acceptance of the Ramp Down Amendment by the Federal Energy Regulatory Commission. Under the Ramp Down Amendment, the Ramp Down of Glenwood and Far Rockaway will be deemed to have occurred for purpose of calculating the economic impact (the net of items (a) and (b) above) on May 27, 2011 (the "Ramp Down Date"). Notwithstanding, the Company will continue to provide capacity, energy and ancillary services from Glenwood and Far Rockaway to LIPA until such time as the units become eligible for retirement, pending completion of certain transmission projects in the area currently served by these facilities (currently anticipated in the Summer 2012).

The Company will be responsible for the costs to remediate/demolish the Glenwood and Far Rockaway units following retirement. The Ramp Down Amendment was approved by LIPA's Board on June 23, 2011.

In anticipation of the Ramp Down of Glenwood and Far Rockaway, as of March 31, 2011, the Company recorded estimated charges for impairment to long-lived assets of $31 million. The recorded impairment charges have reduced the carrying value of the power generating units located in Glenwood and Far Rockaway to their net recoverable value as determined by use of discounted cash flows and estimated salvage value.

In January 2010, NGUSA initiated an implementation program of SAP AG's enterprise resource planning ("ERP") program for NGUSA and its wholly-owned subsidiaries. This implementation program included a planning phase and implementation phase. After progressing through the planning phase and into a portion of the implementation phase, the Company identified various program costs and estimated what percentages of those costs were due to transition issues, re-working due to new specifications and other costs that should not be capitalized as a part of the program. In addition, the Company's timeline and date of completion has been significantly delayed. The Company's consideration of these and other factors caused it to reserve approximately $30 million of capitalized software development costs for the year ended March 31, 2011.

The Company applies the full cost method of accounting for its oil and gas production activities. In applying the full cost method, the Company performs an impairment test ("ceiling test") at each reporting date. The ceiling test compares the carrying value of capitalized costs related to oil and gas production activities to the cost center ceiling. The cost center ceiling is the sum of the following four components: the estimated present value of proved reserves, cost of properties not being amortized, the lower of cost or fair market value of unproved properties less the income tax effects related to differences in the book and tax bases of properties. The estimated present value of proved reserves is the sum of future net revenues, based on current economic and operating conditions as of March 31, 2011, discounted at 10%. As of the report date the Company had no unproved reserves or properties not being amortized. If capitalized costs exceed the cost center ceiling, an impairment charge is recorded to the results of operations. The Company recorded impairment charges related to the ceiling test of $9 million for the year ended March 31, 2011.

Note 6. Goodwill and Other Intangible Assets

National Grid plc's acquisitions include the acquisitions by the Company of New England Electric System, Eastern Utilities Associates ("EUA"), Niagara Mohawk, the Rhode Island gas assets of New England Gas Company and

KeySpan. All of these acquisitions were accounted for by the acquisition method of accounting, the application of which includes the recognition of goodwill.

Changes in the carrying amount of the Company's goodwill, net of accumulated impairment losses for years ended March 31, 2011 and March 31, 2010 were as follows:

	March 31,	
(in millions of dollars)	**2011**	2010
Goodwill, beginning of year	**$ 7,275**	$ 7,275
Regulatory recovery	**(142)**	-
Goodwill, end of year	**$ 7,133**	$ 7,275

Colonial Gas was acquired by Eastern Enterprises, Inc. ("Eastern") in 1998 pursuant to a business combination transaction ("the Eastern Merger"). Subsequent to the Eastern Merger, Colonial Gas and Eastern entered into business combinations with KeySpan in 2000 and then with NGUSA in 2007. In 1998, Eastern and Colonial Gas applied for recovery from the Massachusetts DPU of acquisition premium paid pursuant to the Eastern Merger of $224 million, net of tax. Colonial Gas and Eastern agreed to a ten-year rate freeze as well as reduction of the price of burner-tip gas for rate-payers for recovery of certain costs including the recovery of $369 million of acquisition premium, pre-tax. On November 1, 2010 ("the Effective Date") the DPU issued DPU 10-55 which authorized recovery of $235 million of acquisition premium, pre-tax. Colonial Gas recorded a regulatory asset of that amount and recorded corresponding credits to a newly created deferred tax liability of $93 million and a reclassification of $142 million to reduce goodwill. Colonial Gas will amortize this amount over 30 years as prescribed by DPU 10-55. Colonial Gas recorded a catch-up adjustment at March 31, 2011, for $3 million to reflect amortization from the Effective Date through March 31, 2011.

Other Intangible Assets

The carrying amount of the Company's intangible assets for the years ended March 31, 2011 and March 31, 2010 were as follows:

	March 31,	
(in millions of dollars)	**2011**	2010
LIPA Contracts	**$ 114**	$ 124
Licensing and other	**4**	12
Total	**$ 118**	$ 136

In July 2010, the Company sold its plumbing license business, as discussed in Note 14. The Company has recognized an impairment of $18 million for the year ended March 31, 2010 in relation to this license which was used to support the National Grid Energy Services ("NGES") installation business. The fair value was measured using management's estimate based upon the current market for similar assets.

Note 7. Income Taxes

Following is a summary of the components of federal and state income tax expense (benefit):

(in millions of dollars)		Years Ended March 31, **2011**		2010
Components of federal and state income taxes:				
Current tax expense (benefit):				
Federal	**$**	**133**	$	(365)
State		**31**		(17)
Total current tax expense (benefit)		**164**		(382)
Deferred tax expense:				
Federal		**47**		706
State		**55**		192
Total deferred tax expense		**102**		898
Investment tax credits [1]		**(6)**		(7)
Total income tax expense	**$**	**260**	$	509

[1] Investment tax credits ("ITC") are being deferred and amortized over the depreciable life of the property giving rise to the credits.

Income tax expense for the years ended March 31, 2011 and March 31, 2010 varied from the amount computed by applying the statutory rate to income before income taxes. A reconciliation of expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2011 and March 31, 2010 is presented in the following table:

(in millions of dollars)		Years Ended March 31, **2011**		2010
Computed tax	**$**	**286**	$	328
Increase (reduction) including those attributable to flow-through of certain tax adjustments:				
State income tax, including reserve reversals, net of federal benefit		**56**		87
Audit and related reserve movements - federal		**(51)**		(3)
Outside basis differential in investment in subsidiary		**(17)**		-
Investment tax credit		**(6)**		(7)
Change in cash surrender value		**(5)**		(11)
Medicare charge attributable to the Patient Protection and Affordable Care Act		**-**		112
Other items - net		**(3)**		3
Total		**(26)**		181
Federal and state income taxes	**$**	**260**	$	509

Outside basis differential in investment in subsidiary

EnergyNorth is recorded in the accompanying consolidated financial statements as being held for sale and its disposal is estimated to be completed in the quarter ending December 2011. The Company recognized a deferred tax asset due to differences in the tax and book basis of its investments in EnergyNorth. The primary difference between the two bases stems from the original acquisition goodwill for which, prior to the agreeing the terms of sale, no deferred taxes were believed realizable in the foreseeable future. No valuation allowance against this deferred tax asset is believed necessary because the sale is expected to occur within the time period permitted for utilization of tax attributes.

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2011 and March 31, 2010 are presented in the following table:

	March 31,	
(in millions of dollars)	**2011**	2010
Pensions, OPEB, and other employee benefits	**$ 1,392**	$ 1,643
Reserve - environmental	**553**	513
Regulatory liabilities - other	**416**	325
Allowance for uncollectible accounts	**170**	168
Other items	**300**	302
Total deferred tax assets (1)	**2,831**	2,951
Property related differences	**(4,119)**	(3,646)
Regulatory assets - pension and OPEB	**(858)**	(931)
Regulatory assets - environmental	**(748)**	(677)
Regulatory assets - merger rate plan stranded costs	**(155)**	(350)
Other items	**(207)**	(398)
Total deferred tax liabilities	**(6,087)**	(6,002)
Net accumulated deferred income tax liability	**(3,256)**	(3,051)
Deferred investment tax credit	**(47)**	(52)
Net accumulated deferred income tax liability and investment tax credit	**(3,303)**	(3,103)
Current portion of net deferred tax asset	**202**	108
Non-current portion of net deferred income tax liability and investment tax credit	**(3,505)**	(3,211)
Net accumulated deferred income tax liability and investment tax credit	**$ (3,303)**	$ (3,103)

(1) As of March 31, 2011 and March 31, 2010, the Company has approximately $293 million and $343 million of net operating losses in the state of Massachusetts that are being carried forward. A valuation allowance has been established for the full amount of these loss carryforwards as the Company believes that the losses will not be utilized in the foreseeable future. These state net operating losses will expire between 2012 and 2014. As of March 31, 2011 and March 31, 2010, the Company has approximately $198 million and $252 million, respectively, of New York state net operating losses which will expire between 2012 and 2019. As of March 31, 2011 a valuation allowance has been established for the full amount of these loss carryforwards as the Company believes that the losses will not be utilized in the foreseeable future.

The Company is a member of the NGHI and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group. Subsequent to the KeySpan acquisition on August 24, 2007, KeySpan is also a member in the NGHI consolidated group.

The Company adopted the provisions of the FASB guidance which clarifies the accounting and disclosures of uncertain tax positions in the financial statements. The guidance provides that the financial effects of a tax position shall initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2011 and March 31, 2010, the Company's unrecognized tax benefits totaled $798 million and $845 million, respectively, of which $98 million and $197 million would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2011 and March 31, 2010:

Reconciliation of Unrecognized Tax Benefits	**Years Ended March 31,**	
(in millions of dollars)	**2011**	2010
Beginning balance	**$ 845**	$ 539
Gross increases related to prior period	**(3)**	(2)
Gross increases related to current period	**88**	364
Settlements with tax authorities	**(122)**	(56)
Reductions due to lapse of statute of limitations	**(10)**	-
Ending balance	**$ 798**	$ 845

As of March 31, 2011 and March 31, 2010, the Company has accrued for interest related to unrecognized tax benefits of $62 million. During the years ended March 31, 2011 and March 31, 2010, the Company recorded interest income of $33 million and interest expense of $16 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in operating expenses. No penalties were recognized during the years ended March 31, 2011 and March 31, 2010.

Federal income tax returns have been examined and all appeals and issues have been agreed with the Internal Revenue Service ("IRS") and the NGHI consolidated filing group, excluding KeySpan, through March 31, 2004. During the year ended March 31, 2011, the NGHI consolidated group, excluding KeySpan, reached an agreement with the IRS that contained a settlement of the majority of the income tax issues related to the years ended March 31, 2005 through March 31, 2007 as well as an acknowledgment that certain discrete items remained disputed. The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. The years ended March 31, 2008 through March 31, 2011 remain subject to examination by the IRS.

In November 2010, KeySpan and its subsidiaries reached a settlement agreement with the IRS on outstanding tax matters for calendar tax years 2000 through 2006. In connection with the settlement, the Company recognized a $53 million tax benefit for the differences between the amounts settled upon with the IRS and the tax positions previously accrued. Resolution of tax matters for these years with state and local tax authorities is outstanding. KeySpan's preacquisition tax returns for the short year ended August 24, 2007 remain subject to examination by the IRS.

The following table indicates the Company's earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	**Tax Year**
Federal	March 31, 2005
Massachusetts	January 31, 2000
New York	December 31, 2000
New Hampshire	March 31, 2008

On July 2, 2008, the state of Massachusetts changed the state filing requirements that eliminate the previous separate reporting filing rules and implemented a unitary group filing requirement. The new combined reporting rules are effective for tax years beginning on or after January 1, 2009. The Company's first unitary filing begins for the year ended March 31, 2010.

During the year ended March 31, 2011, the Massachusetts Department of Revenue ("MADOR") completed its field audit of the Company's combined returns for March 31, 2003 through March 31, 2005. The Company is in the process of appealing adjustments made by the MADOR for the years ended March 31, 2002 through March 31, 2005, as well as adjustments from the previous audit of its Massachusetts combined returns for January 1, 2000 through March 31, 2002.

KeySpan's subsidiaries have filed NY ITC claims for tax years ended December 31, 2000 through December 31, 2006. These claims have been denied by the State of New York and are currently under appeal.

Note 8. Derivative Contracts

In the normal course of business, the Company's subsidiaries are party to derivative instruments, such as futures, options, swaps, and physical forwards that are principally used to manage commodity prices associated with its natural gas and electric distribution operations. These financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company generally engages in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business.

Current accounting guidance for derivative instruments establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features, or contracts that combine a forward contract and a purchase option contract to qualify for the normal purchases and sales exception. However, certain contracts for the physical purchase of natural gas associated with our regulated gas service territories do not qualify for normal purchases under this guidance.

Certain derivative instruments employed by the Company are accounted for as cash-flow hedges and receive hedge accounting treatment under the current accounting guidance for derivative instruments and hedging activities. The change in fair value of instruments that qualify for hedge accounting is deferred in accumulated other comprehensive income and will be reclassified through revenue commensurate with the timing of the forecasted transactions.

The Company also employs derivative instruments that do not qualify for hedge accounting treatment. Most of the derivative instruments utilized by the Company are subject to the accounting guidance for rate-regulation entities since the Company's rate agreements allow for the pass-through of the commodity costs of electricity and natural gas and the costs related to hedging.

Commodity Derivative Instruments - Regulated Utilities

We use derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas and electric purchases associated with our gas and electric distribution operations. Our strategy is to minimize fluctuations in gas and electric sales prices to our regulated firm gas and electric sales customers. The accounting for these derivative instruments is subject to current guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities on the consolidated balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from firm gas and electric sales customers consistent with regulatory requirements.

Prior to 2001 Niagara Mohawk owned 41% of the Nine Mile Point 2 nuclear power generation plant in upstate New York. As part of regulatory reform, Niagara Mohawk was required to divest its power generation assets in 2001 and Constellation Energy Group, Inc ("Constellation") acquired Niagara Mohawk's share of the Nine Mile Point 2 nuclear power generation plant.

Pursuant to this divestiture, Niagara Mohawk agreed to purchase physical energy and capacity from the Nine Mile Point 2 nuclear generating station for a period of ten years, terminating in December 2011 (the "Nine Mile physical purchase contract"). The purchased power from this facility has been utilized to satisfy Niagara Mohawk's electricity customers in the upstate New York area for the duration of this contract. Upon expiration of the Nine Mile physical purchase contract, Niagara Mohawk will buy power from the New York Independent System Operator ("NYISO") as a replacement for the power previously purchased directly from the Nine Mile Point 2 nuclear power generation plant.

