nationalgrid

Brooklyn Union Gas Company d/b/a National Grid New York

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

To the Shareholders and Board of Directors
of Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Union Gas Company at March 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 16, 2014

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BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating revenues	**$ 1,623,886**	$ 1,423,150
Operating expenses:		
Purchased gas	**662,944**	535,220
Operations and maintenance	**447,294**	371,554
Depreciation and amortization	**83,192**	84,058
Other taxes	**200,689**	193,853
Total operating expenses	**1,394,119**	1,184,685
Operating income	**229,767**	238,465
Other income and (deductions):		
Interest on long-term debt	**(49,022)**	(50,215)
Other interest, including affiliate interest	**(5,984)**	(8,662)
Equity investments in unconsolidated subsidiaries	**16,439**	19,416
Other income (deductions), net	**(1,245)**	9,058
Total other deductions, net	**(39,812)**	(30,403)
Income before income taxes	**189,955**	208,062
Income tax expense	**80,701**	84,460
Net income	**$ 109,254**	$ 123,602

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Net income	**$ 109,254**	$ 123,602
Other comprehensive income:		
Unrealized gains on marketable securities from equity investment, net of $208 and $52 tax expense	**298**	76
Total other comprehensive income	**298**	76
Comprehensive income	**$ 109,552**	$ 123,678

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating activities:		
Net income	**$ 109,254**	$ 123,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**83,192**	84,058
Regulatory amortizations	**38,289**	16,172
Provision for deferred income taxes	**61,363**	82,016
Bad debt expense	**3,266**	13,163
Income from equity investments, net	**(919)**	(1,956)
Allowance for equity funds used during construction	**(1,678)**	(1,334)
Amortization of debt discount	**2,280**	2,492
Net postretirement benefits contributions	**(20,873)**	(29,912)
Net environmental remediation payments	**(27,698)**	(47,858)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(118,456)**	(180,188)
Inventory	**5,057**	31,563
Regulatory assets and liabilities, net	**(24,316)**	39,709
Derivative contracts	**(4,109)**	7,097
Prepaid and accrued taxes	**(16,313)**	14,599
Accounts payable and other liabilities	**24,173**	26,506
Other, net	**(3,752)**	(5,680)
Net cash provided by operating activities	**108,760**	174,049
Investing activities:		
Capital expenditures	**(249,999)**	(174,506)
Proceeds from sale of assets	**13,877**	-
Affiliated money pool investing and receivables/payables, net	**(2,945)**	(18,038)
Cost of removal	**(27,495)**	(22,560)
Insurance proceeds applied to capital expenditures	**2,830**	3,635
Other	**(50)**	-
Net cash used in investing activities	**(263,782)**	(211,469)
Financing activities:		
Dividends to Parent	**-**	(110,000)
Affiliated money pool borrowing and receivables/payables, net	**164,488**	60,855
Parent loss tax allocation	**-**	5,036
Net cash provided by (used in) financing activities	**164,488**	(44,109)
Net change in cash and cash equivalents	**9,466**	(81,529)
Cash and cash equivalents, beginning of year	**17,433**	98,962
Cash and cash equivalents, end of year	**$ 26,899**	$ 17,433
Supplemental disclosures:		
Interest paid	$ 61,303	$ 48,387
Income taxes (refunded from)/paid to Parent	(6,130)	8,690
State income taxes paid	17,021	3,040
Significant non-cash item:		
Capital-related accruals included in accounts payable	21,445	15,058

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 26,899**	$ 17,433
Accounts receivable	**450,120**	373,380
Allowance for doubtful accounts	**(29,120)**	(43,231)
Other receivable	**19,005**	25,122
Accounts receivable from affiliates	**12,349**	45,730
Intercompany money pool	**79,993**	77,021
Unbilled revenues	**123,093**	104,525
Inventory	**55,373**	59,450
Regulatory assets	**77,176**	64,492
Derivative contracts	**3,171**	4,674
Current portion of deferred income tax assets	**-**	10,751
Prepaid taxes	**39,898**	34,545
Other	**15,776**	20,585
Total current assets	**873,733**	794,477
Equity investments	**76,905**	75,480
Property, plant, and equipment, net	**2,914,454**	2,714,286
Other non-current assets:		
Regulatory assets	**1,074,337**	1,056,361
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**7,124**	466
Other	**21,817**	18,530
Total other non-current assets	**2,554,419**	2,526,498
Total assets	**$ 6,419,511**	$ 6,110,741

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 103,098**	$ 90,144
Accounts payable to affiliates	**132,074**	231,672
Intercompany money pool	**337,371**	106,639
Customer deposits	**31,961**	34,716
Taxes accrued	**8,344**	20,111
Interest accrued	**12,055**	20,054
Regulatory liabilities	**42,543**	29,466
Derivative contracts	**8,429**	6,429
Current portion of deferred income tax liabilities	**6,533**	-
Other	**41,588**	34,465
Total current liabilities	**723,996**	573,696
Other non-current liabilities:		
Regulatory liabilities	**397,028**	381,192
Asset retirement obligations	**12,205**	11,514
Postretirement benefits	**104,585**	141,919
Environmental remediation costs	**532,123**	503,928
Derivative contracts	**3,831**	4,785
Deferred income tax liabilities	**781,677**	737,989
Other	**73,617**	74,821
Total other non-current liabilities	**1,905,066**	1,856,148
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,749,949**	2,640,397
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,790,449**	3,680,897
Total liabilities and capitalization	**$ 6,419,511**	$ 6,110,741

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			**$ 2,749,949**	$ 2,640,397
Long-term debt:	Interest Rate	Maturity Date		
Notes payable - Senior Unsecured Note	5.60%	November 29, 2016	**400,000**	400,000
Gas facilities revenue bonds:				
1993A and 1993B	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996	5.50%	January 1, 2021	**153,500**	153,500
2005A	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
			640,500	640,500
Long-term debt			**1,040,500**	1,040,500
Total capitalization			**$ 3,790,449**	$ 3,680,897

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Equity Investments	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ -**	**$ -**	**$ 2,609,759**	**$ (486)**	**($486)**	**$ 12,410**	**$ 2,621,683**
Net income	-	-	-	-	-	123,602	123,602
Other comprehensive income:							
Unrealized gains on marketable securities from equity investment, net of $52 tax expense	-	-	-	76	76	-	76
Total comprehensive income							123,678
Parent loss tax allocation	-	-	5,036	-	-	-	5,036
Dividends to Parent	-	-	-	-	-	(110,000)	(110,000)
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 2,614,795**	**$ (410)**	**$ (410)**	**$ 26,012**	**$ 2,640,397**
Net income	-	-	-	-	-	109,254	109,254
Other comprehensive income:							
Unrealized gains on marketable securities from equity investment, net of $208 tax expense	-	-	-	298	298	-	298
Total comprehensive income							109,552
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 2,614,795**	**$ (112)**	**$ (112)**	**$ 135,266**	**$ 2,749,949**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2014 and 2013.

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

BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company") distributes natural gas to approximately 959,000 retail customers and transports natural gas to approximately 264,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company owns a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control is 20.4%. Because this interest provides KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounts for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate is included as equity investments in unconsolidated subsidiaries in the consolidated statements of income.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities for the regulated business of the Company. The consolidated financial statements reflect the rate-making practices of the applicable regulatory authorities as applicable. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through August 16, 2014, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the consolidated statements of income consistent with the treatment of the related costs in the ratemaking process. Iroquois' transmission assets are regulated by the Federal Energy Regulatory Commission and its rates are filed with the Commission.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2014 and 2013 were $54.8 million and $43.7 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying consolidated financial statements.

Income Taxes

Federal and state 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 consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the consolidated financial statements when it is more likely than not that the position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. The allowance is determined based on a variety of factors, including for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. In prior years, the estimate placed a higher emphasis on write off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach resulted in a decrease of approximately $14.3 million in the reserve. The collectability of receivables is continuously assessed, and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2014 or 2013.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers, the cost of gas purchased along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $13.4 million and $10.2 million and gas in storage of $42.0 million and $49.3 million at March 31, 2014 and 2013, respectively.

Derivatives

The Company uses derivative instruments for commodity price risk management. All derivative contracts are recorded on the accompanying consolidated balance sheets at their fair value. Commodity costs, including derivative contracts, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from customers consistent with regulatory requirements.

The Company's accounting policy is to present on a gross basis, fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement. The related cash collateral is recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2014 or 2013.

Fair Value Measurements

The Company measures derivatives at fair value. 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:

- 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; and
- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for each of the years ended March 31, 2014 and 2013 was 2.6%. The average service lives for each of the years ended March 31, 2014 and 2013 was 54 years.

Depreciation expense includes a component for estimated future cost of removal which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $181.3 million and $178.9 million at March 31, 2014 and 2013, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated statements of income as non-cash income in other income (deductions), net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.7 million and $1.3 million and AFUDC related to debt of $1.2 million and $0.6 million for the years ended March 31, 2014 and 2013 respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 3.2% and 6.4% respectively.

Goodwill

The Company tests goodwill for impairment annually on January 31, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2014 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2014 to March 31, 2019; (b) a discount rate of 5.5%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 10.0, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2014 or 2013.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 11,514**	$ 10,862
Accretion expense	**691**	652
Balance as of the end of the year	**$ 12,205**	$ 11,514

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans ("Pension Plans") and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the Pension plans' and PBOP plan's funded status in the consolidated balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Pension Plans' and PBOP plan's assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board ("FASB") issued amendments to address and clarify the scope of the disclosures related to offsetting assets and liabilities. Under the amendments, reporting entities are required to disclose both gross and net information about instruments and transactions eligible for offset in the consolidated statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement, such as for derivatives. The instruments and activities subject to these disclosures are recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. The Company adopted this guidance effective April 1, 2013, which only impacted its disclosures.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued amendments to address diversity in practice related to the presentation of unrecognized tax benefits in certain situations. The amendments require a liability related to an unrecognized tax benefit to be presented on a net basis with its associated deferred tax asset when utilization of such deferred tax assets is required or expected in the event the uncertain tax position is disallowed. Otherwise, the unrecognized tax benefit will be presented as a liability and will not be netted against deferred tax assets. The Company early adopted this guidance effective April 1, 2013 with no material impact on its financial position, results of operations or cash flows.

Financial Statement Revisions

During 2014, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by revising the prior period financial statements, the impacts of which are described below.

Historically, the Company has calculated its capital tracker regulatory asset using its weighted average cost of capital ("WACC"), and carrying charges on regulatory assets using its AFUDC rate. WACC and AFUDC have both a debt and equity component. Accounting standards allow for the capitalization of all or part of an incurred cost that would otherwise be charged to expense if the regulator's actions create probable recovery of those costs through future rates. Because the equity component of a WACC or an AFUDC rate is not an incurred cost that would otherwise be charged to expense, accounting guidance for rate regulated activities does not allow for the capitalization of such equity amounts, and thus, the equity component should not have been included in the Company's capital tracker and carrying charges calculation.

A cumulative adjustment of $30.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $34.7 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $3.8 million was recorded as an increase to net income within operations and maintenance expense and other income and deductions for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these corrections. This adjustment also resulted in a decrease of $49.5 million in non-current regulatory assets, a decrease of $1.8 million in non-current regulatory liabilities and a decrease of $19 million in deferred income tax liabilities as of March 31, 2013.

In addition, during 2013, the Company incorrectly determined the balance of capital related accruals included in accounts payable in calculating it's cash flows for the year, resulting in an overstatement of net cash provided by operating activities, and net cash used in investing activities. The Company recorded an adjustment of $14.5 million to net cash used in investing activities and $14.5 million to net cash provided by operating activities for the year ended March 31, 2013 related to this correction.