Niagara Mohawk also entered into a Revenue Sharing Arrangement ("RSA") in 2001 with Constellation, covering a period of ten years from the expiration of the Nine Mile physical purchase contract. Pursuant to the RSA, Niagara Mohawk and Constellation will share in the revenue that Constellation earns on sales to the NYISO in proportion to the electric volumes that Niagara Mohawk had purchased under the Nine Mile physical purchase contract.

This contract has been determined to be a financial derivative instrument since a futures market exists in upstate New York and although trading is relatively shallow. The value of this derivative at March 31, 2011 and March 31, 2010 is \$100 million and \$78 million, respectively. Since the power purchased under the RSA will be used to supply rate-regulated electric sales customers, the accounting for this derivative follows the current accounting guidance for rate-regulated enterprises noted above.

At March 31, 2011 the net fair value of natural gas derivative instruments was a liability of $43 million. The net fair value of the electric derivative instruments, including the RSA contract above, was an asset of $78 million. At March 31, 2010 the net fair value of natural gas derivative instruments was a liability of $135 million. The net fair value of the electric derivative instruments was an asset of $5 million.

As noted previously, certain contracts for the physical purchase of natural gas associated with our regulated gas service territories do not qualify for normal purchases under current accounting guidance. These derivatives are also subject to the accounting treatment applicable to rate-regulated entities. At March 31, 2011 and March 31, 2010, the net fair value of these derivatives was an asset of $13 million and $43 million, respectively.

As a result of the USGen bankruptcy settlement agreement, New England Power resumed the performance and payment obligations under power supply contracts that had been transferred to USGen when the Company divested its generating business. The fair value of these derivative instruments at March 31, 2011 was a liability of $160 million. The fair value of these derivative instruments at March 31, 2010 was a liability of $192 million.

The Company continues to record this derivative liability which is the above-market portion of the power supply contracts with an equal offset to a corresponding regulatory asset. The performance and payment obligations will not affect the results of operations, as the Company will recover the above-market cost of the power supply contracts from customers through the CTC.

Financially-Settled Commodity Derivatives – Non-regulated

Our energy investments subsidiary, Seneca-Upshur, utilizes over the counter ("OTC") natural gas swaps to hedge the cash flow variability associated with the forecasted sales of a portion of its natural gas production. At March 31, 2011, Seneca-Upshur did not have any hedge positions in place for its estimated 2011 gas production. We use market quoted forward prices to value these swap positions. The fair value of these derivative instruments at March 31, 2010 was $1 million.

These derivative financial instruments are designated as cash flow hedges and are not considered held for trading purposes as defined by current accounting guidance. Accordingly, we carry the fair value of these derivative instruments on the consolidated balance sheet as either a current or deferred asset or liability, as appropriate, and record the effective portion of unrealized gains or losses in accumulated other comprehensive income. Gains and losses are reclassified from accumulated other comprehensive income to the consolidated statement of income in the period the hedged transaction affects earnings. Gains and losses on settled transactions are reflected as a component of revenue. Any hedge ineffectiveness that results from changes during the period in the price differentials between the index price of the derivative contract and the price of the purchase or sale for the cash flow that is being hedged is recorded directly to earnings.

Additionally the company employs a small number of derivative instruments related to storage optimization, and a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers. These financial derivative instruments do not qualify for hedge accounting treatment. The fair value of these contracts at March 31, 2011 was a liability of $1 million. We use market quoted forward prices to value these contracts. The fair value of these contracts at March 31, 2010 was a liability of $3 million.

Treasury Financial Instruments

Financial derivatives are used for hedging purposes in the management of exposure to interest rate risk enabling the Company to optimize the overall cost of accessing debt capital markets, and mitigating the market risk which would otherwise arise from the maturity of its treasury related assets and liabilities.

Treasury related derivative instruments may qualify as either fair value hedges or cash flow hedges. At present, the Company uses fair value hedges, consisting of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative financial instrument and changes in the fair value of the item in relation to the risk being hedged are recognized in the consolidated statement of income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortized to the consolidated statement of income as a yield adjustment over the remainder of the hedging period.

At March 31, 2011, the Company had a net hedged asset position of $4 million on $52 million of debt. At March 31, 2010, the Company had a net hedged liability position of $12 million on $239 million of debt. Net gains on the derivative financial instruments were $2 million for the year ended March 31, 2011 and a net loss of $2 million for the year ended March 31, 2010.

The following are commodity volumes associated with commodity derivative contracts as of March 31, 2011:

(in thousands)		
	Gas (dths)	95,995
Physicals	Electric (Mwhs)	3,222
	Gas swaps (dths)	75,119
	Gas options (dths)	12,670
	Gas futures (dths)	18,240
	Electric swaps (Mwhs)	2,559
Financials	Electric options (Mwhs)	30,248
	Gas (dths)	**202,024**
Total	**Electric (Mwhs)**	**36,029**

The following table presents the Company's derivative contract assets and (liabilities) on the consolidated balance sheets:

Fair Values of Derivative Instruments - Consolidated Balance Sheets

	Asset Derivatives			Liability Derivatives	
(in millions of dollars)	**March 31, 2011**	March 31, 2010		**March 31, 2011**	March 31, 2010
Regulated Contracts					
Gas Contracts:					
Gas futures contract - current asset	**$ -**	$ -	Gas futures contract - current liability	**$ (10)**	$ (17)
Gas swaps contract - current asset	**2**	-	Gas swaps contract - current liability	**(33)**	(107)
Gas options contract - current asset	**-**	-	Gas options contract - current liability	**(1)**	-
Gas purchase contract - current asset	**16**	28	Gas purchase contract - current liability	**(16)**	(12)
Current asset	***18***	***28***	*Current liability*	***(60)***	***(136)***
Gas futures contract - deferred asset	**1**	-	Gas futures contract - deferred liability	**(1)**	(4)
Gas swaps contract - deferred asset	**1**	-	Gas swaps contract - deferred liability	**(2)**	(7)
Gas purchase contract - deferred asset	**38**	48	Gas purchase contract - deferred liability	**(25)**	(21)
Deferred asset	***40***	***48***	*Deferred liability*	***(28)***	***(32)***
Electric contracts:					
Electric futures contract - current asset	**-**	-	Electric futures contract - current liability	**-**	(1)
Electric swaps contract - current asset	**3**	-	Electric swaps contract - current liability	**(28)**	(48)
Electric options contract - current asset	**5**	-	Electric options contract - current liability	**-**	-
Electric purchase contract - current asset	**-**	1	Electric purchase contract - current liability	**(28)**	(32)
Current asset	***8***	***1***	*Current liability*	***(56)***	***(81)***
Electric swaps contract - deferred asset	**3**	-	Electric swaps contract - current liability	**(1)**	(25)
Electric options contract - deferred asset	**96**	78	Electric options contract - deferred liability	**-**	-
Electric purchase contract - deferred asset	**-**	1	Electric purchase contract - deferred liability	**(132)**	(161)
Deferred asset	***99***	***79***	*Deferred liability*	***(133)***	***(186)***
Regulated subtotal	***165***	***156***		***(277)***	***(435)***
Unregulated Contracts					
Gas Contracts:					
Gas swaps contract - current asset	**-**	3	Gas swaps contract - current liability	**(1)**	(1)
Gas purchase contract - current asset	**-**	1	Gas purchase contract - current liability	**-**	-
Unregulated subtotal	***-***	***4***		***(1)***	***(1)***
Total derivatives not designated as hedging instruments	**165**	160		**(278)**	(436)
Derivative designated as hedging instruments					
Cash Flow Hedge					
Gas Contracts:					
Gas swaps contract - deferred asset	**-**	1	Gas swaps contract - deferred liability	**-**	-
Deferred asset	***-***	*1*	*Deferred liability*	***-***	*-*
Total derivatives designated as hedging instruments	**-**	1		**-**	-
Total Commodity Derivatives	**165**	161		**(278)**	(436)
Interest rates and currency swaps:					
Current asset	**-**	7	Current liability	**-**	-
Deferred asset	**4**	2	Deferred liability	**-**	(21)
Total derivatives	**$ 169**	$ 170		**$ (278)**	$ (457)

The change in fair value of the regulated contracts exactly corresponds to offsetting regulatory assets and liabilities. As a result, the changes in fair value of derivative contracts and their offsetting regulatory assets and liabilities had no statement of income impact. The change in value of the non-regulated contracts had a statement of income impact, and is included in "other income (deductions)" or "other revenues". The following table presents the change in value and the asset and (liability) balances of the Company's derivative contracts:

Fair Values of Derivative Instruments - Statements of Income

(in millions of dollars)	Year to Date Movement	**March 31, 2011**	March 31, 2010
Regulated Contracts			
Gas Contracts:			
Gas futures contract - regulatory asset	$ 10	**$ (11)**	$ (21)
Gas swaps contract - regulatory asset	79	**(35)**	(114)
Gas purchase contract - regulatory asset	(7)	**(41)**	(34)
Gas futures contract - regulatory liability	1	**1**	-
Gas swaps contract - regulatory liability	1	**2**	1
Gas purchase contract - regulatory liability	(22)	**54**	76
Gas subtotal	*62*	***(30)***	*(92)*
Electric Contracts:			
Electric futures contract - regulatory asset	1	**-**	(1)
Electric swaps contract - regulatory asset	43	**(29)**	(72)
Electric purchase contract - regulatory asset	31	**(160)**	(191)
Electric swaps contract - regulatory liability	6	**6**	-
Electric options contract - regulatory liability	22	**100**	78
Electric purchase contract - regulatory liability	1	**1**	-
Electric subtotal	104	***(82)***	*(186)*
Regulated subtotal	*166*	***(112)***	*(278)*
Unregulated Contracts			
Gas Contracts:			
Gas swaps contract - other revenues	(3)	**(1)**	2
Gas purchase contract - other income (deductions)	(1)	**-**	1
Gas subtotal	(4)	***(1)***	*3*
Total Commodity Derivatives	162	**(113)**	(275)
Interest rates and currency swaps contract - other income (deductions)	16	**4**	(12)
Total	$ 178	**$ (109)**	$ (287)

Certain of the Company's derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If NGUSA's credit rating were to fall below a certain level, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2011 is $52 million for which the Company has posted collateral of $300 thousand in the normal course of business. If the Company's credit rating were to be downgraded by one notch, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three notches, it would be required to post $53 million additional collateral to its counterparties.

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2011, the Company paid $20 million to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions on the consolidated balance sheets.

Note 9. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

The Company's Level 1 fair value derivative instruments primarily consist of quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date. Derivative assets and liabilities utilizing Level 1 inputs include active exchange-based derivatives (e.g. natural gas futures traded on New York Mercantile Exchange ("NYMEX").

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from the NYMEX and Intercontinental Exchange ("ICE"), except cases when ICE publishes seasonal averages or there were no transactions within last seven days. During periods prior to March 31, 2011, Level 2 pricing inputs were obtained from the NYMEX and Platts M2M (industry standard, non-exchange-based editorial commodity forward curves) when it can be verified by available market data from ICE based on transactions within last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curve as well as have liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. Industry-standard valuation techniques, such as Black-Scholes pricing model, Monte Carlo simulation, and FEA libraries are used for valuing such instruments. Level 3 is also applied in cases when forward curve is internally developed, extrapolated or derived from market observable curve with correlation coefficients less than 0.95, or optionality is present, or non-economical assumptions are made.

Available for sale securities are primarily equity investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Levels 2 and 3).

The following table presents assets and liabilities measured and recorded at fair value on the Company's consolidated balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2011:

Fair Value Measurement Level Summary Table

(in millions of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Derivative contracts	$ 1	$ 14	$ 154	$ 169
Available for sale securities	114	222	3	339
Total assets	115	236	157	508
Liabilities				
Derivative contracts	(11)	(66)	(201)	(278)
Total liabilities	(11)	(66)	(201)	(278)
Net asset (liability) balance	$ 104	$ 170	$ (44)	$ 230

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the year ended March 31, 2011:

Balance at March 31, 2010	$ (69)
Transfers out of Level 3	(1)
Total gains and losses:	
included in earnings (or changes in net assets)	(1)
included in regulatory assets and liabilities	30
Purchases	(3)
Balance at March 31, 2011	$ (44)
The amount of realized gains and (losses) included in net income attributed to the change in unrealized gains and (losses) related to derivative assets and liabilities at March 31, 2011	$ -

The Company transfers amounts from Level 2 to Level 3 as of the beginning of each period and amounts from Level 3 to Level 2 as of the end of each period.

Long-term debt is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The Company's consolidated balance sheets reflect the long-term debt at carrying value. The fair value of this debt at March 31, 2011 and March 31, 2010 is $8.0 billion.

Note 10. Accumulated Other Comprehensive Income (Loss)

The following table details the components of accumulated other comprehensive income (loss) for the years ended March 31, 2011 and March 31, 2010:

(in millions of dollars)	Unrealized Gains (Losses) On Available for Sale Securities	Postretirement Benefit Liabilities	Cash Flow Hedges	Total Accumulated Other Comprehensive Income (Loss)
March 31, 2009 balance, net of tax	$ (17)	$ (1,029)	$ 2	$ (1,044)
Unrealized gain on securities	13	-	-	13
Unrealized losses on hedges	-	-	(7)	(7)
Change in pension and other postretirement obligations	-	17	-	17
Reclassification adjustment for gain included in net income	-	74	-	74
Subtotal	(4)	(938)	(5)	(947)
Adjustment to accumulated other comprehensive income (1)	-	136	-	136
March 31, 2010 balance, net of tax	(4)	(802)	(5)	(811)
Unrealized losses on securities	(5)	-	-	(5)
Change in pension and other postretirement obligations	-	(18)	-	(18)
Reclassification adjustment for gain included in net income	-	118	-	118
March 31, 2011 balance, net of tax	$ (9)	$ (702)	$ (5)	$ (716)

(1) The adjustment to the accumulated other comprehensive income is the result of the new tracking mechanism that was implemented as part of the rate case filed on May 19, 2009.

Note 11. Commitments and Contingencies

Legal Matters

MGP Sites

Since July 12, 2006, several lawsuits have been filed which allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Bay Shore, New York. KeySpan has been conducting a remediation at this location pursuant to Administrative Order on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). KeySpan intends to contest these proceedings vigorously.

On February 8, 2007, we received a Notice of Intent to File Suit from the Office of the Attorney General for the State of New York ("AG") against KeySpan and four other companies in connection with the cleanup of historical contamination found in certain lands located in Greenpoint, Brooklyn and in an adjoining waterway. KeySpan has previously agreed to remediate portions of the properties referenced in this notice and will work cooperatively with the DEC and AG to address environmental conditions associated with the remainder of the properties. KeySpan has entered into an ACO with the DEC for the land-based sites. The United States Environmental Protection Agency ("EPA") assumed control of the waterway and, on September 29, 2010, listed this site on its National Priorities List of Superfund sites. We expect to sign a consent decree with the EPA within several months. At this time, we are unable to predict what effect, if any, the outcome of these proceedings will have on our financial condition, results of operation and cash flows.

Civil Investigation

In May 2007, KeySpan received a Civil Investigative Demand ("CID") from the United States Department of Justice, Antitrust Division, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electric energy capacity market prior to NGUSA's acquisition of KeySpan. The CID is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. In April 2008, KeySpan received a second CID in connection with this matter. KeySpan believes that its activity in the capacity market has been consistent with all applicable laws and regulations and it continued to cooperate fully with this investigation. On February 22, 2010, the

United States Department of Justice ("DOJ") filed a civil complaint, joint stipulation and proposed final judgment under which the DOJ and KeySpan have agreed that KeySpan will pay $12 million in full and final resolution of the DOJ's Civil Investigative Demands from May 2007 and April 2008. The agreement contains no admissions of liability by KeySpan and was subject to court approval which was subsequently received. On February 9, 2011, the Company wire transferred $12 million to the DOJ in full and final settlement of this matter and this matter is closed.

Boston Property Tax Ruling

The Company provides gas service to most of the City of Boston ("the City") and owns equipment in the City to provide such service. That equipment is taxable as personal property in Massachusetts and the various municipalities set the assessment value which should reflect fair value. The Company applied for an abatement of its fiscal year 2004 assessment with the Assessing Department of the City of Boston ("the Assessors") disputing the methodology applied in determining fair value. On July 22, 2004, after being denied abatements by the Assessors, the Company filed an appeal with the Appellate Tax Board ("ATB"). On December 16, 2009, the ATB issued its decision finding for the City. The Company appealed this ruling to the Supreme Judicial Court ("SJC") on May 3, 2010. On January 20, 2011, the SJC issued its decision which affirmed much of the ATB decision. The tax amounts are included in "other taxes" on the statements of income. The assessment does not have a material impact on the Company's consolidated financial statements.

Environmental Matters

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Like most other industrial companies, the Company's historic and current gas, electric transmission and distribution and electric generation businesses use or generate some hazardous and potentially hazardous wastes and by-products. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

Air

Our generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the United States Environmental Protection Agency ("USEPA") and the Department of Environmental Conservation ("DEC"). In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. Our previous investments in low NOx boiler combustion modifications, the use of natural gas firing systems at our steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled the Company to achieve its prior emission reductions in a cost-effective manner. Future investments will include the installation of enhanced NOx controls and efficiency improvement projects at certain of our Long Island based electric generating facilities. The cost of these improvements is estimated to be $100 million; a mechanism for recovery from LIPA of these investments has been established. We are currently developing a compliance strategy to address anticipated future requirements. At this time, we are unable to predict what effect, if any, these future requirements will have on our financial condition, results of operation, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for our power plants will likely be required by the DEC at each of the Long Island power plants pursuant to Section 316 of the Clean Water Act. Draft permits have been issued by the DEC for Glenwood, Port Jefferson, and E.F. Barrett that propose to require the installation of significant capital equipment, including cooling towers at E.F. Barrett, to mitigate the plants' alleged cooling water system impacts to aquatic organisms. The DEC subsequently rescinded the draft permit for E.F. Barrett in order to allow for a review of all potential environmental impacts pursuant to the State Environmental Quality Review Act. Draft permits for Northport and Far Rockaway are expected later in 2011. We are currently conducting additional studies as directed by the DEC to determine the impacts of our discharges on aquatic resources and are engaged in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts. In addition, environmental groups have filed comments demanding even more costly retrofits at Glenwood, E.F. Barrett, and Port Jefferson, specifically, the installation of cooling towers. The Company is in discussion with the environmental groups regarding effective alternate mitigation technologies. Discussions with the DEC and the environmental groups have been productive and may lead to mutually agreeable final permits at some or all of the plants. Nevertheless it is possible that the determination of required capital improvements and the issuance of final renewal permits for these plants could involve adjudicatory hearings among the Company, the agency, and the environmental groups. Costs associated with the development of studies and analyses necessary to defend our positions are reimbursable from LIPA under the PSA. Capital costs for expected mitigation requirements at the five plants had been estimated on the order of approximately $100 million and did not anticipate a need for cooling towers at any of the plants. The company believes that two of these plants, the Glenwood and Far Rockaway power generating units, will be selected for decommissioning. Depending on the outcome of the adjudicatory process, which could extend beyond the next fiscal year, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would also be reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities
Federal and state environmental regulators, as well as private parties, have alleged that several of the Company's subsidiaries are potentially responsible parties under Superfund laws for the remediation of numerous contaminated sites in New York and New England. The Company's greatest potential Superfund liabilities relate to manufactured gas plant, or MGP, facilities formerly owned or operated by its subsidiaries or their predecessors. MGP byproducts included fuel oils, hydrocarbons, coal tar, purifier waste and other waste products which may pose a risk to human health and the environment.

The Company uses the "Expected Value" method for measuring its environmental liabilities. The Expected Value method applies a weighting to potential future expenditures based on the probability of these costs being incurred. A liability is recognized for all potential costs based on this probability. Costs considered to be 100% probable of being incurred are recognized in full, with costs below a 100% probability recognized in proportion to their probability. KeySpan discounted its environmental reserves at the time of acquisition by National Grid plc using an appropriate fair value methodology. Our other subsidiaries do not discount the liability.

Utility Sites
At March 31, 2011, the Company's total reserve for estimated MGP related environmental activities are $1.3 billion. The potential high end of the range at March 31, 2011 is presently estimated at $2.0 billion on an undiscounted basis. Management believes that obligations imposed on the Company because of the environmental laws will not have a material adverse effect on its operations, financial condition or cash flows. Through various rate orders issued by the NYPSC, DPU, NHPUC and RIPUC costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, the Company has reflected a regulatory asset of $1.8 billion.

The Company is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. The Company cannot predict the likelihood of success of such claims.

Non-Utility Sites
The Company is aware of two non-utility sites for which it may have or share environmental remediation or ongoing maintenance responsibility. The Company presently estimates the remaining cost of the environmental cleanup activities for these two non-utility sites will be $23 million, which has been accrued at March 31, 2011 as a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

The Company believes that in the aggregate, the accrued liability for the sites and related facilities identified above are reasonable estimates of the probable cost for the investigation and remediation of these sites and facilities. As circumstances warrant, we periodically re-evaluate the accrued liabilities associated with MGP sites and related facilities. We may be required to investigate and, if necessary, remediate each site previously noted, or other currently unknown former sites and related facility sites, the cost of which is not presently determinable.

Electric Services and LIPA Agreements

KeySpan and LIPA have three major long-term service agreements to; (i) provide to LIPA all operation, maintenance and construction services and significant administrative services relating to the Long Island electric transmission and distribution system pursuant to the Management Services Agreement (the "MSA"), expiring on December 31, 2013; (ii) supply LIPA with electric generating capacity, energy conversion and ancillary services from our Long Island generating units pursuant to the Power Supply Agreement (the "PSA"), expiring on May 27, 2013, the rates of which are approved by FERC; and (iii) manage all aspects of the fuel supply for our Long Island generating facilities, pursuant to the Energy Management Agreement (the "EMA"), expiring on May 27, 2013. On June 3, 2010, LIPA issued a Request for Proposal ("RFP") for an operating and maintenance services provider to furnish the services currently provided under the MSA after the MSA expires. The Company and LIPA have recently initiated negotiations for an extension of the PSA that is scheduled to expire on May 27, 2013. The Company believes a new PSA will be executed prior to its expiration that will allow the Company to recover its investment in property, plant, and equipment and other assets used in operations.

KeySpan's compensation for managing the electric transmission and distribution system owned by LIPA under the MSA consists of two components: a minimum fixed compensation component of $224 million per year and a variable component based on electric sales. The fixed component remained unchanged for three years and thereafter increases annually by 1.7%, plus inflation. The variable component is based on electric sales adjusted for inflation.

Pursuant to the EMA, KeySpan procures and manages fuel supplies for LIPA to fuel KeySpan's Long Island based generating facilities. In exchange for these services, KeySpan earns an annual fee of $750 million.

Lease Obligations

The Company has various operating leases which include leases for buildings, office equipment, vehicles and power operating equipment. The Company's future minimum lease payments under various leases are summarized in the table below.

(in millions of dollars)

Year Ended March 31,		**Amount**
2012	$	117
2013		120
2014		148
2015		119
2016		121
Thereafter		565
Total	$	1,190

Financial Guarantees

The Company has guaranteed the principal and interest payments on certain outstanding debt. Additionally, the Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third party creditors. At March 31, 2011, the following amounts would have to be paid by us in the event of non-payment by the primary obligor at the time payment is due:

Nature of Guarantee *(in millions of dollars)*			Amount	Expiration Dates
Guarantees for subsidiaries:				
Industrial Development Revenue Bonds	(i)	$	128	2027
KeySpan Ravenswood LLC Lease	(ii)		528	2040
Reservoir Woods	(iii)		277	2029
Surety Bonds	(iv)		109	Revolving
Commodity Guarantees and Other	(v)		141	2011-2042
Letters of Credit	(vi)		106	2011

The following is a description of the Company's outstanding subsidiary guarantees:

(i) The Company has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to $128 million of Industrial Development Revenue Bonds issued through the Nassau County and Suffolk County Industrial Development Authorities for the construction of two electric-generation peaking plants on Long Island. The face value of these notes is included in long-term debt on the consolidated balance sheet.

(ii) The Company had guaranteed all payment and performance obligations of a former subsidiary (KeySpan

Ravenswood LLC) associated with a merchant electric generating facility leased by that subsidiary under a sale/leaseback arrangement. The subsidiary and the facility were sold in 2008. However, the original lease remains in place and we will continue to make the required payments under the lease through 2040. The cash consideration from the buyer of the facility included the remaining lease payments on a net present value basis. At March 31, 2011, the Company's obligation related to the lease was $291 million and is reflected in "other deferred liabilities".

(iii) The Company has fully and unconditionally guaranteed $293 million in lease payments through 2029 related to the lease of office facilities at Reservoir Woods in Waltham, MA.

(iv) The Company has agreed to indemnify the issuers of various surety and performance bonds associated with certain construction projects being performed by certain current and former subsidiaries. In the event that the subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. We would then be obligated to reimburse the surety for any expenses or cash outlays it incurs. Although the Company is not guaranteeing any new bonds for any of the former subsidiaries, the Company's indemnity obligation supports the contractual obligation of these former subsidiaries. The Company has also received from a former subsidiary an indemnity bond issued by a third party insurance company, the purpose of which is to reimburse the Company in an amount up to $80 million in the event it is required to perform under all other indemnity obligations previously incurred by the Company to support such company's bonded projects existing prior to divestiture.

(v) The Company has guaranteed commodity-related payments for certain subsidiaries. These guarantees are provided to third parties to facilitate physical and financial transactions involved in the purchase and transportation of natural gas, oil and other petroleum products for electric production and marketing activities. The guarantees cover actual purchases by these subsidiaries that are still outstanding as of March 31, 2011.

(vi) The Company has arranged for stand-by letters of credit to be issued to third parties that have extended credit to certain subsidiaries. Certain vendors require us to post letters of credit to guarantee subsidiary performance under our contracts and to ensure payment to our subsidiary subcontractors and vendors under those contracts. Certain of our vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of our subsidiaries, such as to beneficiaries under our self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.

To date, the Company has not had a claim made against it for any of the above guarantees and we have no reason to believe that our subsidiaries or former subsidiaries will default on their current obligations. However, we cannot predict when or if any defaults may take place or the impact any such defaults may have on our consolidated results of operations, financial condition and cash flows.

The Company owns a 26.25% ownership interest in the Millennium Pipeline Company LLC ("Millennium"), the developer of the Millennium Pipeline project. The Company has guaranteed $210 million of an $800 million Millennium Pipeline construction loan. The $210 million represents the Company's proportionate share of the $800 million loan based on the Company's 26.25% ownership interest in the Millennium Pipeline project. This guarantee has been accounted for in accordance with the FASB guidance related to a guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others and is reflected in "equity investments," with an offsetting position in "deferred credits and other liabilities" on the consolidated balance sheets.

Asset Retirement Obligations

The Company has various asset retirement obligations primarily associated with its gas distribution and electric generation activities. Generally, the Company's largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within its gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities. The asset retirement obligation at March 31, 2011 and March 31, 2010 was $69 million and $70 million respectively.

Decommissioning Nuclear Units

New England Power has minority interests in three nuclear generating companies: Yankee Atomic Electric Company ("Yankee Atomic"), Connecticut Yankee Atomic Power Company ("Connecticut Yankee"), and Maine Yankee Atomic Power Company ("Maine Yankee") (together, the "Yankees"). These ownership interests are accounted for on the equity method. The Yankees operated nuclear generating units that have been permanently retired. Physical decommissioning of the units is complete. Spent nuclear fuel remains on each site, awaiting fulfillment by the U.S. Department of Energy ("DOE") of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. Investment information and future estimated billing which are included in miscellaneous current or accrued liabilities and other deferred credits are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2011			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 539	Feb 1992	$ 24,927
Connecticut Yankee	19.5	423	Dec 1996	43,527
Maine Yankee	24.0	497	Aug 1997	18,941

With respect to each of the units, at March 31, 2011 and March 31, 2010, New England Power has a liability and a regulatory asset of $87 million and $82 million, respectively, reflecting the estimated future decommissioning billings from the Yankees. In a 1993 decision, the FERC allowed Yankee Atomic to recover its undepreciated investment in the plant, including a return on that investment, as well as unfunded nuclear decommissioning costs and other costs. Maine Yankee and Connecticut Yankee recover their prudently incurred costs, including a return, in accordance with settlement agreements approved by the FERC in May 1999 and July 2000, respectively. The Yankees collect the approved costs from their purchasers, including New England Power. New England Power's share of the decommissioning costs is accounted for in purchased electric energy on the consolidated statements of income. Under settlement agreements, New England Power is permitted to recover prudently incurred decommissioning costs through CTCs.