Further, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $8.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $5.4 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $3.5 million was

recorded as an increase to net income for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these items.

The following table shows the amounts previously reported as revised:

	As Previously Reported[i]	Adjustments	As Revised
	(in thousands of dollars)		
	March 2013		March 2013
Consolidated Statement of Income			
Operating revenues	$ 1,432,308	$ (9,158)	$ 1,423,150
Operating income	248,297	(9,832)	238,465
Other deductions, net	(48,466)	18,063	(30,403)
Income before income taxes	199,831	8,231	208,062
Income tax expense	83,474	986	84,460
Net income	116,357	7,245	123,602
Consolidated Statement of Cash Flows			
Net income	$ 116,357	$ 7,245	$ 123,602
Net cash provided by operating activities	188,452	(14,403)	174,049
Net cash used in investing activities	(226,703)	15,234	(211,469)
Net cash used in financing activities	(43,496)	(613)	(44,109)
Capital-related accruals included in accounts payable	548	14,510	15,058

	As Previously Reported [i]	Adjustments	As Revised
	(in thousands of dollars)		
	March 2013		March 2013
Consolidated Balance Sheet			
Total current assets	793,427	1,050	794,477
Property, plant, and equipment, net	2,717,226	(2,940)	2,714,286
Total other non-current assets	2,576,553	(50,055)	2,526,498
Total current liabilities	574,684	(988)	573,696
Total other non-current liabilities	1,886,051	(29,903)	1,856,148
Additional paid in capital	2,613,764	1,031	2,614,795
Retained Earnings			
March 31, 2013	48,096	(22,084)	26,012
March 31, 2012	41,739	(29,329)	12,410

(i) During 2014 the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the rate-making process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

	March 31,	
	2014	2013 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Cost to achieve	**$ 6,425**	$ 6,425
Derivative contracts	**8,429**	6,429
Environmental response costs	**30,973**	30,973
Gas cost adjustment	**17,252**	-
Postretirement benefits	**11,832**	11,832
Revenue decoupling mechanism	**-**	3,803
Other	**2,265**	5,030
Total	**77,176**	64,492
Non-current:		
Capital tracker	**26,482**	26,474
Derivative contracts	**3,831**	4,785
Environmental response costs	**687,109**	659,380
Postretirement benefits	**268,878**	297,171
Property taxes	**16,481**	7,047
Regulatory deferred tax assets	**2,325**	11,529
Other	**69,231**	49,975
Total	**1,074,337**	1,056,361
Regulatory liabilities:		
Current:		
Derivative contracts	**3,171**	4,674
Gas cost adjustment	**-**	20,057
Revenue decoupling mechanism	**6,136**	-
Temporary state assessment	**32,751**	4,380
Other	**485**	355
Total	**42,543**	29,466
Non-current:		
Carrying charges	**3,241**	8,359
Cost of removal	**181,329**	178,926
Delivery rate adjustment	**44,974**	44,974
Derivative contracts	**7,124**	466
Energy efficiency	**41,100**	35,365
Excess earnings	**88,082**	88,082
Other	**31,178**	25,020
Total	**397,028**	381,192
Net regulatory assets	**$ 711,942**	$ 710,195

Capital Tracker: During the primary term of the rate plan (2008–2012), the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company deferred the full revenue requirement equivalent of CSC expenditures above or below the CSC rate as well as the full revenue requirement equivalent of amounts below the rate allowance for all other capital expenditures. Beginning January 1, 2013, the Capital Tracker was replaced by a Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("NUP Tracker"). The NUP tracker requires the Company to reconcile its annual actual average net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. If the cumulative two year actual net utility plant and depreciation expense revenue requirement are below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Cost to achieve: Represents deferred costs incurred to achieve merger savings related to the 2007 acquisition of KeySpan by NGUSA.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets (Delivery Rate Surcharge) of $5.0 million beginning January 1, 2008, which increased incrementally by $5.0 million in rate years two through five; aggregating to a total of approximately $75.0 million over the term of the rate agreement. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $25.0 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances.

Derivative assets and liabilities: Gains or losses resulting from commodity derivatives are required to be refunded to or recovered from customers through the gas cost adjustment. Accordingly, the Company evaluates open derivative contracts to determine if they are probable of recovery or refund through future rates charged to customers and qualify for regulatory deferral. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: This amount represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of its energy efficiency programs as approved by the NYPSC.

Environmental response costs: This regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). During the primary term of the rate plan (2008-2012), if the level of earned common equity in the applicable rate year exceeded 10.5%, the Company was required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, the threshold for earnings sharing was reduced from 10.5% to 9.4% and the sharing mechanism is calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

Gas cost adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods, and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a 10-year period ending August 2017, and the non-cash accrual of net actuarial gains and losses.

Property taxes: The regulatory assets and liabilities represent 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from or refund to the Company's customers.

Regulatory deferred tax asset: This amount represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flowthrough accounting treatment and state tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to or collected from customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company expects to address the amortization period of the regulatory asset created by the New York state rate change in the next rate case.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2014, the Company over-collected on these costs. The Company is required to net any deferred over-collection amounts against the amount to be collected in fiscal year 2014 and 2015 as well as the first payment relating to fiscal year 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative contracts and regulatory tax balances) where cash expenditures have been made and are subject to recovery, or for where cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

On June 13, 2013, the NYPSC approved a rate plan extension covering the Company's 2013 and 2014 rate years. The Company's revenue requirements for both years have been modified as follows: (i) there is no change in base delivery rates, other than those previously approved by the NYPSC in the rate plan extension, (ii) the allowed ROE decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure increased from 45% to 48%.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of National Grid's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On May 23, 2014, a Joint Proposal between National Grid and the Staff of the Department of Public Service was filed for NYPSC approval that resolves all financial and rate issues arising from or related to the audit, and a $13.3 million regulatory liability was recorded. At the time of the issuance of these financial statements, the NYPSC had yet to issue its approval.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013. At the time of issuance of the consolidated financial statements, the Company cannot predict the outcome of this audit.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland Consulting to conduct the audit, which commenced in February 2014. At the time of the issuance of these consolidated financial statements, the Company cannot predict the outcome of this audit.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2014	2013 (Revised)
	(in thousands of dollars)	
Plant and machinery	**$ 3,523,161**	$ 3,369,349
Land and buildings	**174,708**	163,511
Assets in construction	**200,583**	122,271
Software and other intangibles	**124,399**	124,387
Total property, plant and equipment	**4,022,851**	3,779,518
Accumulated depreciation and amortization	**(1,108,397)**	(1,065,232)
Property, plant and equipment, net	**$ 2,914,454**	$ 2,714,286

6. DERIVATIVE CONTRACTS

The Company utilizes derivative instruments, such as gas purchase contracts, gas swap contracts and gas option contracts to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities, only in commodities and financial markets where it has an exposure to, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") are as follows:

	March 31,	
	2014	2013
	(in thousands)	
Physical contracts:		
Gas purchase contracts (dths)	**22,310**	8,721
Financial contracts:		
Gas swap contracts (dths)	**13,732**	19,174
Gas option contracts (dths)	**9,350**	1,750
Total	**45,392**	29,645

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives		
	March 31,			March 31,		
	2014	2013		**2014**	2013	
	(in thousands of dollars)			*(in thousands of dollars)*		
Current assets:			Current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas purchase contracts	**509**	$ 1,992	Gas purchase contracts	**$ 4,744**	$ 1,988	
Gas swap contracts	**1,757**	2,213	Gas swap contracts	**3,432**	4,436	
Gas option contracts	**905**	469	Gas option contracts	**253**	5	
	3,171	4,674		**8,429**	6,429	
Other non-current assets:			Non-current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas purchase contracts	**7,124**	466	Gas purchase contracts	**3,831**	4,785	
	7,124	466		**3,831**	4,785	
Total	**$ 10,295**	$ 5,140	Total	**$ 12,260**	$ 11,214	

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The Company's credit exposure for all derivative instruments, applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was a liability of $3.2 million and $7.6 million as of March 31, 2014 and 2013, respectively.

The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $4.1 million and $4.0 million, respectively. The Company had no collateral posted for these instruments at March 31, 2014 or 2013. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $4.4 million and $4.1 million additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas purchase contracts	$ 7,633	$ -	$ 7,633	-	$ -	$ 7,633
Gas swap contracts	1,757	-	1,757	-	-	1,757
Gas option contracts	905	-	905	-	-	905
Total	$ 10,295	$ -	$ 10,295	$ -	$ -	$ 10,295

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas purchase contracts	$ (8,575)	$ -	$ (8,575)	$ -	$ -	$ (8,575)
Gas swap contracts	(3,432)	-	(3,432)	-	-	(3,432)
Gas option contracts	(253)	-	(253)	-	-	(253)
Total	$ (12,260)	$ -	$ (12,260)	$ -	$ -	$ (12,260)

March 31, 2013
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas purchase contracts	$ 2,458	$ -	$ 2,458	$ -	$ -	$ 2,458
Gas swap contracts	2,213	-	2,213	-	-	2,213
Gas option contracts	469	-	469	-	-	469
Total	$ 5,140	$ -	$ 5,140	$ -	$ -	$ 5,140

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas purchase contracts	$ (6,773)	$ -	$ (6,773)	$ -	$ -	$ (6,773)
Gas swap contracts	(4,436)	-	(4,436)	-	-	(4,436)
Gas option contracts	(5)	-	(5)	-	-	(5)
Total	$ (11,214)	$ -	$ (11,214)	$ -	$ -	$ (11,214)

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and 2013:

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas purchase contracts	$ -	$ 34	$ 7,599	$ 7,633
Gas swap contracts	-	1,757	-	1,757
Gas option contracts	-	-	905	905
Total	-	1,791	8,504	10,295
Liabilities:				
Derivative contracts				
Gas purchase contracts	-	107	8,468	8,575
Gas swap contracts	-	3,432	-	3,432
Gas option contracts	-	-	253	253
Total	-	3,539	8,721	12,260
Net liabilities	$ -	$ (1,748)	$ (217)	$ (1,965)

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas purchase contracts	$ -	$ 127	$ 2,331	$ 2,458
Gas swap contracts	-	2,213	-	2,213
Gas option contracts	-	-	469	469
Total	-	2,340	2,800	5,140
Liabilities:				
Gas purchase contracts	-	76	6,697	6,773
Gas swap contracts	-	4,436	-	4,436
Gas option contracts	-	-	5	5
Total	-	4,512	6,702	11,214
Net liabilities	$ -	$ (2,172)	$ (3,902)	$ (6,074)

Derivative Contracts: The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. 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 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas purchase contracts and gas option contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (3,902)**	$ (5,186)
Total gains or losses included in regulatory assets and liabilities	**5,209**	(721)
Settlements	**(1,524)**	2,005
Balance as of the end of the year	**$ (217)**	$ (3,902)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2014 or 2013.

The following table provides information about the Company's Level 3 valuations:

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
Physical (A)							
Gas	Gas Purchase Contract	$ 7,385	$ (8,468)	$ (1,083)	Discounted Cash Flow	Forward Curve (A)	$2.434 - $17.310/Dth
Gas/Power	Cross Commodity Contract	214		214	Discounted Cash Flow	Forward Curve	$50.93 - $98.98/Dth
Financial							
Gas	Gas Option Contract	905	(253)	652	Discounted Cash Flow	Implied Volatility	29% - 31%
	Total	$ 8,504	$ (8,721)	$ (217)			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to the peaking gas deals based on the forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $1.2 billion.

All other financial instruments in the accompanying consolidated balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides 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.

During the years ended March 31, 2014 and 2013, the Company made contributions of approximately $45.6 million and $50.2 million to the Plans.

Plan assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in them. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying balance sheets. Pension and PBOP expense is included in operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 704,169**	$ 892,701
PBOP	**916,706**	1,339,788
	$ 1,620,875	$ 2,232,489

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 15,634**	$ 15,407
PBOP	**19,186**	19,207
	$ 34,820	$ 34,614

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying consolidated statements of income of $1.0 million and $1.2 million, respectively, for matching contributions.

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in an increase in income before income taxes of approximately $19.3 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $10.0 million and $16.9 million respectively

9. CAPITALIZATION

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt bonds (Gas Facilities Revenue Bonds, or "GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2014 and 2013, $640.5 million of GFRBs were outstanding; $230.0 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.07% to 0.51% during the year ended March 31, 2014 and 0.14% to 2.17% during the year ended March 31, 2013. The GFRBs are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and in the case of a failed auction, the resulting interest rate on the bonds revert to the maximum rate which depends on the current appropriate, short term benchmark rates and the senior unsecured rating of the Company's bonds. The effect of the failed auctions on interest expense has not been material at this time.

Current Maturities of Long-term Debt

(in thousands of dollars)	
Years Ending March 31,	
2015	$ -
2016	-
2017	400,000
2018	-
2019	-
Thereafter	640,500
Total	$ 1,040,500

The Company is obligated to meet certain non-financial covenants. During the years ended March 31, 2014 and 2013 the Company was in compliance with all such covenants.

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2014 and 2013, the Company was in compliance with the utility capital structure required by the NYPSC. In August 2012, the Company issued a dividend in the amount of $110 million to KeySpan which was settled via the money pool.

Preferred Stock

In connection with NGUSA's acquisition of KeySpan, the Company became subject to a requirement to issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc., who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS Holdings, Inc. to vote the Golden Share in the best interests of New York State. The Golden Share was issued by the Company on July 8, 2011 and has a par value of $1 dollar.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 10,596**	$ 1,784
State	**8,742**	660
Total current tax benefit	**19,338**	2,444
Deferred tax expense:		
Federal	**51,689**	66,475
State	**10,585**	16,452
Total deferred tax expense	**62,274**	82,927
Amortized investment tax credits, net [1]	**(911)**	(911)
Total deferred tax expense	**61,363**	82,016
Total income tax expense	**$ 80,701**	$ 84,460

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2014 and 2013 is 42.5% and 40.6%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax at the statutory rate	**$ 66,483**	$ 72,821
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**12,563**	11,123
Depreciation differences not normalized	**1,404**	3,301
Investment tax credit	**(911)**	(911)
Other items, net	**1,162**	(1,874)
Total	**14,218**	11,639
Federal and state income taxes	**$ 80,701**	$ 84,460

The Company is a member of the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the Internal Revenue Service ("IRS") issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected, or required by the final

regulations. At March 31, 2014, $3.4 million of deferred tax liabilities have been classified as current in the Company's balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015. The application of these regulations is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

On March 31, 2014, New York's legislature enacted as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the New York rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, the Company decreased its New York State deferred tax liability by $8.5 million with an offset of $8.0 million to regulatory liability and an offset of $0.5 million to income tax expense to reflect the decrease in tax rate.

Deferred Tax Components

	March 31,	
	2014	2013
	(in thousands of dollars)	
Deferred tax assets:		
Net operating losses		
Pensions, PBOP and other employee benefits	**$ 51,667**	$ 78,775
Environmental reserve	**230,171**	219,864
Other Regulatory assets/liabilities - net		
Allowance for uncollectible accounts		
Future federal benefit on state taxes	**37,805**	45,595
Regulatory liabilities - other	**59,536**	60,229
Other items	**25,120**	48,829
Total deferred tax assets [1]	**404,299**	453,292
Deferred tax liabilities:		
Property related differences	**701,026**	659,559
Regulatory assets - pension and PBOP	**120,907**	136,969
Regulatory assets - environmental	**311,307**	302,454
Other items	**55,455**	76,823
Total deferred tax liabilities	**1,188,695**	1,175,805
	784,396	722,513
Deferred investment tax credits	**3,814**	4,725
Net deferred income tax liabilities and investment tax credits	**788,210**	727,238
Current portion of deferred income tax liabilities (assets), net	**6,533**	(10,751)
Deferred income tax liabilities, net	**$ 781,677**	$ 737,989

[1] There were no valuation allowances for deferred tax assets at March 31, 2014 or 2013.

During the year ended March 31, 2014, the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013, which decreased accounts payable to affiliates by $29.4 million, increased taxes accrued by $1.9 million, and increased other non-current liabilities by $27.5 million.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2014:

Expiration of net operating losses:	Federal
	(in thousands of dollars)
03/31/2033	$ 12,085
03/31/2034	5,634

Expiration of state and city net operating losses:	NYS
	(in thousands of dollars)
03/31/2029	$ 97,012
03/31/2033	39,254

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $72.2 million and $113.0 million, respectively, of which none and $16.8 million, respectively, would affect the effective tax rate, if recognized.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 113,030**	$ 103,367
Gross increases - tax positions in prior periods	**2,046**	3,065
Gross decreases - tax positions in prior periods	**(16,622)**	(466)
Gross increases - current period tax positions	**13,727**	7,998
Gross decreases - current period tax positions	**-**	(934)
Settlements with tax authorities	**(40,001)**	-
Balance as of the end of the year	**$ 72,180**	$ 113,030

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $2.5 and $12.9 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest expense of $3.9 million and $3.4 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliate interest. Related penalties, if applicable, are recorded to other income (deductions), net in the accompanying consolidated statements of income. No penalties were recognized during the years ended March 31, 2014 or 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or liquidity.

During the year ended March 31, 2014 the IRS concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of KeySpan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of

income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing the disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax.

The years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's NYS income tax returns for the short period ended August 24, 2007 and March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York. During fiscal year 2014 the Company made tax and interest payments of $19.1 million and $14.3 million, respectively, for the previously disallowed investment tax credit claims.

The following table indicates the earliest tax year subject to examination:

Jurisdiction	Tax Year
Federal	August 24, 2007*
New York	August 24, 2007

*The NGNA consolidated filing group is in the process of appealing certain disputed issues with the IRS Office of Appeals for the short year ended August 24, 2007 and fiscal years ended March 31, 2008 through March 31, 2009

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

In March of 2010, the Gowanus Canal was named to the United States Environmental Protection Agency ("EPA") Superfund List. The Company's predecessor owned three historical manufactured gas plants located along the Canal. In September of 2013, the EPA issued its Record of Decision, which prescribes the remedy for the Canal. The EPA estimates the entire remedy will cost $506 million. On March 21, 2014, the EPA issued a Unilateral Administrative Order to the Company and more than twenty-five other industrial potentially responsible parties ("PRPs"), to commence the design of the remedy. Although no estimate for the design of the remedy was given, an estimate of 10% of remedy cost ($50 million) is typically used when estimating design costs. The Company is negotiating with the other PRPs to share work and costs.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Order on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2014 and 2013 were $27.7 million and $47.9 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $532.1 million and $503.9 million at March 31, 2014 and 2013, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2014 and 2013 was $647.2 million and $632.4 million, respectively. These costs are expected to be incurred over the next 43 years, and the discounted amounts have been

recorded as liabilities in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2014 and 2013, the Company has recorded net environmental regulatory assets of $718.0 million and $690.3 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ending March 31,	Gas
2015	$ 190,913
2016	123,869
2017	107,090
2018	57,775
2019	27,665
Thereafter	49,140
Total	$ 556,452

Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately $11.5 million and $11.2 million the years ended March 31, 2014 and 2013, respectively. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statement of income was approximately $3.1 million and $6.5 million for the years ended March 31, 2014 and 2013, respectively.

The future minimum lease payments for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2015	$ 11,569
2016	11,882
2017	11,963
2018	12,047
2019	12,133
Thereafter	72,374
Total	$ 131,968

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) were approximately $69.1 million through March 31, 2014.

The Company has recorded an "other receivable" in the accompanying consolidated balance sheets in the amount of $19.0 million and $25.1 million as of March 31, 2014 and 2013, respectively, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles and allowances. As of March 31, 2014, NGUSA has received multiple advance payments from its insurers, of which $29.2 million has been allocated to the Company.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the money pool. A summary of net outstanding amounts of accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates March 31,		Accounts Payable to Affiliates March 31,	
	2014	2013 (Revised)	**2014**	2013 (Revised)
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ -**	$ -	**$ 11,527**	$ 92,008
NGUSA Service Company	-	-	**117,927**	132,831
KeySpan Gas East Corporation	**10,034**	45,238	-	-
National Grid Engineering Services	**2,226**	57	-	-
Other	**89**	435	**2,620**	6,833
Total	**$ 12,349**	$ 45,730	**$ 132,074**	$ 231,672

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and lend funds. Borrowings from the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the intercompany money pool agreement. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable and payable from affiliate balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the consolidated statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants. Collectively, NGUSA and KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool payable of $337.4 million and $106.6 million at March 31, 2014 and 2013, respectively. NETCO had short-term intercompany money pool investments of $80.0 million and $77.0 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 1.5% for the years ended March 31, 2014 and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were $243.1 million and $210.2 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these consolidated financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $5.4 million and $5.1 million before taxes, and $3.5 and $3.3 million after taxes, for each of the years ended March 31, 2014 and 2013.

nationalgrid

KeySpan Gas East Corporation d/b/a National Grid

Financial Statements

For the years ended March 31, 2014 and 2013

KEYSPAN GAS EAST CORPORATION

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Independent Auditor's Report

To the Shareholders and Board of Directors
of Keyspan Gas East Corporation

We have audited the accompanying financial statements of Keyspan Gas East Corporation (the "Company"), which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keyspan Gas East Corporation at March 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 15, 2014

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	2013
Operating revenues	**$ 1,083,399**	$ 958,118
Operating expenses:		
Purchased gas	**438,931**	353,150
Operations and maintenance	**320,562**	271,962
Depreciation and amortization	**60,580**	57,371
Other taxes	**134,695**	132,258
Total operating expenses	**954,768**	814,741
Operating income	**128,631**	143,377
Other income and (deductions):		
Interest on long-term debt	**(34,828)**	(34,858)
Other interest, including affiliate interest	**(9,380)**	(7,247)
Other deductions, net	**(4,466)**	(17,828)
Total other deductions, net	**(48,674)**	(59,933)
Income before income taxes	**79,957**	83,444
Income tax expense	**30,139**	34,694
Net income	**$ 49,818**	$ 48,750

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2014	2013
Operating activities:		
Net income	**$ 49,818**	$ 48,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**60,580**	57,371
Regulatory amortizations	**46,365**	35,049
Provision for deferred income taxes	**41,598**	35,394
Bad debt expense	**13,401**	528
Allowance for equity funds used during construction	**-**	(1,100)
Net postretirement benefit contributions	**(5,912)**	(8,726)
Net environmental remediation payments	**(38,333)**	(35,532)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(58,327)**	(134,962)
Inventory	**16,483**	35,486
Regulatory assets and liabilities	**(32,584)**	50,767
Derivative contracts	**(2,955)**	(13,532)
Prepaid and accrued taxes	**(12,838)**	(3,443)
Accounts payable and other liabilities	**(44,107)**	47,841
Other, net	**8,383**	1,404
Net cash provided by operating activities	**41,573**	115,295
Investing activities:		
Capital expenditures	**(189,205)**	(143,878)
Cost of removal	**(17,133)**	(17,555)
Insurance proceeds applied to capital expenditures	**14,278**	14,423
Net cash used in investing activities	**(192,060)**	(147,010)
Financing activities:		
Dividends to Parent	**-**	(250,000)
Affiliated money pool borrowing and receivables/payables, net	**155,897**	279,349
Other	**-**	16
Net cash provided by financing activities	**155,897**	29,365
Net increase in cash and cash equivalents	**5,410**	(2,350)
Cash and cash equivalents, beginning of year	**3,273**	5,623
Cash and cash equivalents, end of year	**$ 8,683**	$ 3,273
Supplemental disclosures:		
Interest paid	**$ 43,599**	$ 37,321
Income taxes refunded from Parent	**7,454**	21,221
State income taxes paid	**8,493**	2,005
Significant non-cash item:		
Capital-related accruals included in accounts payable	**26,517**	12,542