The Yankees are periodically required to file rate cases for FERC approval, which present the Yankees' estimated future decommissioning costs. The Yankees are currently collecting decommissioning and other costs under FERC Orders issued in their respective rate cases.

Future estimated billings from the Yankees are based on cost estimates. These estimates include the projected costs of groundwater monitoring, security, liability and property insurance and other costs. They also include costs for interim spent fuel storage facilities, which the Yankees have constructed during litigation they brought to enforce the DOE's obligation to remove the fuel as required by the Nuclear Waste Policy Act of 1982.

Following a trial at the U.S. Court of Federal Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2001 and 2002. The Yankees had requested $176 million. On December 4, 2006, the DOE filed a notice of appeal with the U. S. Court of Appeals for the Federal Circuit. The Court of Appeals rendered an opinion generally supporting the trial court's decision and has remanded the matter to the trial court for further proceedings. A Claims Court trial in the remanded cases was held in August, 2009. On September 7, 2010, the Court again awarded the three companies an aggregate of approximately $143 million. On November 8, 2010, the DOE again filed a notice of appeal with the same Court of Appeals. On November 19, 2010, the Yankees filed notices of cross-appeal. If the Yankees are successful in the litigation, the damages received by the Yankees, net of litigation expenses and taxes, will be applied to reduce the decommissioning and other costs collected from their purchasers including New England Power. The Company cannot predict the outcome of the pending decisions for trial, appeal or the potential subsequent complaints. On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover damages incurred subsequent to 2001 and 2002. Discovery in the further litigation is ongoing and a trial in the Claims Court is expected in October 2011. The DOE has severely curtailed budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada and taken actions designed to prevent its construction and appointed a Blue

Ribbon Commission charged with advising it regarding alternatives to disposal at Yucca Mountain. As a result, it is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees' spent fuel. The decommissioning costs that are actually incurred by the Yankees may exceed the estimated amounts, perhaps substantially.

Nuclear Contingencies

As of March 31, 2011 and March 31, 2010, Niagara Mohawk has a liability of $168 million and $167 million, respectively, in non-current liabilities for the disposal of nuclear fuel irradiated prior to 1983 – for a nuclear power plant that was sold to Constellation Energy Group, Inc ("Constellation") in 2001. In January 1983 the Nuclear Waste Policy Act of 1982 (the "Nuclear Waste Act") established a cost of $.001 per kilowatt-hour ("kWh") of net generation for current disposal of nuclear fuel and provides for a determination of the liability to the DOE for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Act also provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation which purchased Niagara Mohawk's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility. Progress in developing the DOE facility has been delayed beyond 2011 and we are unable to predict when it will be able to accept deliveries.

Long-term Contracts for the Purchase of Electric Power

The Company's subsidiaries have several types of long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. The Company's commitments under these long-term contracts are summarized in the table below.

(in millions of dollars)		
Years Ended March 31,		
2012	$	1,012
2013		146
2014		70
2015		65
2016		54
Thereafter		53
Total	$	1,400

The Company's subsidiaries can purchase additional energy to meet load requirements from other independent power producers ("IPPs"), other utilities, energy merchants or on the open market through the New York Independent System Operator ("NYISO") or the ISO-NE at market prices.

Gas Supply, Storage and Pipeline Commitments

The Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges. The Company and its gas distribution subsidiaries are liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from utility customers as gas costs. The table below summarizes the estimated commitments as of March 31, 2011.

(in millions of dollars)		
Year Ended March 31,		
2012	$	1,027
2013		700
2014		526
2015		437
2016		388
Thereafter		1,833
Total	$	4,911

Niagara Mohawk Sales and Use Tax Contingencies

The Company's subsidiaries are subject to periodic tax audits by federal and state authorities. Niagara Mohawk was subject to a sales and use tax audit conducted by the State of New York for the audit period June 2001 through November 2005. Niagara Mohawk's sales and use tax for 2006 and subsequent years remain subject to examination by the state authorities. In June 2010, the State of New York completed its audit and Niagara Mohawk received an assessment based on which Niagara Mohawk reserved $24 million as other deferred liabilities at March 31, 2010. Niagara Mohawk actively disputed the findings of the audit report and has reached a tentative agreement for a favorable outcome which resulted in a decrease of $15 million in other deferred liabilities at March 31, 2011.

Note 12. Related Party Transactions

Holding Company Charges

NGUSA receives charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. For the years ended March 31, 2011 and March 31, 2010, the estimated effect on net income was $39 million and $29 million before tax and $25 million and $19 million after tax, respectively.

Note 13. Cumulative Preferred Stock

The Company's subsidiaries have certain issues of non-participating preferred stock which provide for redemption at the option of the Company. A summary of cumulative preferred stock at March 31, 2011 and March 31, 2010 is as follows:

(in millions of dollars, except per share and number of shares data)		Shares Outstanding		Amount		
		March 31,		**March 31,**		Call
Series	Company	**2011**	2010	**2011**	2010	Price
$100 par value -						
3.40% Series	Niagara Mohawk	**57,524**	57,524	**$ 6**	$ 6	$ 103.500
3.60% Series	Niagara Mohawk	**137,152**	137,152	**14**	14	104.850
3.90% Series	Niagara Mohawk	**95,171**	95,171	**9**	9	106.000
4.44% Series	Mass Electric	**22,585**	22,585	**2**	2	104.068
6.00% Series	New England Power	**11,117**	11,117	**1**	1	Noncallable
$50 par value -						
4.50% Series	Narragansett	**49,089**	49,089	**3**	3	55.000
Total		**372,638**	372,638	**$ 35**	$ 35	

On October 1, 2010, the Company converted 267 shares of common stock to various classes of non-voting cumulative, fixed-rate, preferred stock (Class A – 51 shares, Class B – 40 shares, Class C – 96 shares, Class D – 79 shares, Class E – 1 share), having par value of $0.10.

Note 14. Discontinued Operations and Other Dispositions

On April 13, 2010, a purchase agreement was signed between KeySpan and Home Service USA Corp. ("HSUSA") pertaining to KeySpan's sale of the service contracts portion of its NGES business. Under terms of the agreement, HSUSA has agreed to acquire the service contract business for $74 million, with $30 million (net of working capital) paid at closing and an additional $44 million ("NPV") of estimated royalties earned and paid over a ten year period. Projected royalties represent 10% of revenues that HSUSA achieves through the sale of its products, subject to adjustment, in years two through ten following the closing. This transaction was completed on August 11, 2010. The installation business of NGES has not been sold. Instead, we are in the process of discontinuing the installation portion of the business after completing all currently contracted work.

In addition, in September 2010, the Company sold National Grid Development Holding's 52.1% interest in Honeoye Storage Corporation for $15 million to Consolidated Edison Development Inc. A gain of $11 million is reflected as gain on disposal of assets in the accompanying consolidated statements of income.

On December 8, 2010, NGUSA, on the behalf of Granite State and EnergyNorth, entered into a stock purchase agreement with Liberty Energy Utilities Co., a subsidiary of Algonquin Power & Utilities Corp., whereby NGUSA will sell, and Liberty Energy will purchase, all of the common stock of EnergyNorth and Granite State for a combined purchase price of $285 million. The parties have filed for the necessary federal and state regulatory approvals that will be required to consummate the transaction. The regulatory approval process is expected to be completed during the year ended March 31, 2012. The assets and liabilities of EnergyNorth and Granite are classified as held for sale at March 31, 2011 and March 31, 2010.

The information below highlights the major classes of assets, liabilities, revenues and expenses of the Granite State and EnergyNorth:

(in millions of dollars)	**March 31, 2011**	March 31, 2010
Property, plant and equipment	**$ 332**	$ 323
Current assets	**67**	59
Deferred charges	**106**	194
Total assets	**505**	576
Current liabilities	**22**	31
Deferred credits and other liabilities	**202**	185
Total liabilities	**224**	216

(in millions of dollars)	**For the Years Ended March 31, 2011**	2010
Revenues	**$ 222**	$ 222
Operating expenses:		
Fuel and purchase power	**131**	139
Operations and maintenance	**37**	40
Impairment of intangibles and property, plant and equipment	**78**	-
Depreciation and amortization	**14**	14
Operating taxes	**9**	8
Operating (loss) income	**(47)**	21
Other deductions	**(1)**	(1)
Income taxes	**12**	8
(Loss) income from discontinued operations	**$ (60)**	$ 12

Note 15. Restructuring

On January 31, 2011, National Grid plc announced substantial changes to the organization, including new global, US and UK operating models, and changes to the leadership team. The announced structure seeks to create a leaner, more-efficient business backed by streamlined operations that will help meet, more efficiently, the needs of regulators, customers and shareholders. The implementation of the new U.S. business structure commences on April 4, 2011 and targets annualized savings of $200 million by March 2012 primarily through the reduction of up to 1,200 positions. As of March 31, 2011, NGUSA had recorded a $67 million reserve for one-time employment termination benefits related to severance, payroll taxes, healthcare continuation, outplacement services as well as consulting fees related to the restructuring program, which is included within "operations and maintenance" on the consolidated statement of income.

These charges have been recorded by NGUSA and none have been allocated to the Company's subsidiaries as at March 31, 2011. Subsequently in June 2011, we offered a voluntary severance plan to certain individuals which is expected to cost up to an additional $20 million.

Note 16. Subsequent Events

In accordance with current authoritative accounting guidance, the Company has evaluated for disclosure subsequent events that have occurred up through July 13, 2011, the date of issuance of these financial statements. As of July 13, 2011, there were no subsequent events which required recognition or disclosure expect as discussed below.

On April 28, 2011, the Company converted an additional 648 shares of common stock to non-voting cumulative, fixed-rate, preferred stock (Class F), having par value of $0.10.

On June 3, 2011, the Company raised an additional $705 million through the Euro Medium Term Note program. These notes are due June 3, 2015 with a weighted average interest rate of 2.604%.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 March 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report__________

For the transition period from __________ to__________

Commission file number: 001-14958

NATIONAL GRID PLC

(Exact name of Registrant as specified in its charter)
England and Wales
(Jurisdiction of incorporation or organization)
1-3 Strand, London WC2N 5EH, England
(Address of principal executive offices)

Helen Mahy
011 44 20 7004 3000
Facsimile No. 011 44 20 7004 3004
Company Secretary and General Counsel
National Grid plc
1-3 Strand London WC2N 5EH, England
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange
Preferred Stock ($100 par value-cumulative):	

3.90% Series	The New York Stock Exchange
3.60% Series	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of March 31, 2011 was

Ordinary Shares of 11 17/43 pence each	3,648,339,475

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☑ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☑ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

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As used in this Annual Report, unless the context requires otherwise,

"National Grid", the "Company", "we", "us" or "our" refers to National Grid plc and its subsidiaries.

Cautionary Statement

This Annual Report on Form 20-F contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", "targets", "may", "will", "continue", "project" and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations; network failure or interruption, the inability to carry out critical non-network operations and damage to infrastructure; performance against regulatory targets and standards, including delivery of costs and efficiency savings; customers and counterparties failing to perform their obligations to us; and unseasonable weather affecting energy demands. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates, commodity price indices and settlement of hedging arrangements; restrictions in our borrowing and debt arrangements; changes to credit ratings of the Company and its subsidiaries; adverse changes and volatility in the global credit markets; our ability to access capital markets and other sources of credit in a timely manner and other sources of credit on acceptable terms; deflation or inflation; the seasonality of our businesses; the future funding requirements of our pension schemes and other post-retirement benefit schemes, and the regulatory treatment of pension costs; the loss of key personnel or the ability to attract, train or retain qualified personnel, new or revised accounting standards, rules and interpretations, including changes of law and accounting standards that may affect our effective rate of tax; incorrect assumptions or conclusions underpinning business development activity and any restructuring or reorganization of the Company and its subsidiaries, and any unforeseen significant liabilities or other unanticipated or unintended effects of such activities restructuring or reorganization and the performance of the Company's subsidiaries. In addition the Company's reputation may be harmed if consumers of energy suffer a disruption to their supply. For a more detailed description of these assumptions, risks and uncertainties, together with any other risk factors, please see Items 3 and 5 of this report (and in particular "Risk factors" under Item 3). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we do not undertake any obligation to revise these forward-looking statements to reflect events or circumstances after the date of this report. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The inclusion of our website address in this annual report does not, and is not intended to, incorporate the contents of our website into this report and such information does not constitute part of this annual report.

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PART III

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PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not applicable.

Item 3. *Key Information*

The selected financial data set out below are derived, in part, from the Company's consolidated financial statements. The selected data should be read in conjunction with the financial statements and with the Operating and Financial Review and Prospects in Item 5. The consolidated financial statements of the Company are prepared in accordance with accounting policies that are in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRS as issued by the International Accounting Standards Board.

Selected financial data

Amounts in accordance with IFRS[1]:

		2011	2010	2009	2008	2007
Revenue[2]	£m	14,343	14,007	15,687	11,498	8,778
Total operating profit	£m	3,745	3,293	2,623	2,964	2,513
Profit for the year from continuing operations	£m	2,163	1,389	922	1,575	1,310
Profit for the year	£m	2,163	1,389	947	3,193	1,396
Basic earnings per share from continuing operations[3]	Pence	63.9	48.4	31.8	51.3	41.0
Diluted earnings per share from continuing operations[3]	Pence	63.6	48.2	31.7	51.1	40.8
Basic earnings per share[3]	Pence	63.9	48.4	32.7	104.2	43.7
Diluted earnings per share[3]	Pence	63.6	48.2	32.5	103.7	43.5
Number of shares — basic[4]	Millions	3,378	2,864	2,886	3,062	3,188
Number of shares — diluted[4]	Millions	3,397	2,877	2,902	3,077	3,206
Total assets	£m	46,375	43,553	44,467	37,771	28,389
Net assets	£m	9,069	4,211	3,984	5,374	4,136
Total parent company shareholders' equity	£m	9,060	4,199	3,970	5,356	4,125
Dividends per ordinary share: paid during the year	Pence	37.74	36.65	33.94	29.5	26.8
Dividends per ordinary share: approved or proposed during the year	Pence	36.37	38.49	35.64	33.0	28.7
Dividends per ordinary share: paid during the year	US	$ 0.592	0.579	0.523	0.593	0.513
Dividends per ordinary share: approved or proposed during the year	US	$ 0.571	0.608	0.549	0.663	0.549

1 Since the implementation of IFRS by the Company, there have been no significant changes in accounting standards, interpretations or policies that have had a material financial impact on the selected financial data.