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

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,683**	$ 3,273
Accounts receivable	**299,390**	260,288
Allowance for doubtful accounts	**(19,656)**	(18,705)
Other receivable	**38,995**	42,192
Accounts receivable from affiliates	**28,690**	49,822
Unbilled revenues	**79,076**	69,104
Inventory	**27,246**	43,729
Regulatory assets	**96,722**	64,323
Derivative contracts	**11,156**	14,261
Other	**28,460**	19,775
Total current assets	**598,762**	548,062
Property, plant, and equipment, net	**2,510,609**	2,358,371
Other non-curent assets:		
Regulatory assets	**485,316**	543,792
Goodwill	**1,018,407**	1,018,407
Derivative contracts	**11,199**	3,165
Other	**4,032**	5,476
Total other non-current assets	**1,518,954**	1,570,840
Total assets	**$ 4,628,325**	$ 4,477,273

The accompanying notes are an integral part of these financial statements

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 41,062**	$ 62,698
Accounts payable to affiliates	**86,112**	104,914
Intercompany money pool	**551,609**	398,042
Customer deposits	**8,995**	8,613
Taxes accrued	**15,419**	17,767
Interest accrued	**19,885**	22,394
Regulatory liabilities	**29,389**	24,742
Derivative contracts	**2,060**	349
Current portion of deferred income tax liabilities	**37,686**	27,262
Other	**11,094**	8,866
Total current liabilities	**803,311**	675,647
Other non-current liabilities:		
Regulatory liabilities	**286,296**	242,690
Asset retirement obligations	**14,078**	13,281
Postretirement benefits	**211,509**	261,364
Environmental remediation costs	**70,432**	108,426
Derivative contracts	**1,266**	1,003
Deferred income tax liabilities	**631,706**	592,522
Other	**30,770**	53,201
Total other non-current liabilities	**1,246,057**	1,272,487
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**1,978,957**	1,929,139
Long-term debt	**600,000**	600,000
Total capitalization	**2,578,957**	2,529,139
Total liabilities and capitalization	**$ 4,628,325**	$ 4,477,273

The accompanying notes are an integral part of these financial statements

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			**$ 1,978,957**	$ 1,929,139
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	5.60%	November 29, 2016	**100,000**	100,000
Senior Note	5.82%	April 1, 2041	**500,000**	500,000
Total long-term debt			**600,000**	600,000
Total capitalization			**$ 2,578,957**	$ 2,529,139

The accompanying notes are an integral part of these financial statements

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2012	**$ -**	**$ -**	**$ 2,014,878**	**$ 115,495**	**$ 2,130,373**
Net income	-	-	-	48,750	48,750
Share based compensation	-	-	16	-	16
Dividends to KeySpan Corporation	-	-	(134,505)	(115,495)	(250,000)
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 1,880,389**	**$ 48,750**	**$ 1,929,139**
Net income	-	-	-	49,818	49,818
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 1,880,389**	**$ 98,568**	**$ 1,978,957**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2014 and 2013.

The accompanying notes are an integral part of these financial statements

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

KeySpan Gas East Corporation d/b/a National Grid ("the Company") distributes natural gas to approximately 505,000 retail customers and transports natural gas to approximately 75,000 customers in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through August 15, 2014, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior year (May – April).

The Company's tariff includes a cost of gas adjustment factor ("CGAF") which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers. The gas distribution business is influenced by seasonal weather conditions and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, customers of material shortfalls or excesses of delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2014 and 2013 were $12.0 million and $13.8 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

Income Taxes

Federal and state 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 also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. The allowance is determined based on a variety of factors, including for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. In prior years, the estimate placed a higher emphasis on write off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach did not materially change the reserve. The collectability of receivables is continuously assessed,

and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2014 or 2013.

Gas in storage is stated at weighted average cost, and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers, the cost of gas purchased along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $4.5 million and $13.5 million and gas in storage of $22.7 million and $30.2 million at March 31, 2014 and 2013, respectively.

Derivatives

The Company uses derivative instruments for commodity price risk management. All derivative contracts are recorded on the accompanying balance sheets at their fair value. Commodity costs, including derivative contracts, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from customers consistent with regulatory requirements.

The Company's accounting policy is to present on a gross basis, fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement. The related cash collateral is recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2014 or 2013.

Fair Value Measurements

The Company measures derivatives at fair value. 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:

- 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; and
- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rate for each of the years ended March 31, 2014 and 2013 was 2.0% and 2.9% respectively. The average service lives for each of the years ended March 31, 2014 and 2013 was 35 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs of removal recovered in excess of costs incurred of $49.1 million and $42.3 million at March 31, 2014 and 2013, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other deductions, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of zero and $1.1 million and AFUDC related to debt of $0.5 million and $0.4 million for the years ended March 31, 2014 and 2013 respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 0.7% and 5.7% respectively.

Goodwill

The Company tests goodwill for impairment annually on January 31, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2014 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2014 to March 31, 2019; (b) a discount rate of 5.5%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 10.0, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2014 or 2013.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 13,281**	$ 12,529
Accretion expense	**797**	752
Balance as of the end of the year	**$ 14,078**	$ 13,281

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans ("Pension Plans") and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the Pension plans' and PBOP plan's funded status in the balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Pension Plans' and PBOP plan's assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board ("FASB") issued amendments to address and clarify the scope of the disclosures related to offsetting assets and liabilities. Under the amendments, reporting entities are required to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement, such as for derivatives. The instruments and activities subject to these disclosures are recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. The Company adopted this guidance effective April 1, 2013, which only impacted its disclosures.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued amendments to address diversity in practice related to the presentation of unrecognized tax benefits in certain situations. The amendments require a liability related to an unrecognized tax benefit to be presented on a net basis with its associated deferred tax asset when utilization of such deferred tax assets is required or expected in the event the uncertain tax position is disallowed. Otherwise, the unrecognized tax benefit will be presented as a liability and

will not be netted against deferred tax assets. The Company early adopted this guidance effective April 1, 2013 with no material impact on its financial position, results of operations or cash flows.

Financial Statement Revision

During 2014, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by revising the prior period financial statements, the impacts of which are described below.

Historically, the Company has calculated carrying charges on regulatory assets using its AFUDC rate. AFUDC has both a debt and equity component. Accounting standards allow for the capitalization of all or part of an incurred cost that would otherwise be charged to expense if the regulator's actions create probable recovery of those costs through future rates. Because the equity component of an AFUDC rate is not an incurred cost that would otherwise be charged to expense, accounting guidance for rate regulated activities does not allow for the capitalization of such equity amounts, and thus, the equity component should not have been included in the Company's carrying charges calculation.

A cumulative adjustment of $21.6 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013 of which $20.7 million was recorded as a decrease to opening retained earnings (as of March 31, 2012), and $0.9 million was recorded as a decrease to net income within operations and maintenance expense and other income and deductions for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to this correction. This adjustment also resulted in a decrease of $52.7 million in non-current regulatory assets, a decrease of $16.7 million in non-current regulatory liabilities and a decrease of $14.6 million in deferred income tax liabilities as of March 31, 2013.

In addition, the Company has corrected various account balances which were improperly recorded. A cumulative adjustment of $1.4 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $3.2 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $1.8 million was recorded as an increase to net income for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these items.

The following table shows the amounts previously reported as revised:

	As Previously Reported[i]	Adjustments	As Revised
	(in thousands of dollars)		
	March 2013		March 2013
Statement of Income			
Operating revenues	$ 957,563	$ 555	$ 958,118
Operating income	138,363	5,014	143,377
Other income and (deductions)	(21,404)	(3,671)	(25,075)
Income before income taxes	82,101	1,343	83,444
Income tax expense	34,226	468	34,694
Net income	47,875	875	48,750
Statement of Cash Flows			
Net income	47,875	875	48,750
Net cash provided by operating activities	113,562	1,733	115,295
Net cash used in investing activities	(147,395)	385	(147,010)
Net cash used in financing activities	31,367	(2,002)	29,365
Balance Sheet			
Total current assets	561,993	(13,931)	548,062
Property, plant, and equipment, net	2,358,756	(385)	2,358,371
Total other non-current assets	1,621,639	(50,799)	1,570,840
Total current liabilities	677,306	(1,659)	675,647
Total other non-current liabilities	1,313,137	(40,650)	1,272,487
Additional paid in capital	1,904,070	(23,681)	1,880,389
Retained Earnings			
March 31, 2013	47,875	875	48,750
March 31, 2012	138,954	(23,459)	115,495

(i) During the year ended March 31, 2014, the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

	March31,	
	2014	2013
	(in thousands of dollars)	
Regulatory assets		
Current:		
Environmental response costs	**$ 25,147**	$ 43,101
Gas cost adjustment	**51,465**	-
Postretirement benefits	**14,066**	16,906
Other	**6,044**	4,316
	96,722	64,323
Non-current:		
Carrying charges	**7,501**	6,447
Environmental response costs	**260,921**	284,722
Postretirement benefits	**110,201**	165,339
Property taxes	**36,704**	18,405
Rate mitigation	**26,635**	24,608
Other	**43,354**	44,271
Total	**485,316**	**543,792**
Regulatory liabilities		
Current:		
Derivative contracts	**11,156**	14,261
Gas cost adjustment	**-**	5,665
Temporary state assessment	**18,218**	1,596
Other	**15**	3,220
	29,389	24,742
Non-current:		
Capital tracker	**36,504**	27,016
Cost of removal	**49,095**	42,312
Delivery rate adjustment	**82,870**	82,871
Postretirement benefits	**48,666**	44,866
Other	**69,161**	45,625
Total	**286,296**	242,690
Net regulatory assets	**$ 266,353**	$ 340,683

Capital tracker: During the primary term of the rate plan (2008–2012), which remains in effect until modified by the NYPSC, the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company deferred the full revenue requirement equivalent of CSC expenditures above or below the CSC rate as well as the full revenue requirement equivalent of amounts below the rate allowance for all other capital expenditures.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYSPSC authorized a surcharge for recovery of regulatory assets (Delivery Rate Surcharge) of $10.0 million beginning January 1, 2009, which increased incrementally by $10.0 million and aggregating to approximately $100 million over the term of the rate agreement. In its order issued and effective November 28, 2012, the NYSPSC authorized a site investigation and remediation ("SIR") surcharge in the amount of $40 million which superseded the

Delivery Rate Surcharge effective January 1, 2013. The SIR surcharge is reflected as environmental response costs and will be used to amortize existing SIR deferral balances.

Derivative assets and liabilities: Gains or losses resulting from commodity derivatives are typically required to be refunded to or recovered from customers through the gas cost adjustment. Accordingly, the Company evaluates open derivative contracts to determine if they are probable of recovery or refund through future rates charged to customers and qualify for regulatory deferral. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Environmental response costs: This regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Gas cost adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Property taxes: The regulatory assets and liabilities represent 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from or payment to the Company's customers.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period beginning July 1, 2009 and ending June 30, 2014. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of May 31, 2014, the Company over-collected on these costs. The Company is required to net any deferred over-collection amounts against the amount to be collected in fiscal year 2014 and 2015 as well as the first payment relating to fiscal year 2015 and 2016.

Postretirement benefits: The amount in regulatory assets primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a 10-year period ending August 2017, and the non-cash accrual of net actuarial gains and losses. The amount in regulatory liabilities primarily represents accrued carrying charges as calculated in accordance with the Company's pension and PBOP reserve mechanism.

Rate mitigation: The existing rate agreement provides for the establishment of a regulatory liability to be amortized through revenues for the deferral of amortization adjustments. The NYPSC recognized a negotiated five year revenue increase settlement, aggregating $625.7 million. As part of the NGUSA and KeySpan merger ("Grid merger") settlement these revenues were eliminated with rate mitigators. Of these mitigators, the NYPSC deferred recovery of certain deferred costs, reflected net synergy savings of the Grid merger, and modified the overall allowed rate of return. Amortization of the rate mitgator will continue during the stay out period at $2.0 million per year effective January 1, 2013 through December 31, 2014.

The Company records carrying charges on all regulatory balances for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund, with the exception of derivative contracts and regulatory tax balances. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

The Company has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed ROE of 9.8%.

Capital Investment

On June 13, 2014, the Company filed a petition with the NYPSC to implement a three-year capital investment program that would allow the Company to invest more than $700 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates. The petition seeks (i) a new deferral mechanism that would permit the Company to defer for future recovery in rates the pre-tax revenue requirement associated with its capital spending program to the extent the amount of such investments exceeds the level of book depreciation expense reflected in the Company's rates; and (ii) the elimination of its existing City/State Construction and Non-Growth Related Capital deferral mechanisms. The Company has requested that the Commission grant this relief no later than September 2014.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of National Grid's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On May 23, 2014, a Joint Proposal between National Grid and the Staff of the Department of Public Service was filed for NYPSC approval that resolves all financial and rate issues arising from or related to the audit, and an $11.4 million regulatory liability was recorded. At the time of the issuance of these financial statements, the NYPSC had yet to issue its approval.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operations audit of National Grid's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013. At the time of the issuance of the financial statements, the Company cannot predict the outcome of this management and operations audit.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2014	2013 (Revised)
	(in thousands of dollars)	
Plant and machinery	**$ 3,000,836**	$ 2,813,595
Land and buildings	**53,896**	55,880
Assets held for future use	**94**	-
Assets in construction	**79,434**	88,423
Software and other intangibles	**52,792**	24,149
Total property, plant and equipment	**3,187,052**	2,982,047
Accumulated depreciation and amortization	**(676,443)**	(623,676)
Property, plant and equipment, net	**$ 2,510,609**	$ 2,358,371

6. DERIVATIVE CONTRACTS

The Company utilizes derivative instruments, such as gas option contracts, gas swap contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities, only in commodities and financial markets where it has an exposure to, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") are as follows:

	March 31,	
	2014	2013
	(in thousands)	
Gas purchase contracts (dths)	**37,743**	24,397
Gas swap contracts (dths)	**1,320**	5,540
Gas option contracts (dths)	**7,190**	1,450
Total	**46,253**	31,387

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives March 31,			Liability Derivatives March 31,		
	2014	2013		**2014**	2013
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			**Current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 497**	$ 1,813	Gas swap contracts	**$ 27**	$ 10
Gas option contracts	**726**	422	Gas option contracts	**180**	4
Gas purchase contracts	**9,933**	12,026	Gas purchase contracts	**1,853**	335
	11,156	14,261		**2,060**	349
Non-current assets:			**Non-current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**11,199**	3,165	Gas purchase contracts	**1,266**	1,003
	11,199	3,165		**1,266**	1,003
Total	**$ 22,355**	$ 17,426	Total	**$ 3,326**	$ 1,352

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The Company's credit exposure for all derivative instruments, applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was $19.0 million and $16.0 million as of March 31, 2014 and 2013, respectively.

The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $1.7 million and $0.05 million, respectively. The Company had no collateral posted for these instruments at March 31, 2014 or 2013, respectively. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $1.9 million and zero additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 497	$ -	$ 497	-		$ 497
Gas option contracts	726	-	726	-		726
Gas purchase contracts	21,132	-	21,132	-	-	21,132
Total	$ 22,355	$ -	$ 22,355	$ -	$ -	$ 22,355

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ (27)	$ -	$ (27)	$ -		$ (27)
Gas option contracts	(180)	-	(180)	-		(180)
Gas purchase contracts	(3,119)	-	(3,119)	-	-	(3,119)
Total	$ (3,326)	$ -	$ (3,326)	$ -	$ -	$ (3,326)

March 31, 2013
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 1,813	$ -	$ 1,813	-		$ 1,813
Gas option contracts	422	-	422	-		422
Gas purchase contracts	15,191	-	15,191	-	-	15,191
Total	$ 17,426	$ -	$ 17,426	$ -	$ -	$ 17,426

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ (10)	$ -	$ (10)	$ -		$ (10)
Gas option contracts	(4)	-	(4)	-		(4)
Gas purchase contracts	(1,338)	-	(1,338)	-	-	(1,338)
Total	$ (1,352)	$ -	$ (1,352)	$ -	$ -	$ (1,352)

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and 2013:

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 497	$ -	$ 497
Gas option contracts	-	-	726	726
Gas purchase contracts	-	1,205	19,927	21,132
Total	-	1,702	20,653	22,355
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	180	180
Gas purchase contracts	-	273	2,846	3,119
Total	-	300	3,026	3,326
Net assets	$ -	$ 1,402	$ 17,627	$ 19,029

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 1,813	$ -	$ 1,813
Gas option contracts	-	-	422	422
Gas purchase contracts	-	4	15,187	15,191
Total	-	1,817	15,609	17,426
Liabilities:				
Derivative contracts				
Gas swap contracts	-	10	-	10
Gas option contracts	-	-	4	4
Gas purchase contracts	-	47	1,291	1,338
Total	-	57	1,295	1,352
Net assets	$ -	$ 1,760	$ 14,314	$ 16,074

Derivative Contracts*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. 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 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas option and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	**2013**
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 14,314**	$ 7,162
Total gains or losses included in regulatory assets and liabilities	**9,330**	2,523
Settlements	**(6,017)**	4,629
Balance as of the end of the year	**$ 17,627**	$ 14,314

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2014 or 2013.

The following table provides information about the Company's Level 3 valuations:

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Physical							
Gas	Gas purchase contracts	$ 16,880	$ (2,846)	$ 14,034	Discounted Cash flow	Forward Curve (A)	$2.709 - $14.056/dth
Gas	Cross commodity	3,047	-	3,047	Discounted Cash flow	Forward Curve	$43.19 - $84.28/dth
Financial							
Gas	Gas option contracts	726	(180)	546	Discounted Cash flow	Implied Volatility	29% - 31%
	Total	$ 20,653	$ (3,026)	$ 17,627			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to the peaking gas deals based on the forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $696.9 million and $744.1 million, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP Plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides 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.

During the years ended March 31, 2014 and 2013, the Company made contributions of approximately $27.0 million and $29.1 million to the Plans.

Plan assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying balance sheets. Pension and PBOP expense are included in operations and maintenance expense in the accompanying statements of income.

KeySpan's unfunded obligations at March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 704,169**	$ 892,701
PBOP	**916,706**	1,339,788
	$ 1,620,875	$ 2,232,489

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 11,465**	$ 11,284
PBOP	**13,863**	13,877
	$ 25,328	$ 25,161

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying statements of income of $0.3 million and $0.3 million, respectively, for matching contributions.

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in an increase in income before taxes of approximately $2.9 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $11.3 million and $17.2 million respectively.

9. CAPITALIZATION

The aggregate maturities of long-term debt subsequent to March 31, 2014 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2015	$ -
2016	-
2017	100,000
2018	-
2019	-
Thereafter	500,000
Total	$ 600,000

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 58% of total utility capitalization. At March 31, 2014 and 2013, the Company was in compliance with this covenant. In accordance with the NYPSC order approving the acquisition of KeySpan, the Company is permitted to declare dividends to the extent of retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition. At the date of acquisition, the balance of retained earnings of the Company existing immediately prior of $478.6 million was reclassified into additional paid-in capital. In August 2012,

the Company issued a dividend in the amount of $250.0 million to the Parent which was settled via the money pool. Of the total $250.0 million dividend, $139.0 million has been issued from retained earnings, with the remainder from additional paid-in capital.

Preferred Stock

In connection with NGUSA's acquisition of KeySpan, the Company became subject to a requirement to issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. The Golden Share was issued by the Company on July 8, 2011. The Golden Share has a par value of $1 dollar.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (11,684)**	$ (4,312)
State	**225**	3,612
Total current tax benefit	**(11,459)**	(700)
Deferred tax expense:		
Federal	**37,422**	30,296
State	**4,176**	5,098
Total deferred tax expense	**41,598**	35,394
Total income tax expense	**$ 30,139**	$ 34,694

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2014 and 2013 are 38% and 42%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax at the statutory rate	**$ 27,855**	$ 29,229
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**2,860**	5,662
Other items, net	**(576)**	(197)
Total	**2,284**	5,465
Federal and state income taxes	**$ 30,139**	$ 34,694

The Company is a member of the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the Internal Revenue Service ("IRS") issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as, routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected or required by the final regulations. At March 31, 2014, $3.0 million of deferred tax liabilities have been classified as current in the Company's Balance Sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015. The application of these regulations is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

On March 31, 2014, New York's legislature enacted as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the NY rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, the Company decreased its New York State deferred tax liability by $6.2 million with an offset to regulatory liabilities to reflect the decrease in tax rate. The application of this legislation is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Deferred Tax Components

	March 31,	
	2014	2013
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 93,787**	$ 116,478
Regulatory liabilities - other	**80,908**	46,666
Future federal benefit on state taxes	**37,011**	41,334
Environmental reserve	**30,509**	47,306
Net operating losses	**22,866**	5,560
Other items	**12,110**	22,093
Total deferred tax assets [1]	**277,191**	279,437
Deferred tax liabilities:		
Property related differences	**707,928**	659,161
Regulatory assets - environmental	**123,644**	141,851
Regulatory assets - other	**93,841**	71,340
Other items	**21,170**	26,869
Total deferred tax liabilities	**946,583**	899,221
Net deferred income tax liabilities	**669,392**	619,784
Current portion of deferred income tax liabilities	**37,686**	27,262
Deferred income tax liabilities	**$ 631,706**	$ 592,522

[1] There were no valuation allowances for deferred tax assets at March 31, 2014 or 2013.

During the year ended March 31, 2014, the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013, which increased accounts receivable

from affiliates by $2.7 million, increased other current assets by $13.3 million, and increased other non-current liabilities by $16.0 million.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2014:

Expiration of net operating losses	Federal
	(in thousands of dollars)
03/31/2033	$ 14,757
03/31/2034	68,099

Expiration of state net operating losses	NYS
	(in thousands of dollars)
03/31/2029	$ 126,259
03/31/2030	30,845
03/31/2031	-
03/31/2032	22,450
03/31/2033	36,530
03/31/2034	89,802

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $64.5 million and $102.9 million, respectively, of which $0.7 million and $10.3 million, respectively, would affect the effective tax rate, if recognized.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 102,918**	$ 92,618
Gross increases - tax positions in prior periods	**9,937**	2,364
Gross decreases - tax positions in prior periods	**(13,491)**	(421)
Gross increases - current period tax positions	**9,271**	10,769
Gross decreases - current period tax positions	**(12)**	(407)
Settlements with tax authorities	**(44,098)**	(2,005)
Balance as of the end of the year	**$ 64,525**	$ 102,918

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $4.5 million and $10.7 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded a reduction to interest expense of $0.6 million and an increase in interest expense of $4.7 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliated interest. Related penalties, if applicable, are recorded to other deductions, net in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2014 and 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

During the year ended March 31, 2014 the IRS has concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of Keyspan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and Subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing the disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax.