The selected financial data incorporates businesses acquired in the period from the date of their acquisitions, principally KeySpan Corporation acquired in August 2007 and our Rhode Island gas distribution operations acquired in August 2006. Comparatives for 2008 have been restated for the finalization of the fair value exercise on the acquisition of KeySpan Corporation.

[2] Items previously reported for 2007—2010 separately as "other operating income" have been included within revenue.

[3] Items previously reported for 2007 - 2010 have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends.

[4] Comparative Earnings Per Share data have been restated to reflect the impact of the additional shares issued as scrip dividends

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Dividends

The information set forth under the headings "Financial Calendar" on page 188 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Exchange Rates

The following table sets forth the history of the exchange rates of one pound sterling to US dollars for the periods indicated and as at 9 June 2011.

As at 9 June 2011 1.6366

	High	Low
June 2011*	1.6452	1.6334
May 2011	1.6543	1.6118
April 2011	1.6648	1.603
March 2011	1.6387	1.5973
February 2011	1.6265	1.5994
January 2011	1.6160	1.5464
December 2010	1.5857	1.5391

	Average**
2010/11	1.56
2009/10	1.58
2008/09	1.54
2007/08	2.01
2006/07	1.91

* For the period to 9 June 2011.

** The average for each period is calculated by using the average of the exchange rates on the last day of each month during the period.

Risk Factors

The information set forth under the heading "Risk factors" on pages 91 to 93 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 4. *Information on the Company*

History and development of the Company

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales, with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 20 7004 3000). The Company's agent in the United States is National Grid USA, Attn: General Counsel, 40 Sylvan Road, Waltham, MA 02451.

The information set forth under the headings "Operating and Financial Review" on pages 10 to 79, "Note 6 Discontinued operations" on page 134, "Key milestones" on page 188 and Definitions and glossary of terms" on pages 184 to 186 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Business overview

The information set forth under the headings "Operating and Financial Review" on pages 10 to 79, "Note 1 Segmental analysis" on pages 125 to 126, and "Definitions and glossary of terms" on pages 184 to 186 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Organizational structure

The information set forth under the headings "Management structure — from 4 April 2011" and "Management structure — until 3 April 2011" on pages 22 and 23, and "Note 36 Subsidiary undertakings, joint ventures and associates" on page 169 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

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Property, plant and equipment

United Kingdom

Our corporate centre operates principally from offices at 1-3 Strand, London. These offices, of approximately 25,000 square feet, are held on a 15-year lease from 24 June 2002. We also have major offices in Warwick. The Company sold and leased back our Warwick offices during fiscal year 2007. The Warwick offices, of approximately 235,884 square feet, are now held on a 20-year lease from 2 February 2007 with a one-time tenant only break option (i.e. Company lease termination right) exercisable during the 15th anniversary of the lease. At present, environmental issues are not preventing the businesses from utilising any material operating assets in the course of their business.

UK electricity and gas transmission. We own the freehold of the majority of all sites associated with our UK electricity and gas transmission business in England and Wales. The remainder are held on long-term leaseholds, including all the transmission offtake sites in the service areas of the UK gas distribution networks sold on 1 June 2005. In Scotland, we own the majority of our gas transmission sites outright through a disposition purchase. The remainder are owned through a feudal disposition where purchase was subject to various rights retained by the previous owner, for example mineral or forestry rights. In addition, we have three principal commercial lettings, at St Fergus to Royal Dutch Shell and Exxon Mobil, and at Theddlethorpe (in England) to ConocoPhillips. The electricity transmission business does not own any sites in Scotland.

We own and operate the gas National Transmission System (NTS) in the UK which is a gas transmission network comprised of high pressure transmission pipelines connecting to eight gas distribution networks and to third party independent systems for onward transportation of gas to end consumers. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements in England and Wales and deeds of servitude in Scotland. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement or servitude are covered by national agreements with the National Farmers Union, the Country Land and Business Association of England and Wales and the Scottish Landowners Association.

We own and operate the national electricity transmission system for England and Wales consisting of overhead transmission lines and underground cable . Agreements with landowners or occupiers are required for the overhead lines and underground cables, which make up our electricity network in England and Wales. The majority of agreements are in the form of terminable wayleaves. The remainder are in the form of perpetual easements under which rights have been granted in perpetuity in return for a lump sum payment. The sites at which we have electricity substations are split between freehold and leasehold. Of the leasehold sites, the large majority are substations located on the premises of generators and are held on long-term leases for nominal rental payments. Of the remaining sites, most are held as ground rents (market price payable for land only) from the respective landlords. We own the freehold of our electricity control centre in Berkshire.

UK gas distribution. We own and operate four of the eight regional gas distribution networks in the UK. Agreements with landowners or occupiers are only required for those pipes that cross private land. These agreements largely comprise perpetual easements. Any land issues impacting on normal agricultural activity local to pipelines and their associated easement are covered by national agreements with the National Farmers Union and the Country Land and Business Association of England and Wales.

We own the freeholds of the substantial majority of the operational sites where there are larger operational plant and gas storage facilities used in our UK gas distribution business. The vast majority of office buildings, depots and stores used by UK gas distribution are leased from another company within National Grid.

United States

We either own in fee (i.e. freehold) or lease the office buildings that comprise our principal US business premises located in New York and New England. We own in fee the office buildings located in Westborough and Northborough, Massachusetts and in Syracuse, Albany, Buffalo and Hicksville, New York. We lease approximately 254,000 square feet of office space in the MetroTech Building in Brooklyn, New York, pursuant to a lease that expires on 28 February 2025. We also lease approximately 312,000 square feet of office space in the Reservoir Woods Office Park in Waltham, Massachusetts, pursuant to a twenty year, five month lease that commenced on 15 May 2009. In addition to our principal US offices, we maintain other offices and facilities in various locations throughout our US service territory in New York and New England. In addition, we lease office equipment, vehicles and power operated equipment necessary to meet our current and expected business requirements and operational needs.

In addition to the US property described above, with respect to our US electric distribution, transmission and gas distribution businesses located in northeastern US (more fully described below), we either own property in fee or hold necessary property rights pursuant to municipal consents, easements, or long-term leases and licenses. The Company has recently retired a number of its legacy company mortgage indentures; however, mortgage indentures remain with respect to the following legacy companies: Niagara Mohawk Power Corporation (upstate New York); Colonial Gas Company (eastern Massachusetts); and The Narragansett Electric Company (only with respect to assets related to its gas business in Rhode Island). Each of the referenced indentures constitute a direct lien on substantially all current and after-acquired gas and electric properties (as applicable) presently owned by each of the respective companies and used or useful in the operation of that company's properties as an integrated system. At present, environmental issues are not preventing our US businesses from utilising any material operating assets in the course of their business. We continually

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examine our real property and other property for contribution and relevance to our US businesses and when it is determined that such properties are no longer productive or necessary for the operation of our business, they are disposed of as promptly as possible. With respect to leased office space, we anticipate no significant difficulty in leasing alternative space at reasonable rates in the event of the expiration, cancellation or termination of a lease.

US electricity transmission. We own and operate a US electricity transmission network spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont consisting of transmission and sub-transmission lines located within right-of-way corridors that traverse both public and private property. Statutory authority, legislative charters, tariff provisions and municipal franchise grants and agreements generally provide our US companies with the rights required to locate transmission and sub-transmission facilities within and across public ways. Right-of-way corridors that cross privately owned land have generally been acquired in fee or pursuant to grants of perpetual easements. Transmission and sub-transmission substation facilities are principally located on properties that are owned in fee.

US electricity and gas distribution. We own and operate a US electricity and gas distribution systems located on rights-of-way in Massachusetts, New York, New Hampshire and Rhode Island and a gas distribution pipelines located on rights-of-way in New York, Massachusetts, New Hampshire and Rhode Island. Statutory authority, legislative charters, tariff provisions and municipal franchise grants and agreements generally provide our US distribution operations with the rights required to locate facilities within and across public ways. Right-of-way corridors that cross privately owned land have principally been acquired in fee or pursuant to grants of perpetual easements. Electric distribution substations and gas distribution regulator stations are principally located on properties owned in fee, or pursuant to grants of perpetual easements, or pursuant to legislative charters and municipal franchise grants.

The information set forth under the heading "Note 11 Property, plant and equipment" on page 138, "Where We Operate" on pages 20 and 21 and "Principal Operations" on pages 24 and 25 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 4A. *Unresolved Staff Comments*

There are no unresolved staff comments required to be reported under this Item 4A.

Item 5. *Operating and Financial Review and Prospects*

The information set forth under the headings "Operating and Financial Review" on pages 10 to 79, "Directors' Report statutory disclosures" on page 81, "Adoption of new accounting standards" on page 119 and Definitions and glossary of terms" on pages 184 to 186 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 6. *Directors, Senior Management and Employees*

The information set forth under the headings "Board of Directors" on pages 8 and 9, "Directors' Remuneration Report" on pages 96 to 108, "Note 23 Pensions and other post-retirement benefits" on pages 146 and 147, "Note 30 Actuarial information on pensions and other post-retirement benefits" on pages 153 to 156, "Corporate Governance" on pages 80 to 95, "Employees" on page 51 , "Note 2 Operating costs: (b) Number of employees" on page 127 and "Note 25 Share capital" on page 149 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

We negotiate with recognised unions. It is our policy to maintain well-developed communications and consultation programmes and there have been no material disruptions to our operations from labour disputes during the past five years. National Grid believes that it can conduct its relationship with trade unions and employees in a satisfactory manner.

Item 7. *Major Shareholders and Related Party Transactions*

Major shareholders

As at 9 June 2011, we had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

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	Number of Ordinary Shares	% of Outstanding Share Capital*
Black Rock Inc.	182,630,798	5.21
Legal and General Group plc	138,503,443	3.99
Crescent Holding GmbH	149,414,285	4.31
Capital Group Companies, Inc.	176,730,831	5.04

* This number is calculated in relation to the issued share capital at the time the holding was disclosed.

No further notifications have been received.

As at 9 June 2011, 136,990,580 shares are held in treasury. Treasury shares do not receive dividends and do not have voting rights. All ordinary shares have the same voting rights.

Approximately .0172% of National Grid's ordinary shares, are held beneficially by persons in the US, and there are approximately 3,578 US holders on the ordinary share register. There are approximately 17,800 registered holders of ADSs. BNY Mellon, as custodian of the Company's ADR programme, held approximately 9% of the Company's ordinary shares of $11\frac{17}{43}$ pence each at 9 June 2011, as nominee. The total number of ADRs outstanding at 9 June 2011 was 65,629,177 which represents approximately 328,145,867 ordinary shares.

The information set forth under the heading "Note 29 Related party transactions" on page 153 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 8. *Financial Information*

The information set forth under the headings "Accounting policies" on pages 112 to 118, "Adoption of new accounting standards" on page 119, "Consolidated balance sheet" on page 122, "Consolidated income statement" on page 120, "Consolidated statement of comprehensive income" on page 121, "Consolidated statement of changes in equity" on page 123, "Consolidated cash flow statement" on page 124, "Notes to the consolidated financial statements — analysis of items in the primary statements" on pages 125 to 151, "Notes to the consolidated financial statements — supplementary information " on pages 152 to 176, "Details of material litigation as at 31 March 2011" on page 76 and "Total shareholder return" on page 55 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 9. *The Offer and Listing*

Price history

The following table sets forth the highest and lowest intraday market prices for our ordinary shares and ADSs for the periods indicated.

	Ordinary Share (Pence)		ADS ($)	
	High	Low	High	Low
2010/11	666.00	474.80	51.00	36.72
2009/10	685.50	511.00	56.59	38.25
2008/09	754.00	515.00	74.89	36.64
2007/08	863.00	686.00	86.58	69.22
2006/07	797.50	552.00	78.81	48.83
2005/06	613.50	489.25	53.45	44.48
2004/05	549.50	421.25	52.06	37.59
2010/11 Q4	598.31	521.50	48.41	42.29
Q3	600.50	536.50	48.88	42.76
Q2	565.00	480.30	44.17	36.72
Q1	666.00	474.80	51.00	36.77
2009/10 Q4	685.50	619.50	55.13	46.85
Q3	683.50	572.50	56.59	46.13
Q2	628.00	529.50	52.00	43.05
Q1	617.00	511.00	50.25	38.25

June 2011*	607.00	586.00	49.95	48.20
May 2011	639.00	607.00	52.18	49.65
April 2011	617.42	583.50	51.43	47.65

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	Ordinary Share (Pence)		ADS ($)	
	High	Low	High	Low
March 2011	598.31	541.50	48.41	43.41
February 2011	575.99	533.00	46.97	44.12
January 2011	583.50	521.50	45.75	42.29
December 2010	590.00	538.50	44.87	43.01

* For the period to 9 June 2011.

Markets

Our equity securities are listed on the Official List of the London Stock Exchange (ordinary shares) and on the New York Stock Exchange (ADSs).

Item 10. *Additional Information*

Articles of Association

The following description is a summary of the material terms of our Articles of Association (the "Articles") and applicable English law. The following description is a summary only and is qualified in its entirety by reference to the Articles, which are provided as an exhibit to this report and the Companies Act 2006 (the "Companies Act").

At the Annual General Meeting on 27 July 2009, the Company adopted new Articles, primarily to take account of changes in English company law brought about by the Companies Act. At that same meeting, the Company adopted additional amendments to the Articles that took effect 1 October 2009, addressing changes to the Companies Act that came into force on that date. The Articles are incorporated by reference as Exhibit 1.1.