The years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's NYS income tax returns for the years starting January 1, 2003 through March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York. The Company has filed New York Investment Tax Credit claims for the tax years ended December 31, 2002 through March 31, 2010. New York State has disallowed the claims for December 31, 2002 through December 31, 2006 upon audit, and also denied them on appeal to the New York Tax Tribunal, which decision was further appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and made tax and interest payments of $10.5 million and $5.6 million, respectively, during the fiscal year.

The following table indicates the earliest tax year subject to examination:

Jurisdiction	Tax Year
Federal	August 24, 2007*
New York	December 31, 2003

*The KeySpan consolidated filing group for tax year ended August 24, 2007 and the NGNA consolidated filing group for fiscal years ending March 31, 2008 and 2009, are in the process of appealing certain disputed issues with the IRS Office of Appeals.

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The Company has identified numerous Manufactured Gas Plant ("MGP") sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Order on Consents ("ACO") or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2014 and 2013 were $38.3 million and $35.5 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur.

The Company estimated the remaining costs of environmental remediation activities were $70.4 million and $108.4 million at March 31, 2014 and 2013, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2014 and, 2013 was $87.8 million and $129.6 million, respectively. These costs are expected to be incurred over the next 40 years, and the discounted amounts have been recorded as liabilities in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and

actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2014 and 2013, the Company has recorded net environmental regulatory assets of $272.3 million and $324.4 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ending March 31,	Gas
2015	$ 342,928
2016	247,343
2017	233,143
2018	192,681
2019	157,904
Thereafter	601,960
Total	$ 1,775,959

Legal Matters

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former MGP located in Bay Shore. The Company has been conducting a remediation at Bay Shore pursuant to an ACO with the New York State DEC. The Company intends to contest each of the lawsuits vigorously.

The Company continues to pursue a number of refund claims with respect to garbage and other taxes levied on the Company by local authorities on Long Island, most significantly Nassau County.

In addition to the matters described above, the Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) were approximately $135.0 million through March 31, 2014.

The Company has recorded an "other receivable" in the accompanying balance sheets in the amount of $39.0 million and $42.2 million as of March 31, 2014 and 2013, respectively, relating to claims filed against property damage and business

interruption insurance policies, net of insurance deductibles and allowances. As of March 31, 2014, NGUSA has received multiple advance payments from its insurers, of which $54.2 million has been allocated to KEDLI.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the money pool. A summary of net outstanding amounts of accounts receivable from and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ 27,279**	$ 48,119	**$ -**	$ -
Brooklyn Union Gas Company	**-**	-	**10,034**	45,238
NGUSA Service Company	**-**	-	**69,594**	50,523
Niagara Mohawk Power Corp	**-**	-	**1,085**	910
NG Electric Services LLC	**-**	-	**3,652**	6,914
Other	**1,411**	1,703	**1,747**	1,329
Total	**$ 28,690**	$ 49,822	**$ 86,112**	$ 104,914

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool. The Company is a participant in the Regulated Money Pool and can both borrow and lend funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the intercompany money pool agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable and payable from affiliate balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool borrowings of $551.6 million and $398.0 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 1.5% for the years ended March 31, 2014 and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution

expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were $253.4 million and $123.6 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $4.2 million and $3.0 million before taxes, and $2.8 million and $2.0 million after taxes, for the years ended March 31, 2014 and 2013, respectively.

nationalgrid

Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2014 and 2013

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Shareholders and Board of Directors
of Niagara Mohawk Power Company

We have audited the accompanying financial statements of Niagara Mohawk Power Company (the Company), which comprise the balance sheets as of March 31, 2014 and 2013, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara Mohawk Power Company at March 31, 2014 and 2013, and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 22, 2014

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating revenues:		
Electric services	**$ 2,949,612**	$ 2,775,045
Gas distribution	**622,209**	587,655
Total operating revenues	**3,571,821**	3,362,700
Operating expenses:		
Purchased electricity	**1,074,126**	880,592
Purchased gas	**269,381**	247,183
Operations and maintenance	**1,265,431**	1,414,866
Depreciation and amortization	**218,660**	214,368
Other taxes	**254,802**	244,803
Total operating expenses	**3,082,400**	3,001,812
Operating income	**489,421**	360,888
Other income and (deductions):		
Interest on long-term debt	**(91,664)**	(76,407)
Other interest, including affiliate interest	**(8,337)**	(18,273)
Other income, net	**18,625**	5,986
Total other deductions, net	**(81,376)**	(88,694)
Income before income taxes	**408,045**	272,194
Income tax expense	**145,104**	96,034
Net income	**$ 262,941**	$ 176,160

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	2013
Net income	**$ 262,941**	$ 176,160
Other comprehensive income (loss):		
Unrealized gains on securities, net of $1,120 and $1,151 tax expense	**1,867**	1,727
Change in pension and other postretirement obligations, net of $661 tax expense and $449 tax benefit	**1,102**	(674)
Reclassification of gains into net income, net of $691 and $362 tax expense	**(1,152)**	(544)
Total other comprehensive income	**1,817**	509
Comprehensive income	**$ 264,758**	$ 176,669

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31, 2014	Years Ended March 31, 2013
Operating activities:		
Net income	**$ 262,941**	$ 176,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**218,660**	214,368
Regulatory amortizations	**(38,365)**	197,260
Provision for deferred income taxes	**114,971**	98,293
Bad debt expense	**35,248**	(18,241)
Loss from equity investments	**87**	354
Allowance for equity funds used during construction	**(12,407)**	(7,138)
Amortization of debt discount and issuance costs	**3,692**	3,739
Net pension and other postretirement expense (contributions)	**1,484**	(51,085)
Net environmental remediation payments	**(41,554)**	(31,438)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(185,417)**	(120,104)
Accounts receivable from/payable to affiliates, net	**-**	27,296
Inventory	**(4,938)**	15,900
Regulatory assets and liabilities, net	**34,475**	179,293
Derivative contracts	**(6,316)**	(69,274)
Prepaid and accrued taxes	**44,261**	(13,129)
Accounts payable and other liabilities	**49,322**	(85,830)
Other, net	**(9,808)**	(15,777)
Net cash provided by operating activities	**466,336**	500,647
Investing activities:		
Capital expenditures	**(546,363)**	(497,962)
Changes in restricted cash	**34,982**	(16,602)
Affiliated money pool investing and receivables/payables, net	**(65,157)**	89,925
Cost of removal	**(41,359)**	(49,152)
Other	**(2,750)**	(5,614)
Net cash used in investing activities	**(620,647)**	(479,405)
Financing activities:		
Dividends paid on common and preferred stock	**(1,060)**	(211,060)
Payments on long-term debt	**(45,600)**	(500,000)
Proceeds from long-term debt	**-**	700,000
Affiliated money pool borrowing and receivables/payables, net	**(30,189)**	-
Advances from affiliates	**205,000**	346
Capital contributions	**25,000**	-
Payment of debt issuance costs	**-**	(4,200)
Parent tax loss allocation	**15,715**	445
Share based compensation	**(2,677)**	5,686
Net cash provided by (used in) financing activities	**166,189**	(8,783)
Net increase in cash and cash equivalents	**11,878**	12,459
Cash and cash equivalents, beginning of year	**14,672**	2,213
Cash and cash equivalents, end of year	**$ 26,550**	$ 14,672
Supplemental disclosures:		
Interest paid	**$ (84,503)**	$ (91,047)
Income taxes refunded (paid)	**15,099**	(99,349)
Significant non-cash item:		
Capital-related accruals included in accounts payable	**30,236**	11,396

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 26,550**	$ 14,672
Restricted cash and special deposits	**15,842**	50,653
Accounts receivable	**732,812**	572,794
Allowance for doubtful accounts	**(120,723)**	(126,209)
Unbilled revenues	**134,449**	149,784
Accounts receivable from affiliates	**12,647**	7,327
Intercompany money pool	**131,670**	97,171
Inventory	**48,116**	43,178
Regulatory assets	**96,440**	36,186
Derivative contracts	**38,277**	19,497
Current portion of deferred income tax assets, net	**82,855**	100,784
Prepaid taxes	**15,367**	41,026
Other	**52,854**	58,483
Total current assets	**1,267,156**	1,065,346
Equity investments	**2,718**	3,933
Property, plant, and equipment, net	**7,469,908**	7,080,116
Other non-current assets:		
Regulatory assets	**1,105,478**	1,099,393
Goodwill	**1,289,132**	1,289,132
Postretirement benefits asset	**310,382**	302,911
Derivative contracts	**7,762**	6,202
Other	**74,569**	62,803
Total other non-current assets	**2,787,323**	2,760,441
Total assets	**$ 11,527,105**	$ 10,909,836

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2014	2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 247,842**	$ 183,196
Accounts payable to affiliates	**79,160**	134,687
Advances from affiliates	**225,000**	20,000
Current portion of long-term debt	**500,000**	45,600
Taxes accrued	**20,370**	1,770
Interest accrued	**27,887**	27,716
Customer deposits	**30,032**	34,669
Regulatory liabilities	**158,523**	104,185
Derivative contracts	**6,734**	492
Other	**90,421**	78,993
Total current liabilities	**1,385,969**	631,308
Other non-current liabilities:		
Regulatory liabilities	**822,230**	810,744
Asset retirement obligations	**10,380**	10,329
Deferred income tax liabilities, net	**1,770,629**	1,672,886
Postretirement benefits	**506,034**	547,136
Environmental remediation costs	**432,923**	438,847
Derivative contracts	**8,254**	472
Other	**328,112**	337,323
Total other non-current liabilities	**3,878,562**	3,817,737
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**4,208,211**	3,906,475
Long-term debt	**2,054,363**	2,554,316
Total capitalization	**6,262,574**	6,460,791
Total liabilities and capitalization	**$ 11,527,105**	$ 10,909,836

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			**$ 4,208,211**	$ 3,906,475
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.55%	October 1, 2014	**500,000**	500,000
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
			1,950,000	1,950,000
State Authority Financing - Tax exempt				
NYSERDA Tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA Tax exempt	Variable	October 1, 2013 - July 1, 2029	**529,465**	575,065
			604,465	650,065
Unamortized debt discounts			**(102)**	(149)
Total debt			**2,554,363**	2,599,916
Current portion of long-term debt			**500,000**	45,600
Long-term debt			**2,054,363**	2,554,316
Total capitalization			**$ 6,262,574**	$ 6,460,791

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-for-Sale Securities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ 187,365**	**$ 28,985**	**$ 2,954,692**	**$ 350**	**$ (1,096)**	**$ (746)**	**$ 764,439**	**$ 3,934,735**
Net income	-	-	-	-	-	-	176,160	176,160
Other comprehensive income (loss):								
Unrealized gains on securities, net of $1,151 tax expense	-	-	-	1,727	-	1,727	-	1,727
Changes in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	(674)	(674)	-	(674)
Reclassification of gains into net income, net of $362 tax expense	-	-	-	(544)	-	(544)	-	(544)
Total comprehensive income								176,669
Parent tax loss allocation	-	-	445	-	-	-	-	445
Share based compensation	-	-	5,686	-	-	-	-	5,686
Dividends on common stock	-	-	-	-	-	-	(210,000)	(210,000)
Dividends on preferred stock	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2013	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 729,539**	**$ 3,906,475**
Net income	-	-	-	-	-	-	262,941	262,941
Other comprehensive income (loss):								
Unrealized gains on securities, net of $1,120 tax expense	-	-	-	1,867	-	1,867	-	1,867
Changes in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Reclassification of gains into net income, net of $691 tax expense	-	-	-	(1,152)	-	(1,152)	-	(1,152)
Total comprehensive income								264,758
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent tax loss allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Dividends on preferred stock	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 991,420**	**$ 4,208,211**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,847 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2014 and 2013.

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

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc., which is a wholly-owned subsidiary of National Grid USA ("NGUSA" or "Parent"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

Management recorded out-of-period adjustments during the current fiscal year that resulted in a net increase in net income of $8.8 million. The adjustments primarily related to correction of operations and maintenance expense and income tax expense. Management concluded that the impact of recording these adjustments was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through August 22, 2014, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") regulate the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from or refunded to customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has a revenue decoupling mechanism which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2014 and 2013 were $41.7 million and $39.1 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

Income Taxes

Federal and state 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 also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by the New York Independent System Operator ("NYISO"). Special deposits primarily consist of health care claims deposits. The Company had restricted cash of zero and $35 million and special deposits of $15.8 million and $15.7 million at March 31, 2014 and 2013, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. The allowance is determined based on a variety of factors, including for each type of receivable, applying an estimated reserve percentage to

each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. In prior years, the estimate placed a higher emphasis on a write-off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach resulted in a decrease of approximately $13.3 million in the reserve. The collectability of receivables is continuously assessed, and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market value and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2014 or 2013.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers, the cost of gas purchased along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $40.4 million and $36.1 million and gas in storage of $7.7 million and $7.0 million at March 31, 2014 and 2013, respectively.

Derivatives

The Company uses derivative instruments for commodity price risk management. All derivative instruments are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract for which it elected the normal purchase normal sale exception, no longer qualifies, the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative on a gross basis, with related cash collateral recorded as special deposits in the accompanying balance sheets.

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivatives, or executory contracts. Power purchase agreements that do not qualify as leases or derivatives are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract among other factors.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. 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:

- 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; and
- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates and average service lives for the years ended March 31, 2014 and 2013 are as follows:

	Electric		Gas		Common	
	Years Ended March 31,		Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013	**2014**	2013
Composite rates	**2.2%**	2.1%	**2.1%**	2.5%	**4.5%**	4.5%
Average service lives	**58 years**	58 years	**49 years**	49 years	**38 years**	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs of removal recovered in excess of costs incurred of $380.0 million and $390.9 million at March 31, 2014 and 2013, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $12.4 million and $7.1 million and AFUDC related to debt of $5.7 million and $3.8 million for the years ended March 31, 2014 and 2013, respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 6.5% and 6.1%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 31, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2014 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2014 to March 31, 2019; (b) a discount rate of 5.5%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 10.0, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2014 or 2013.

Available-For-Sale Securities

The Company holds available-for-sale securities that include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in other non-current assets in the accompanying balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. The State of New York commenced an audit for the period December 2005 through February 2012 during the quarter ended September 30, 2012. The Company accrued $8.5 million and $8.1 million at March 31, 2014 and 2013, respectively, as other current liabilities in the accompanying balance sheets.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment, primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the

associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,329**	$ 9,937
Accretion expense	**507**	510
Liabilities settled	**(456)**	(118)
Balance as of the end of the year	**$ 10,380**	$ 10,329

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company has defined benefit pension and postretirement benefit ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2014

Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board ("FASB") issued amendments to address and clarify the scope of the disclosures related to offsetting assets and liabilities. Under the amendments, reporting entities are required to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement, such as for derivatives. The instruments and activities subject to these disclosures are recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. The Company adopted this guidance effective April 1, 2013, which only impacted its disclosures.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued amendments to address diversity in practice related to the presentation of unrecognized tax benefits in certain situations. The amendments require a liability related to an unrecognized tax benefit to be presented on a net basis with its associated deferred tax asset when utilization of such deferred tax assets is required or expected in the event the uncertain tax position is disallowed. Otherwise, the unrecognized tax benefit will be presented as a liability and will not be netted against deferred tax assets. The Company early adopted this guidance effective April 1, 2013 with no material impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued amendments to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The amendments require an entity to provide information either on the face of the financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company will adopt this guidance effective April 1, 2014, which will only impact its disclosures.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

		March31,	
		2014	2013
		(in thousands of dollars)	
Regulatory assets			
Current:			
	Amortization of deferral recoveries	**$ 15,819**	$ -
	Energy efficiency	**-**	6,106
	Rate adjustment mechanisms	**78,590**	30,080
	Other	**2,031**	-
		96,440	36,186
Non-current:			
	Dunkirk settlement deferral	**65,794**	29,114
	Environmental response costs	**432,923**	438,847
	Postretirement benefits	**428,913**	488,692
	Regulatory deferred tax asset	**67,839**	68,332
	Storm costs	**73,332**	28,472
	Other	**36,677**	45,936
	Total	**1,105,478**	1,099,393
Regulatory liabilities			
Current:			
	Derivative contracts	**31,052**	24,735
	Energy efficiency	**61,582**	46,449
	Rate adjustment mechanisms	**21,772**	31,551
	Other	**44,117**	1,450
		158,523	104,185
Non-current:			
	Carrying charges	**56,901**	169
	Cost of removal	**380,001**	390,914
	Economic development fund	**37,502**	40,346
	Environmental insurance proceeds	**20,627**	26,884
	Excess storm reserve	**58,778**	29,778
	Postretirement benefits	**104,915**	176,139
	Temporary state assessment	**59,537**	21,231
	Unbilled gas revenue	**21,556**	22,628
	Other	**82,413**	102,655
	Total	**822,230**	810,744
	Net regulatory assets	**$ 221,165**	$ 220,650

Amortization of deferral recoveries: In March 2013, the Company implemented the revised Electricity Supply Reconciliation Mechanism ("ESRM") methodology to better align the revenue with expense. This change resulted in unintentional financial impacts that the Company would not be able to recover. Therefore, the Company and NYPSC Staff agreed that the best way to allow the Company to recover the unreconciled dollars would be a return to the original ESRM methodology that was in place prior to March 2013. The NYPSC allowed the Company to recover the unreconciled costs of $31.6 million over a 12-month period beginning November 2013 applied to ESRM rates.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Derivative contracts (assets and liabilities): Gains or losses resulting from commodity derivatives are required to be refunded to, or recovered from, customers through the Company's commodity rate adjustment mechanisms. Accordingly, the Company evaluates open derivative contracts to determine if they are probable of recovery, or refund, through future rates charged to customers and qualify for regulatory deferral. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Dunkirk settlement deferral: Represents the Company's deferral costs of procuring Reliability Support Services ("RSS") from Dunkirk Power LLC and related accrued carrying charges. In accordance with the NYPSC Case 12-E-0136 dated August 16, 2012, the Company entered into an agreement under which it would procure RSS from NRG Energy, Inc.'s Dunkirk Power LLC generating station to maintain transmission system reliability in western New York for an interim period. Case 12-E-0201 addressed RSS cost recovery and provides that up to $57.0 million of electric deferred credits will be used to offset RSS costs associated with the RSS agreement relating to Dunkirk. Amounts incurred in excess of $57.0 million would be recovered through the generic RSS Surcharge. On March 1, 2014, the Company filed RSS Surcharge Statement No. 1 which provides for recovery from customers of cost incurred by the Company, and approved by the NYPSC, for third party services to ensure that local reliability needs are met.

Economic development fund: Represents actual expenditures and economic development discounts below the rate allowance, deferred for future return.

Energy efficiency ("EE"): This amount represents the difference between revenue billed to customers through its EE Charge and the costs of the Company's EE programs as approved by the NYPSC.

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery or return to customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Environmental issuance proceeds: Represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs.

Excess storm reserve: Represents the cumulative Storm Reserve allowance / funding for major storm incremental costs. The Joint Proposal (NMPC rate proceeding Case 12-E-0201) establishes an annual allowance for major storm recovery of $29 million in each of the three years. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers.

Postretirement benefits: Represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods. These balances accrue carrying charges as calculated in accordance with the Company's pension and PBOP reserve mechanism.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Regulatory deferred tax asset: This amount represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently amortizing into rates at a stated annual revenue requirement under the current rate plan.

Storm costs: The Company's rate plan provides for a rate allowance of $29 million regulatory liability annually for incremental major storm costs. The Company has recorded $44.9 million storm cost regulatory assets arising from qualified storm events for recovery during the year.

Temporary state assessment: 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 ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. The estimated Temporary State Assessment filed amounted to $54.4 million and $15.0 million for electric and gas, respectively. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers respectively for rates effective July 1, 2014 through June 30, 2015.

Unbilled gas revenue: Per a stipulation in Case No. 93-G-1062, the Company is permitted to recognize unbilled revenues subject to offsetting the revenues with a regulatory liability for future customers benefit.

The Company records carrying charges on regulatory balances related to rate adjustment mechanisms and deferred environmental response costs 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.

4. RATE MATTERS

March 2013 Electric and Gas Filing

In March 2013 the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The term of the new rate plan is from April 1, 2013 through March 31, 2016 and provides for an electric revenue requirement of $1,338 million in the first year, $1,396 million in the second year, and $1,443 million in the third year. It also provides for a gas revenue requirement of $307 million in the first year, $315 million in the second year, and $322 million in the third year.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA also challenges certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint against the Company seeking an order effective February 6, 2014 to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the

NYISO, with a corresponding overall weighted cost of capital of 6.60%. At this time, the Company cannot predict the outcome of the complaint. Any change in the ROE would not have an impact on net income because the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its RSS costs under two agreements with NRG to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014 the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of National Grid's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On May 23, 2014, National Grid filed a Joint Proposal with the NYPSC that, if approved, resolves all outstanding issues relating to the audit and provides for no rate adjustments for the Company. Accordingly, the Company does not believe that the outcome of this matter will have a material impact on its financial position, results of operations, or cash flows.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. On June 13, 2013, the NYPSC selected NorthStar Consulting Group to conduct the audit, which commenced in July 2013. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this management and operational audit.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, the Company filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which the Company calculates its supply-related Mass Market Adjustment ("MMA"). The Company proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting the Company's waiver request (the "Emergency Order"). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, the Company's request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing the Company to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Plant and machinery	**$ 9,558,727**	$ 9,129,294
Land and buildings	**545,537**	531,732
Assets in construction	**439,070**	334,633
Software and other intangibles	**6,361**	6,361
Total property, plant and equipment	**10,549,695**	10,002,020
Accumulated depreciation and amortization	**(3,079,787)**	(2,921,904)
Property, plant and equipment, net	**$ 7,469,908**	$ 7,080,116

6. DERIVATIVE CONTRACTS

The Company utilizes derivative instruments, such as options, swaps and gas purchase contracts, to manage commodity price risk associated with its natural gas and electricity purchases. The Company's risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure to, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") and megawatt hours ("Mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands)		*(in thousands)*	
Gas swap contracts (dths)	**-**	-	**1,360**	4,780
Gas option contracts (dths)	**-**	-	**6,250**	1,150
Gas purchase contracts (dths)	**-**	-	**14,758**	7,615
Electric swap contracts (Mwhs)	**6,637**	6,309	**-**	-
Electric options contracts (Mwhs)	**154**	-	**-**	-
Total:	**6,791**	6,309	**22,368**	13,545

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives		
	March 31,			March 31,		
	2014	2013		**2014**	2013
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			**Current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 525**	$ 1,636	Gas swap contracts	**$ 27**	$ 10
Gas option contracts	**612**	328	Gas option contracts	**175**	38
Gas purchase contracts	**182**	-	Gas purchase contracts	**5,105**	-
Electric swap contracts	**36,360**	17,533	Electric swap contracts	**1,417**	444
Electric options contracts	**598**	-	Electric options contracts	**10**	-
	38,277	19,497		**6,734**	492
Other non-current assets:			**Other non-current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**7,762**	6,202	Electric swap contracts	**8,254**	472
	7,762	6,202		**8,254**	472
Total	**$ 46,039**	$ 25,699	Total	**$ 14,988**	$ 964

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company

enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The Company's credit exposure for all derivative instruments and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was $28.2 million and $24.7 million as of March 31, 2014 and 2013, respectively.