General

National Grid is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. The Articles set out the Company's corporate regulations. The Company's objects are unlimited.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act, the Articles provide that the non-conflicted Directors of the Company may authorise a conflict or potential conflict for a particular matter. In doing so, the non-conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid a fee for their services, which must not exceed £2,000,000 a year or any higher sum as decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a Director, devotes special attention to the business of National Grid or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for all expenses properly incurred, pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee, which consists entirely of independent Non-executive Directors. The fees of the Non-executive Directors are determined by the Executive Directors with the guidance of the Chairman and after taking appropriate external advice.

The Directors are empowered to exercise all the powers of National Grid to borrow money, subject to the limitation that the aggregate principal amount outstanding of all borrowings shall not exceed £35 billion or any other amount as approved by shareholders by an ordinary resolution at a general meeting.

Directors must stand for reappointment at the first Annual General Meeting following their appointment to the Board. Each Director must retire at least every three years but will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, it is proposed that all Directors wishing to continue in office should offer themselves for re-election annually. This new requirement will be presented for consideration at the 2011 Annual General Meeting.

No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares of National Grid in order to qualify as a Director.

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Rights, Preferences and Restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act and the other applicable provisions of English law. In addition, as a public company, National Grid may make a distribution only if and to the extent that, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (as defined in the Companies Act). Subject to the foregoing, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders but not exceeding the amount recommended by the Board of Directors. The Board of Directors may pay interim dividends if the Board of Directors considers that National Grid's financial position justifies the payment.

Except insofar as the rights attaching to any share otherwise provide, all dividends will be apportioned and paid proportionately to the amounts paid up (otherwise than in advance of calls) on the shares.

All dividends unclaimed for one year after having been declared or provided for by the Board of Directors (whichever is later) may be invested or otherwise made use of by the Board of Directors for the benefit of National Grid until claimed. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment may be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and on a poll, every shareholder will have one vote for every share which he holds. On a show of hands or poll, shareholders may cast votes either personally or by proxy and a proxy need not be a shareholder. Under the Articles, all substantive resolutions at a General Meeting must be decided on a poll, other than those of a procedural nature, unless a poll is demanded in accordance with the Articles.

(iii) Liquidation rights

In a winding-up, a liquidator may, with the sanction of a special resolution passed by the shareholders and any other sanction required under English law, (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not) and may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) vest the whole or any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator, with the sanction of a special resolution, determines, but in neither case will a shareholder be compelled to accept assets upon which there is a liability.

Variation of Rights

Subject to applicable provisions of English law, the Articles and the rights attached to any specific class of shares, the rights attached to any class of shares of National Grid may be varied or cancelled with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General Meetings

Annual General Meetings must be convened each year within six months of the Company's accounting reference date upon advance written notice of 21 clear days. Any other General Meeting must be convened upon advance written notice of at least 14 clear days, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a General Meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting.

Rights of Non-Residents

There are no restrictions under National Grid's Articles that would limit the rights of persons not resident in the UK, as such, to vote ordinary shares.

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Disclosure of Interests

The Companies Act provides that a public company may send a written notice to a person whom the company knows or has reasonable cause to believe to be, or to have been at any time during the three years immediately preceding the date on which the notice is issued, interested in the company's shares. The notice may require that person to state whether he has an interest in the shares, and in case that person holds or had held an interest in those shares, to give additional information relating to that interest and any other interest in the shares of which that person is aware. A shareholder may lose the right to vote his shares or to exercise any other right in relation to shareholders' meetings if he or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with such a request by National Grid under the Companies Act. In the case of holders of 0.25% or more in nominal amount of any class of the share capital of National Grid, in addition to disenfranchisement, the sanctions that may be applied by National Grid include withholding of the right to receive payment of dividends and other monies payable on shares, and restrictions on transfers of the shares.

Under the Companies Act, where a person fails to give the company any information required by such notice within the time specified in the notice, National Grid may also apply to an English court for an order directing that the shares in question be subject to restrictions prohibiting, among other things, any transfer of those shares, the taking up of rights in respect of those shares and, other than in a liquidation, payments in respect of those shares.

A person who fails to fulfill the obligations imposed by those provisions of the Companies Act described above is subject to criminal penalties.

For purposes of the notification obligation, the interest of a person in shares means any kind of interest in shares including interests in any shares (a) in which a spouse or civil partner, or child or stepchild under the age of 18 is interested, (b) in which a corporate body is interested and either (i) that corporate body or its directors generally act in accordance with that person's directions or instructions or (ii) that person is entitled to exercise or controls one-third or more of the voting power at a general meeting of that corporate body or (c) pursuant to an agreement between the person and one or more other party that includes provision for the acquisition by any one or more of them of interests in shares of a particular public company.

Under the Disclosure and Transparency Rules (the "DTRs"), a person acquiring or disposing of shares that are admitted to trading on a regulated market and carrying voting rights must provide written notification to the Company, including certain details as set out in DTR5, where the percentage of the person's voting rights which he hold as shareholder or through his direct or indirect holding of financial instruments reaches or exceeds 3% and reaches, exceeds or falls below each 1% threshold thereafter. DTR 3 deals with the disclosure by persons "discharging managerial responsibility" and their connected persons of the occurrence of all transactions conducted on their account in the shares of the Company.

Part 28 of the Companies Act sets out the statutory functions of the Panel on Takeovers & Mergers (the "Panel"). The Panel is responsible for issuing and administering the Code on Takeovers & Mergers which includes disclosure requirements on all parties to a takeover with regard to dealings in the securities of an offeror or offeree company and also on their respective associates during the course of an offer period.

Material contracts

As described in Item 6, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment.

In addition, the Company entered into the following contract in May 2010, which it considered to be material:

Underwriting Agreement

On 20 May 2010, in connection with our rights issue, we entered into an underwriting agreement with several underwriting banks, pursuant to which, the underwriting banks have severally agreed, subject to certain conditions, to use reasonable endeavours to procure acquirers for, or failing which, acquire any ordinary shares not taken up under our rights issue (in each case at the issue price of 335 pence per ordinary share). In the underwriting agreement, we have agreed to pay the underwriting banks a commission and have given certain customary representations and warranties to the underwriting banks and customary indemnities to them and certain indemnified persons connected with each of them. Our liabilities under the underwriting agreement are unlimited as to time and amount. If any of the conditions of the underwriting agreement are not satisfied (or waived) or shall have become incapable of being satisfied by the required time and date therefore, the obligations of the underwriting banks under the underwriting agreement shall cease and determine. Additionally, certain of the underwriting banks (acting in good faith and following consultation with us) may cause the underwriting agreement to terminate in its entirety in certain circumstances, but only prior to admission of our securities for trading on the London Stock Exchange. The securities offered pursuant to the rights issue have not been and will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States unless in a transaction that is registered thereunder or exempt from the registration requirements thereof. No public offer has been or will be made in or into the United States.

Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by us within the two years immediately preceding the date of this report which is, or may be, material; or which contains any provision under which any member of National Grid has any obligation or entitlement which is material to us at the date of this report.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in "Taxation" below and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Taxation

This section discusses certain US federal income tax and UK tax consequences of the ownership of ADSs and ordinary shares by certain beneficial holders thereof. This discussion applies to you only if you qualify for benefits under the income tax convention between the US and the UK (the "Tax Convention") and are a resident of the US for the purposes of the Tax Convention and are not resident or ordinarily resident in the UK for UK tax purposes at any material time (a "US Holder").

You generally will be entitled to benefits under the Tax Convention if you are:

- the beneficial owner of the ADSs or ordinary shares, as applicable, and of any dividends that you receive;
- an individual resident or citizen of the US, a US corporation, or a US partnership, estate, or trust (but only to the extent the income of the partnership, estate, or trust is subject to US taxation in the hands of a US resident person); and
- not also a resident of the UK for UK tax purposes.

If a US Holder holds ADSs or ordinary shares in connection with the conduct of business or the performance of personal services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK, then you will not be entitled to benefits under the Treaty. Special rules, including a limitation of benefits provision, apply in limited circumstances to ADSs or ordinary shares owned by an investment or holding company. This section does not discuss the treatment of holders described in the preceding two sentences.

This section does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor. National Grid has assumed that you are familiar with the tax rules applicable to investments in securities generally and with any special rules to which you may be subject. In particular, the discussion deals only with investors that will beneficially hold ADSs or ordinary shares as capital assets and does not address the tax treatment of investors that are subject to special rules, such as banks, insurance companies, dealers in securities or currencies, partnerships or other entities classified as partnerships for US federal income tax purposes, persons that control (directly or indirectly) 10 percent or more of our voting stock, persons that elect mark-to-market treatment, persons that hold ADSs or ordinary shares as a position in a straddle, conversion transaction, synthetic security, or other integrated financial transaction, persons who are liable for the alternative minimum tax, and persons whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date of this prospectus. These laws and practices are subject to change without notice, possibly with retrospective effect. In addition, the US statements set forth below are based on the representations of The Bank of New York Mellon as depositary (the "Depositary"). These statements assume that each obligation provided for in or otherwise contemplated by the deposit agreement entered into by and among National Grid Transco plc (now National Grid plc), the Depositary and the registered holders of ADRs pursuant to which ADSs have been issued dated as of 21 November 1995 and amended and restated as of 1 August 2005 and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the US will be treated as the owners of the underlying ordinary shares for the purposes of the US Internal Revenue Code.

A US Holder should consult its own adviser as to the tax consequences of the purchase, ownership and disposition of ADSs or ordinary shares in light of its particular circumstances, including the effect of any state, local or other national laws.

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Taxation of Dividends

Under the Tax Convention the UK is allowed to impose a 15% withholding tax on dividends paid to US shareholders controlling less than 10% of the voting capital of National Grid. The UK does not, however, currently impose a withholding tax on such dividends. If it were to impose such a tax, the treaty provides for an exemption from withholding taxes for dividends paid on shares held through a tax exempt pension fund, 401(k) plan or similar "pension scheme" as defined in the Tax Convention. The Tax Convention does not provide for refunds to be paid in respect of tax credits arising on dividends paid by UK resident companies. To obtain benefits under the Tax Convention, a US Holder must otherwise satisfy the requirements of the limitations on benefits article of the Tax Convention.

Cash distributions received by a US Holder with respect to its ADSs or ordinary shares generally will be treated as foreign source dividend income subject to US federal income taxation as ordinary income, to the extent paid out of National Grid's current or accumulated earnings and profits, as determined under US federal income tax principles. Subject to certain exceptions for short-term and hedged positions, the US dollar amount of dividends received by certain non-corporate US Holders with respect to ADSs or ordinary shares before January 1, 2013 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received with respect to ADSs or ordinary shares will be qualified dividends if National Grid (i) is eligible for the benefits of a comprehensive income tax treaty with the US that the US Internal Revenue Service ("IRS") has approved for purposes of the qualified dividend rules and (ii) was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The Tax Convention has been approved for purposes of the qualified dividend rules. Based on National Grid's audited financial statements and relevant market and shareholder data, National Grid believes that it was not treated as a PFIC for US federal income tax purposes with respect to its taxable year ending March 31, 2010. In addition, based on its unaudited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, National Grid does not anticipate becoming a PFIC for its taxable year ending March 31, 2011 or in the foreseeable future. Dividends paid by National Grid to corporate US Holders will not be eligible for the dividends received deduction generally allowed to corporations.

Taxation of Capital Gains

US Holders will not be liable for UK taxation on any capital gain realized on the disposal of ADSs or ordinary shares.

Sales or other taxable dispositions of ADSs or ordinary shares by a US Holder generally will give rise to US source capital gain or loss equal to the difference between the US dollar value of the amount realized on the disposition and the US Holder's US dollar basis in the shares or ADSs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the ordinary shares or ADSs were held for more than one year. The deductibility of capital losses is subject to limitations.

UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

Transfers of ordinary shares — SDRT at the rate of 0.5% of the amount of value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed by the execution of a duly stamped instrument of transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with the date on which the agreement is made, the SDRT liability will be cancelled, and, if a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer of such chargeable securities is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident. Purchases of ordinary shares completed by execution of a stock transfer form will generally give rise to a liability to UK stamp duty at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

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Transfers of ADSs — No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of ADSs in the form of ADRs will not give rise to a liability for SDRT. A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depositary or The Bank of New York as agent of the Depositary (the "Custodian"). The rate of stamp duty or SDRT will generally be 1.5% of either (i) in the case of an issue of ordinary shares, the issue price of the ordinary shares concerned, or (ii) in the case of a transfer of ordinary shares, the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. The Depositary will generally be liable for the stamp duty or SDRT. In accordance with the terms of the Depositary Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

US Information Reporting and Backup Withholding

Dividend payments made to holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares may be subject to information reporting to the IRS. Such payments may be subject to backup withholding taxes unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and certifies that no loss of exemption from backup withholding has occurred. Holders that are not US persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-US status in connection with payments received within the US or through a US-related financial intermediary.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

UK Inheritance Tax

An individual who is domiciled in the US for the purposes of the convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes (the "Estate Tax Convention") and who is not a national of the UK for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of the ADSs or ordinary shares on the individual's death or on a gift of the ADSs or ordinary shares during the individual's lifetime, unless the ADSs or ordinary shares are part of the business property of a permanent establishment of the individual in the UK or pertain to a fixed base in the UK of an individual who performs independent personal services. Special rules apply to ADSs or ordinary shares held in trust. In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US.

Documents on display

National Grid is subject to the filing requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports and other information with the U.S. Securities and Exchange Commission ("SEC"). These materials, including this document, may be inspected during normal business hours at our registered office 1-3 Strand, London WC2N 5EH or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. For further information about the Public Reference Room, please call the SEC at 1-800-SEC-0330. Some of our filings are also available on the SEC's website at www.sec.gov.

Item 11. *Quantitative and Qualitative Disclosures about Market Risk*

The information set forth under the headings "Financial position and financial management" on pages 70 to 77, "Treasury Policy" on page 71, "Commodity contracts" on pages 74 and 75, "Note 31 Supplementary information on derivative financial instruments" on pages 156 and 157, "Note 32 Financial risk" on pages 157 to 162, and "Note 33 Commodity risk" on pages 162 to 164 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

Item 12. *Description of Securities Other than Equity Securities Depositary Fees and Charges*

The Depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons Depositing or Withdrawing Shares Must Pay:	For:
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of

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Persons Depositing or Withdrawing Shares Must Pay:	For:
	ADSs for the purpose of withdrawal, including if the deposit agreement terminates; distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders.
$.02 or less per ADS (or a portion thereof)	Cash distributions to holders, except for distributions of cash dividends.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement); converting foreign currency to US dollars.
Taxes and other governmental charges the Depositary or the custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

Depositary Payments to the Company

The Bank of New York Mellon, as Depositary, has agreed to reimburse the Company for expenses it incurs that are related maintenance expenses of the American Depositary Receipt program. The Depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile and telephone calls. It has also agreed to reimburse the Company annually for certain investor relationship programs or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the Depositary collects from investors. From 1 April 2010 through 9 June 2011, the Company received $848,038.77 in reimbursements from the Depositary.

Any questions from ADS holders should be directed to The Bank of New York Mellon:

The Bank of New York Mellon
Shareholder Correspondence
PO Box 358516
Pittsburgh, PA 15252-8516
Telephone: 1-800-466-7215 (International +1-212-815-3700)
Email: shrrelations@mellon.com

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PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

There has been no material default in the payment of principal, interest, a sinking or purchase fund instalment or any other material default with respect to the indebtedness for or in respect of monies borrowed or raised by whatever means of the Company or any of its significant subsidiaries. There have been no arrears in the payment of dividends on, and no material delinquency with respect to, any class of preferred stock of any significant subsidiary of the Company required to be reported under this Item 13.

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

None.

Item 15. *Controls and Procedures*

A. Disclosure controls and procedures

We have carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive and Finance Director, of the effectiveness of the design and operation of our disclosure controls and procedures as of 31 March 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures provide only reasonable assurance of achieving their control objectives. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based on that evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

B. Managements' evaluation of the effectiveness of internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Our management, with the participation of the Chief Executive and Finance Director, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of 31 March 2011.

C. Independent auditor attestation

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the fiscal year ended 31 March 2011, has also audited the effectiveness of our internal control over financial reporting. The attestation report of PricewaterhouseCoopers LLP is included under Item 18 of this Form 20-F.

D. Change in internal control over financial reporting

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Item 16. *[Reserved]*

Item 16A. *Audit Committee Financial Expert*

The Board of Directors has determined that George Rose, chairman of the Company's Audit Committee, is an "audit committee financial expert" within the meaning of this Item 16A. A brief listing of Mr. Rose's relevant experience is included on page 9 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1. Mr. Rose is also "independent" within the meaning of the New York Stock Exchange listing rules.

Item 16B. *Code of Ethics*

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer or controller, and any person performing similar functions. This code is available on our website at www.nationalgrid.com, where any amendments or waivers will also be posted. There were no amendments to, or waivers under, our code of ethics in the fiscal year ended 31 March 2011.

Item 16C. *Principal Accountant Fees and Services*

PricewaterhouseCoopers LLP, independent registered public accounting firm, served as auditors of the Company for the fiscal year ended 31 March 2011.

	Year Ended March 31, 2011	Year Ended March 31, 2010
	£m	
Audit fees	7.9	8.4
Audit related fees	0.0	0.2
Tax fees	0.9	1.4
All other fees	1.8	1.0
Total	£10.6	£11.0

Subject to the Company's Articles and the Companies Act, the Audit Committee is solely and directly responsible for the approval of the appointment, re-appointment, compensation and oversight of the Company's independent auditors. It is our policy that the Audit Committee must approve in advance all non-audit work to be performed by the independent auditors.

During fiscal 2010/11, all of the above services were pre-approved by the Audit Committee.

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(1) The aggregate fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2011 and the review of interim financial statements for the six months ended 30 September 2010 were £7.9million. Fees billed by PricewaterhouseCoopers LLP for the audit of the Company's financial statements and regulatory reporting for the fiscal year ended 31 March 2010 and the review of interim financial statements for the six months ended 30 September 2009, were £8.4million.

(2) The aggregate fees billed by PricewaterhouseCoopers LLP for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed under "Audit Fees" above were £0.0 million in fiscal 2010/11 and £0.2million in fiscal 2009/10.

(3) Aggregate fees billed by PricewaterhouseCoopers LLP for tax compliance, tax advice and tax planning were £0.9 million in fiscal 2010/11 and £1.4million in fiscal 2009/10.

(4) Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2010/11 were £1.7million. Other services include fees relating to the rights issue, assurance on various systems projects and sundry services, all of which have been subject to Audit Committee approval. Aggregate fees billed by PricewaterhouseCoopers LLP for all other services in fiscal 2009/10 were £1.0million.

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Item 16D. *Exemptions from the Listing Standards for Audit Committees*

Not applicable.

Item 16E. *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The following table provides information on Ordinary Shares purchased by the Company during fiscal 2010/11:

Periods	(a). Total Number of Shares Purchased	(b). Average Price Paid per Share	(c). Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d). Maximum Number of Shares (Rounded) that May Yet Be Purchased Under the Plans or Programs

No securities were purchased by the Company during fiscal year 2010/11.

Note: At the Company's 2006 Annual General Meeting (AGM), held in July 2006, shareholder approval was given to purchase up to 10% of the ordinary shares in issue (up to 272 million shares), which approval was repeated at the Company's 2007 AGM, held in July 2007, to purchase 10% of the then issued share capital (up to 270 million shares), and again at the Company's 2008 AGM, held in July 2008, to purchase 10% of the then issued capital shares (up to 250 million shares), and again at the Company's 2009 AGM, held in July 2009, to purchase 10% of the then issued capital shares (up to 243 million shares) and again at the Company's 2010 AGM held in July 2010 to purchase 10% of the then issued capital shares per annum. The Board will seek shareholder approval to renew this authority at the next AGM in July 2011. As part of the interim results for the six months to 30 September 2006, a share buy-back programme was announced to return around \$1.9 billion (£1 billion) (based on cash flows from stranded assets under our US rate plans). The ordinary share buyback commenced on 20 November 2006 and continued pursuant to the Board's general authority as approved by the shareholders. In 2009, the Company announced its intention to suspend the share buy-back programme and as such is not currently returning stranded asset cash flows via share repurchases. On 3 April 2007 the Company announced the sale of its UK Wireless business and the return of £1.8 billion to shareholders via an extension of the existing share buy-back programme, which was completed in September 2008.

Item 16F. *Change in Registrant's Certifying Accountant*

Not applicable.

Item 16G. *Corporate Governance*

The information set forth under the heading "Corporate governance practices: difference from New York Stock Exchange (NYSE) listing standards" on page 95 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

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PART III

Item 17. *Financial Statements*

The Company has responded to Item 18 in lieu of this Item.

Item 18. *Financial Statements*

The information set forth under the headings "Accounting policies" on pages 112 to 118, "Adoption of new accounting standards" on page 119, "Consolidated balance sheet" on page 122, "Consolidated income statement" on pages 120, "Consolidated statement of comprehensive income" on page 121, "Consolidated statement of changes in equity" on page 123, "Consolidated cash flow statement" on page 124, "Notes to the consolidated financial statements — analysis of items in the primary statements" on pages 125 to 151, "Notes to the consolidated financial statements — supplementary information" on pages 152 to 176 of the Company's Annual Report and Accounts 2010/11 (in extracted form) contained in Exhibit 15.1 is incorporated herein by reference.

The report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm is presented below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of National Grid plc

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, consolidated statements of cash flow, consolidated statements of comprehensive income and, consolidated statements of changes in equity, present fairly, in all material respects, the financial position of National Grid plc and its subsidiaries at 31 March 2011 and 2010 and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European Union. Also, in our opinion the Company maintained, in all material respects, effective internal control over financial reporting as of 31 March 2011, based on criteria established in Internal Control — Integrated Framework issued by the COSO. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's evaluation of the effectiveness of internal control over financial reporting under Item 15 in this Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London
United Kingdom
18 May 2011

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Item 19. *Exhibits*

Pursuant to the rules and regulations of the SEC, National Grid has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties by the parties to them. These representations and warranties have been made solely for the benefit of the other party or parties to such agreement and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date or dates as may be specified in such agreements.

In accordance with the instructions to Item 2(b)(i) of the Instructions to Exhibits to the Form 20-F, National Grid agrees to furnish to the SEC, upon request, a copy of any instrument relating to long-term debt that does not exceed 10 percent of the total assets of National Grid and its subsidiaries on a consolidated basis.

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	Description	
1.1	Articles of Association of National Grid plc adopted by Special Resolution passed on 27 July 2009, effective 1 October 2009	Incorporated by reference
2(a)	Amended and restated Deposit Agreement dated as of 1 August 2005 among National Grid plc and The Bank of New York. (Exhibit 2 (a) to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated By Reference
2(b).1	Amended and Restated Trust Deed dated 26 July 2010 among National Grid plc, National Grid Electricity Transmission plc and the Law Debenture Trust Corporation p.l.c. relating to a €15,000,000,000 Euro Medium Term Note Programme.	Filed herewith
2(b).2	Amended and Restated Trust Deed dated 18 February 2011 among National Grid Gas plc, National Grid Gas Finance (NO 1) plc and the Law Debenture Trust Corporation p.l.c relating to a €10,000,000,000 Euro Medium Term Note Programme.	Filed herewith
4(a).1	Underwriting Agreement among National Grid plc and the underwriting banks named therein, dated as 20 May 2010. (Exhibit 4.A.1 to National Grid plc Form 20-F dated 25 May 2010 File No. 1-14958)	Incorporated by reference
4(c).1	Service Agreement among National Grid plc and Mark Fairbairn 23 January 2007. (Exhibit 4 (c).2 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).2	Service Agreement among The National Grid plc and Steven Holliday dated 1 April 2006. (Exhibit 4.(c).3 to National Grid Transco Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).3	Service Agreement among National Grid Group plc, National Grid Company plc and Steve Lucas dated 13 June 2002. (Exhibit 4.5 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).4	Service Agreement among National Grid Transco plc, National Grid Company plc and Nicholas Winser dated 28 April 2003. (Exhibit 4.8 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).5	Employment Agreement among National Grid plc, National Grid USA and Thomas King dated 11 July 2007. (Exhibit 4 (c).9 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
4(c).6	Letter of Appointment — Linda Adamany (Exhibit 4 (c).9 to National Grid plc Form 20-F dated 19 June 2007 File No. 1-14958)	Incorporated by reference
4(c).7	Letter of Appointment — Philip Aiken (Exhibit 4 (c).11 to National Grid plc Form 20-F dated 17 June 2008 File No. 1-14958)	Incorporated by reference
4(c).8.1	Letter of Appointment — John Allan (Exhibit 4.10 to National Grid Transco Form 20-F dated 15 June 2005 File No. 1-14958)	Incorporated by reference
4(c).8.2	Letter dated 7 March 2006 to John Allan relating to appointment as chairman of Remuneration Committee. (Exhibit 4 (c).8.2 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).9	Letter of Appointment — Ken Harvey (Exhibit 4.10 to National Grid	Incorporated by reference

	Transco Form 20-F dated 16 June 2004 File No. 1-14958)	
4(c).10	Letter of Appointment — Sir John Parker (Exhibit 4.12 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).11	Letter of Appointment — Stephen Pettit (Exhibit 4.13 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference

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	Description	
4(c).12	Letter of Appointment — Maria Richter (Exhibit 4.14 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).13	Letter of Appointment — George Rose (Exhibit 4.15 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).14	National Grid plc Deferred Share Plan. (Exhibit 4 (c).16 to National Grid plc Form 20-F dated 20 June 2006 File No. 1-14958)	Incorporated by reference
4(c).15	National Grid Executive Share Option Plan 2002 (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).16	National Grid Group Share Matching Plan 2002 (Exhibit 4 (c) to National Grid Group Form 20-F dated 21 June 2002 File No. 1-14958)	Incorporated by reference
4(c).17	National Grid Transco Performance Share Plan 2002 (as approved 23 July 2002 by a resolution of the shareholders of National Grid Group plc, adopted 17 October 2002 by a resolution of the Board of National Grid Group plc, amended 26 June 2003 by the Share Schemes Sub-Committee of National Grid Transco plc, and amended 5 May 2004 by the Share Schemes Sub-Committee of National Grid Transco plc) (Exhibit 4.19 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).18	National Grid Executive Share Option Scheme (Exhibit 4D to National Grid Group S-8 dated 26 July 2001 File No. 333-65968)	Incorporated by reference
4(c).19	Lattice Group Short Term Incentive Scheme (approved by a resolution of the shareholders of BG Group plc effective 23 October 2000; approved by a resolution of the Board of National Grid Transco plc on 30 April 2004; amended by resolutions of the Board of Lattice Group plc effective on 21 October 2002 and 13 May 2004) (Exhibit 4.23 to National Grid Transco Form 20-F dated 16 June 2004 File No. 1-14958)	Incorporated by reference
4(c).20	Service Agreement among The National Grid plc and Andrew Bonfield dated 1 November 2010.	Filed herewith
8	List of subsidiaries	Filed herewith
12.1	Certification of Steve Holliday pursuant to Rule 13a-14(a) of the Exchange Act.	Filed herewith
12.2	Certification of Andrew Bonfield pursuant to Rule 13a-14(a) of the Exchange Act	Filed herewith
13	Certifications of Steve Holliday and Andrew Bonfield furnished pursuant to Rule 13a-14(b) of the Exchange Act (such certifications are not deemed filed for purpose of Section 18 of the Exchange Act and not incorporated by reference in any filing under the Securities Act).	Filed herewith
15.1	National Grid plc Annual Report and Accounts 2010/11, in extracted form	Filed herewith
15.2	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm to National Grid plc	Filed herewith

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Division 33-7

Request:

Please show a calculation of the annualized revenue requirement effect (inclusive of income tax effects) associated with a 1 percent point increase in Narragansett's common equity ratio. (This calculation should be based on the approved rate base from the Commission's 2010 decision.)

Response:

The effect of a 1 percent increase in the common equity component of Narragansett's capital structure is an increase in the revenue requirement of $582,911 (inclusive of income tax effects). See Attachment DIV 33-7 (Remand). Page 3 of the attachment includes the capital structure page from Narragansett's compliance filing revenue requirement in which the common equity percentage has been increased by 1 percent from 42.75% to 43.75% and the long-term debt percentage has been decreased by 1 percent from 52.08% to 51.08%. Page 1 of the attachment is the first page of the compliance revenue requirement adjusted to reflect this 1 percent change. Page 2 reflects the original unadjusted first page from the compliance revenue requirement.

Prepared by or under the supervision of: Michael Laflamme

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4065
In re: Remand 2012 – Capital Structure
Responses to Division's Thirty-Third Set of Data Requests
Attachment DIV 33-7 (Remand)

The Narragansett Electric Company
d/b/a National Grid
Docket No. R.I.P.U.C. 4065
Schedule NG-RLO-2 (C) - 2nd Amended

The Narragansett Electric Company, d/b/a National Grid
Pro-Forma Income Statement
Revenue Requirement For The Twelve Months Ended December 31, 2010

Line No.	Description	Factor or Reference	Total Company Per Books 12/31/2008	Known & Measurable Adjustments 1/	Integrated Facilities Agreement 1/	Adjusted Per Books 12/31/2008	Pro Forma Adjustments	Adjusted Pro Forma	Rate Increase Effect	Adjusted Pro Forma with Rate Increase
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Operating Revenues:									
2	Distribution Revenue		$ 219,646,991	-	-	$ 219,646,991	$ (4,103,999)	$ 215,542,992	$ 15,519,175	$ 231,062,167
3	Commodity Cost Tracker		-	-	-	-	-	-	6,059,653	6,059,653
4	Transmission-Related Uncollectibles		-	-	-	-	-	-	1,057,885	1,057,885
5	Other Revenue		7,353,188	-	-	7,353,188	325,967	7,679,155	-	7,679,155
6	Total Operating Revenue	Sum L 2 to L 5	227,000,179	-	-	227,000,179	(3,778,032)	223,222,147	22,636,713	245,858,860
7										
8	Less: Commodity Cost Tracker							-	(6,059,653)	(6,059,653)
9	Less: Transmission-Related Uncollectbiles							-	(1,057,885)	(1,057,885)
10	Net Distribution Revenue	Sum L 6 to L 9	$ 227,000,179	$ -	$ -	$ 227,000,179	$ (3,778,032)	$ 223,222,147	$ 15,519,175	$ 238,741,322
11										
12	Operating Expenses:									
13	Purchased Power		$ 778,825,294	$ (778,787,347)	$ -	$ 37,947	$ -	$ 37,947	$ -	$ 37,947
14	Transmission O&M - Wheeling Costs - NEP		89,399,588	(89,399,588)	-	-	-	-		-
15	Transmission O&M - Integrated Facilities Agreement		(34,574,785)	-	34,574,785	-	-	-		-
16	Energy Efficiency O&M		14,286,213	(14,286,213)	-	-	-	-		-
17	Other Operation & Maintenance Expenses		121,343,323	632,356	(2,933,322)	119,042,357	(2,474,772)	116,567,585		116,567,585
18	Uncollectible Expense		12,748,167	(10,190,141)	-	2,558,026	(38,930)	2,519,096	145,880	2,664,977
19	Uncollectible Expense - Transmission		-	1,175,222	-	1,175,222	(117,337)	1,057,885		1,057,885
20	Commodity Cost Tracker		-	8,631,242	-	8,631,242	(2,571,589)	6,059,653		6,059,653
21	Donations		-	548,593	-	548,593	-	548,593		548,593
22	Pension and OPEB cost Recovery (R.I.P.U.C. Dkt No. 3617)		2,511,132	-	-	2,511,132	-	2,511,132		2,511,132
23	Environmental Response Fund		3,078,000	-	-	3,078,000	-	3,078,000		3,078,000
24	Merger Related Cost to Achieve		3,631,835	(3,631,835)	-	-	924,000	924,000		924,000
25	Depreciation		44,263,078	-	(5,079,304)	39,183,774	1,594,351	40,778,125		40,778,125
26	Municipal Tax		21,964,503	-	(4,005,081)	17,959,422	1,246,429	19,205,851		19,205,851
27	Payroll Tax		3,515,111	(9,100)	(167,087)	3,338,924	281,735	3,620,659		3,620,659
28	Other Taxes		274,629	-	-	274,629	-	274,629		274,629
29	Remove Commodity Cost Tracker		-	-	-	-	(6,059,653)	(6,059,653)		(6,059,653)
30	Remove Uncollectible Expense - Transmission		-	-	-	-	(1,057,885)	(1,057,885)		(1,057,885)
31	Gross Receipts Tax (GRT)		43,330,773	(43,330,773)	-	-	-	-		-
32	Amortization of Investment Tax Credit		(591,556)	487,749	103,807	-	-	-		-
33	Amortization of Loss on Reacquired Debt		831,808	-	(145,589)	686,219	-	686,219		686,219
34	Interest on Customer Deposits		75,229	-	-	75,229	-	75,229		75,229
35	Estimated NGRID/KeySpan Transaction Synergies		-	-	-	-	(6,200,000)	(6,200,000)		(6,200,000)
36	Company Share of Net Synergies		-	-	-	-	3,250,000	3,250,000		3,250,000
37	Federal & Deferred Income Tax		-	-	-	3,956,796 2/	2,599,912	6,556,708 2/	5,380,653	11,937,361
38										
39	Total Operating Expenses	Sum L 13 to L 37				$ 203,057,512	$ (8,623,739)	$ 194,433,773	$ 5,526,533	$ 199,960,306
40										
41	Net Operating Income	L 10 - L 39				$ 23,942,667	$ 4,845,707	$ 28,788,374	$ 9,992,642	$ 38,781,016
42										
43	Rate Year Rate Base	Page 30, L 22 , C (c)				$ 550,257,587	$ 609,119	$ 550,866,706		$ 550,866,706
44										
45	Earned Return for Rate Year	L 41 / L 43				4.35%		5.23%		
46	Rate Year Required Rate of Return	Page 39, L 9, C (c)						7.04%		7.04%
47	Rate of Return Deficiency	L 46 - L 45						1.81%		
48										
49	Net Operating Income Deficiency	L 43 * L 47						$ 9,992,642		
50										
51	Gross Revenue Conversion Factor							1.55306031		
52										
53	Revenue Increase Required	L 49 * L 51						$ 15,519,175		
54										

55 1/ Known and Measurable Operating Expense Adjustments and Integrated Facilites Expense Adjustments (IFA) from Page 2 and 3.

56 2/ Calculated based on pre-tax operating income less imputed interest deduction equal to imputed long-term and short-term capitalization ratios and costs as applied to Test Year rate base. Also includes flow-through of the Medicare Reimbursement Act deduction, an addition for an unfunded DIT catch-up and a tax credit for amortization of ITC.

The Narragansett Electric Company, d/b/a National Grid
Pro-Forma Income Statement
Revenue Requirement For The Twelve Months Ended December 31, 2010

Line No.	Description	Factor or Reference	Total Company Per Books 12/31/2008	Known & Measurable Adjustments 1/	Integrated Facilities Agreement 1/	Adjusted Per Books 12/31/2008	Pro Forma Adjustments	Adjusted Pro Forma	Rate Increase Effect	Adjusted Pro Forma with Rate Increase
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Operating Revenues:									
2	Distribution Revenue		$ 219,646,991	-	-	$ 219,646,991	$ (4,103,999)	$ 215,542,992	$ 15,519,175	$ 231,062,167
3	Commodity Cost Tracker		-	-	-	-	-	-	6,059,653	6,059,653
4	Transmission-Related Uncollectibles		-	-	-	-	-	-	1,057,885	1,057,885
5	Other Revenue		7,353,188	-	-	7,353,188	325,967	7,679,155	-	7,679,155
6	Total Operating Revenue	Sum L 2 to L 5	227,000,179	-	-	227,000,179	(3,778,032)	223,222,147	22,636,713	245,858,860
7										
8	Less: Commodity Cost Tracker							-	(6,059,653)	(6,059,653)
9	Less: Transmission-Related Uncollectbiles							-	(1,057,885)	(1,057,885)
10	Net Distribution Revenue	Sum L 6 to L 9	$ 227,000,179	$ -	$ -	$ 227,000,179	$ (3,778,032)	$ 223,222,147	$ 15,519,175	$ 238,741,322
11										
12	Operating Expenses:									
13	Purchased Power		$ 778,825,294	$ (778,787,347)	$ -	$ 37,947	$ -	$ 37,947	$ -	$ 37,947
14	Transmission O&M - Wheeling Costs - NEP		89,399,588	(89,399,588)	-	-	-	-		-
15	Transmission O&M - Integrated Facilities Agreement		(34,574,785)	-	34,574,785	-	-	-		-
16	Energy Efficiency O&M		14,286,213	(14,286,213)	-	-	-	-		-
17	Other Operation & Maintenance Expenses		121,343,323	632,356	(2,933,322)	119,042,357	(2,474,772)	116,567,585		116,567,585
18	Uncollectible Expense		12,748,167	(10,190,141)	-	2,558,026	(38,930)	2,519,096	145,880	2,664,977
19	Uncollectible Expense - Transmission		-	1,175,222	-	1,175,222	(117,337)	1,057,885		1,057,885
20	Commodity Cost Tracker		-	8,631,242	-	8,631,242	(2,571,589)	6,059,653		6,059,653
21	Donations		-	548,593	-	548,593	-	548,593		548,593
22	Pension and OPEB cost Recovery (R.I.P.U.C. Dkt No. 3617)		2,511,132	-	-	2,511,132	-	2,511,132		2,511,132
23	Environmental Response Fund		3,078,000	-	-	3,078,000	-	3,078,000		3,078,000
24	Merger Related Cost to Achieve		3,631,835	(3,631,835)	-	-	924,000	924,000		924,000
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28	Other Taxes		274,629	-	-	274,629	-	274,629		274,629
29	Remove Commodity Cost Tracker		-	-	-	-	(6,059,653)	(6,059,653)		(6,059,653)
30	Remove Uncollectible Expense - Transmission		-	-	-	-	(1,057,885)	(1,057,885)		(1,057,885)
31	Gross Receipts Tax (GRT)		43,330,773	(43,330,773)	-	-	-	-		-
32	Amortization of Investment Tax Credit		(591,556)	487,749	103,807	-	-	-		-
33	Amortization of Loss on Reacquired Debt		831,808	-	(145,589)	686,219	-	686,219		686,219
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35	Estimated NGRID/KeySpan Transaction Synergies		-	-	-	-	(6,200,000)	(6,200,000)		(6,200,000)
36	Company Share of Net Synergies		-	-	-	-	3,250,000	3,250,000		3,250,000
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42										
43	Rate Year Rate Base	Page 30, L 22 , C (c)				$ 550,257,587	$ 609,119	$ 550,866,706		$ 550,866,706
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45	Earned Return for Rate Year	L 41 / L 43				4.35%		5.23%		
46	Rate Year Required Rate of Return	Page 39, L 9, C (c)						7.04%		7.04%
47	Rate of Return Deficiency	L 46 - L 45						1.81%		
48										
49	Net Operating Income Deficiency	L 43 * L 47						$ 9,992,642		
50										
51	Gross Revenue Conversion Factor							1.55306031		
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53	Revenue Increase Required	L 49 * L 51						$ 15,519,175		
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The Narragansett Electric Company, d/b/a National Grid
Pro Forma Income Statement
Capital Structure and Rate of Return

Line No.	Description	Capital Structure (a)	Cost Rate (b)		Weighted Return (c)	Taxes (d)	Pre-tax Return (e)
1	Long Term Debt	51.08%	5.298%	1/	2.71%		2.71%
2							
3	Short Term Debt	4.98%	1.600%		0.08%		0.08%
4							
5	Preferred Stock	0.19%	4.500%		0.01%		0.01%
6							
7	Total Common Equity	43.75%	9.800%		4.29%	2.31%	6.60%
8							
9	Total Capitalization	100.00%			7.09%	2.31%	9.40%

1/ Actual long term debt rate following Company's $550 million long term debt issuance, as filed with the R.I.P.U.C. on April 16, 2010.

Division 33-8

Request:

Please state Narragansett's plans or expectations for issuing new long-term debt in 2012.

Response:

Narragansett plans to issue new long-term debt to term out its existing short-term debt in 2012.

Prepared by or under the supervision of: Mustally Hussain

Division 33-9

Request:

Please provide Narragansett's SEC 10-K and any annual report to investors for the year 2011 when available

Response:

Narragansett's 2011 financial statements are not yet finalized; therefore, Narragansett's SEC 10-K and annual report for the year 2011 are not yet finalized. The Company will provide them as soon as they are available.

Prepared by or under the supervision of: Mustally Hussain

Division 33-10

Request:

If Narragansett has a more equity rich capital structure than its consolidated parent or ultimate parent, (a) please explain the business reasons why this more equity rich capital structure is justified; and (b) please explain how this capital structure difference benefits Rhode Island customers.

Response:

As noted in the Company's response to Data Request Division 33-4, as of December 31, 2011, Narragansett's capital structure reflected an equity ratio of 49.6 percent. The Company's ultimate parent, National Grid plc, publishes its financial statements as of March 31 each year. As provided in the Company's response to Data Request Commission 18-2 (see Attachment 18-2), as of March 31, 2011, National Grid plc's capital structure included an equity ratio of 51.1 percent common equity. On the basis of the most recently reported data, therefore, Narragansett's capital structure has less equity than that of its ultimate parent.

While the Company's reported capital structure has less equity than its ultimate parent as of those dates, it is important to recognize the difference in timing. In that regard, the Company is not suggesting that Narragansett necessarily will have less equity than its parent at all times. As discussed in the Company's response to Data Request Commission 18-2, however, the relevant issue in determining both the source and cost of capital is the nature of the assets being financed and the comparative risk associated with those investments. In that regard, Narragansett believes that, consistent with R.I.G.L.§39-1-27.7.1 (*see* Response to Commission 18-2), the ratemaking capital structure should be within the bounds of industry norms, and should support the Company's financial health on a stand-alone basis.

Prepared by or under the supervision of: Mustally Hussain

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.

______________________________ February 22, 2012

Joanne M. Scanlon Date

National Grid (NGrid) – Request for Change in Electric Distribution Rates
Docket No. 4065 – Updated Service List 2/1/12

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