The Company enters into commodity transactions on New York Mercantile Exchange ("NYMEX"). The NYMEX clearing houses act as the counterparty to each trade. Transactions on the NYMEX must adhere to comprehensive collateral and margining requirements. As a result, transactions on NYMEX are significantly collateralized and have limited counterparty credit risk.

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $9.7 million and zero, respectively. The Company had no collateral posted for these instruments at March 31, 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $9.9 million and zero additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 525	$ -	$ 525	$ -	$ -	$ 525
Gas option contracts	612	-	612	-	-	612
Gas purchase contracts	182	-	182	-	-	182
Electric swap contracts	44,122	-	44,122	-	2,800	41,322
Electric option contracts	598	-	598	-	-	598
Total	$ 46,039	$ -	$ 46,039	$ -	$ 2,800	$ 43,239

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 27	$ -	$ 27	$ -	$ -	$ 27
Gas option contracts	175	-	175	-	-	175
Gas purchase contracts	5,105	-	5,105	-	-	5,105
Electric swap contracts	9,671	-	9,671	-	-	9,671
Electric option contracts	10	-	10	-	-	10
Total	$ 14,988	$ -	$ 14,988	$ -	$ -	$ 14,988

March 31, 2013
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 1,636	$ -	$ 1,636	$ -	$ -	$ 1,636
Gas option contracts	328	-	328	-	-	328
Electric swap contracts	23,735	-	23,735	-	-	23,735
Total	$ 25,699	$ -	$ 25,699	$ -	$ -	$ 25,699

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 10	$ -	$ 10	$ -	$ -	$ 10
Gas option contracts	38	-	38	-	-	38
Electric swap contracts	916	-	916	-	-	916
Total	$ 964	$ -	$ 964	$ -	$ -	$ 964

7. FAIR VALUE MEASUREMENTS

The following table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and 2013:

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 525	$ -	$ 525
Gas option contracts	-	-	612	612
Gas purchase contracts	-	182	-	182
Electric swap contracts	-	43,982	140	44,122
Electric option contracts	-	-	598	598
Available-for-sale securities	18,818	9,174	-	27,992
Total	18,818	53,863	1,350	74,031
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	175	175
Gas purchase contracts	-	5,105	-	5,105
Electric swap contracts	-	9,671	-	9,671
Electric option contracts	-	-	10	10
Total	-	14,803	185	14,988
Net assets	$ 18,818	$ 39,060	$ 1,165	$ 59,043

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 1,636	$ -	$ 1,636
Gas option contracts	-	-	328	328
Electric swap contracts	-	23,668	67	23,735
Available-for-sale securities	16,612	8,423	-	25,035
Total	16,612	33,727	395	50,734
Liabilities:				
Derivative contracts				
Gas swap contracts	-	10	-	10
Gas option contracts	-	-	38	38
Electric swap contracts	-	916	-	916
Total	-	926	38	964
Net assets	$ 16,612	$ 32,801	$ 357	$ 49,770

Derivative Contracts*:* The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") electric and gas swaps and forward gas purchase contracts with pricing inputs obtained from the NYMEX and Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. 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 95% or higher.

The Company's Level 3 fair value derivative instruments primarily consist of gas option and electric option and swap transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Available-for-Sale Securities: Available-for-sale securities are included in other non-current assets in the accompanying balance sheets and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 357**	$ (252)
Transfers out of Level 3	**818**	(4,086)
Total gains or losses included in regulatory assets and liabilities	**(260)**	5,215
Settlements	**250**	(520)
Balance as of the end of the year	**$ 1,165**	$ 357

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2014 or 2013.

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Financial							
Gas	Gas option contracts	$ 612	$ (175)	$ 437	Discounted Cash Flow	Forward Curve Implied Volatility	$0.120-$0.720 29% - 31%
Electric	Electric swap contracts	$ 140	$ -	$ 140	Discounted Cash Flow	Implied Volatility	29% - 65%
Electric	Electric option contracts	$ 598	$ (10)	$ 588	Discounted Cash Flow	Implied Volatility	29% - 65%
	Total	$ 1,350	$ (185)	$ 1,165			

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas option derivatives and electric option and swap derivatives are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices, where available or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $2.6 billion and $2.8 billion, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). In general, the Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to make no contributions to the qualified pension plan during the year ended March 31, 2015 due to the overfunded status of the plan.

PBOP Plans

The Company's PBOP Plans 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 PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $78.3 million to the PBOP Plans during the year ended March 31, 2015.

Defined Contribution Plan

NGUSA has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying statements of income of $7.7 million and $7.2 million, respectively, for matching contributions.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. A portion of the cost of these plans is charged to the Company to the extent employee's participating in those plans provide services to the Company. The Company is also allocated costs associated with affiliated service companies' employees for work performed on the Company's behalf.

Components of Net Periodic Benefit Costs

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Service cost, benefits earned during the year	**$ 24,888**	$ 24,772	**$ 20,618**	$ 16,676
Interest cost	**60,507**	63,590	**70,219**	68,827
Expected return on plan assets	**(93,849)**	(92,618)	**(73,904)**	(63,329)
Amortization of unrecognized prior service cost	**4,805**	4,805	**12,681**	12,681
Amortization of unrecognized net loss	**61,957**	77,397	**26,371**	37,366
Settlement loss	**13,815**	967	**-**	-
Total cost	**$ 72,123**	$ 78,913	**$ 55,985**	$ 72,221

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Net actuarial (loss) gains	**$ (12,327)**	$ 4,084	**$ 54,283**	$ 60,618
Amortization of loss	**(61,957)**	(77,396)	**(26,371)**	(37,366)
Amortization of prior service cost	**(4,805)**	(4,805)	**(12,681)**	(12,681)
Total	**$ (79,089)**	$ (78,117)	**$ 15,231**	$ 10,571
Included in regulatory assets	**$ (77,880)**	$ (78,619)	**$ 15,231**	$ 10,571
Included in AOCI	**(1,209)**	502	**-**	-
Total	**$ (79,089)**	$ (78,117)	**$ 15,231**	$ 10,571

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Net actuarial loss	**$ 195,914**	$ 270,198	**$ 192,037**	$ 164,125
Prior service cost	**23,738**	28,543	**5,240**	17,921
Total	**$ 219,652**	$ 298,741	**$ 197,277**	$ 182,046
Included in regulatory assets	**$ 218,289**	$ 296,168	**$ 197,277**	$ 182,046
Included in AOCI	**1,363**	2,573	**-**	-
Total	**$ 219,652**	$ 298,741	**$ 197,277**	$ 182,046

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a 10-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2015 for Pension Plans and PBOB Plans is $62.4 million and $46.1 million, respectively.

Reconciliation of Funded Status to Amount Recognized

The benefit obligation, assets and funded status of the Plans cannot be presented separately for the Company because it participates in the Plans sponsored by NGUSA.

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,479,164)**	$ (1,435,365)	**$ (1,605,949)**	$ (1,484,665)
Service cost	**(29,883)**	(29,531)	**(23,999)**	(18,928)
Interest cost on projected benefit obligation	**(67,033)**	(69,815)	**(74,154)**	(71,890)
Net actuarial loss	**(41,993)**	(62,516)	**(109,971)**	(86,955)
Benefits paid	**54,108**	114,853	**71,626**	70,985
Actual Medicare Part D Subsidy received	**-**	-	**(282)**	(14,603)
Settlements	**114,657**	3,210	**-**	107
Actual EGWP subsidy received	**-**	-	**(10,199)**	-
Benefit obligation as of the end of the year	**(1,449,308)**	(1,479,164)	**(1,752,928)**	(1,605,949)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,772,538**	1,677,800	**1,026,854**	831,192
Actual return on plan assets	**132,212**	159,803	**124,086**	87,847
Company contributions	**412**	52,998	**125,320**	178,907
Benefits paid	**(54,108)**	(114,853)	**(71,626)**	(70,985)
Settlements	**(114,657)**	(3,210)	**-**	(107)
Fair value of plan assets as of the end of the year	**1,736,397**	1,772,538	**1,204,634**	1,026,854
Funded status	**$ 287,089**	$ 293,374	**$ (548,294)**	$ (579,095)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.4 billion and $1.3 billion at March 31, 2014 and 2013, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans March 31,		PBOP Plans March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Current liabilities	**$ (411)**	$ (453)	**$ (4,600)**	$ (2,000)
Non-current assets	**310,382**	302,911	**-**	-
Non-current liabilities	**-**	-	**(506,034)**	(531,580)
Total	**$ 309,971**	$ 302,458	**$ (510,634)**	$ (533,580)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2014:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOB Plans
2015	$ 154,352	$ 74,482
2016	151,007	77,158
2017	149,517	80,009
2018	143,990	82,290
2019	134,417	84,803
Thereafter	550,600	457,566
Total	$ 1,283,883	$ 856,308

As a result of the Medicare Act of 2003, the Company receives a federal subsidy for sponsoring a retiree healthcare plan that provides a benefit that is actuarially equivalent to Medicare Part D.

Assumptions Used for Employee Benefits Accounting

	Pension Plans Years Ended March 31,		PBOP Plans Years Ended March 31,	
	2014	2013	**2014**	2013
Benefit Obligations				
Discount rate	**4.80%**	4.70%	**4.80%**	4.70%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**7.00%**	6.75%	**7.00%-7.25%**	7.00%-7.50%
Net Periodic Benefit Costs				
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**6.75%**	6.75%	**7.00%-7.50%**	7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based on 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 assumptions. 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 target asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2014	2013
Health care cost trend rate assumed for next year		
Pre 65	**8.00%**	8.00%
Post 65	**7.00%**	7.50%
Prescription	**7.00%**	8.25%
Rate to which the cost trend is assumed to decline (ultimate)	**5.00%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2022**	2019
Post 65	**2021**	2018
Prescription	**2021**	2020

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	March 31, 2014
1% point increase	
Total of service cost plus interest cost	$ 18,365
Postretirement benefit obligation	257,475
1% point decrease	
Total of service cost plus interest cost	(15,185)
Postretirement benefit obligation	(224,354)

Plan Assets

The Company manages the benefit plan investments to minimize the long-term cost of operating the plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the plan's 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 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. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations by asset class were as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**0%**	0%
Real estate	**4%**	4%	**0%**	0%
Infrastructure	**2%**	2%	**0%**	0%
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets.

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,974	$ 20,449	$ -	$ 22,423
Accounts receivable	11,275	-	-	11,275
Accounts payable	(13,239)	-	-	(13,239)
Equity	145,859	393,053	72,145	611,057
Global tactical asset allocation	-	51,846	13,297	65,143
Fixed income securities	-	851,236	15,972	867,208
Preferred securities	2,423	-	-	2,423
Private equity	-	-	88,345	88,345
Futures contracts	531	-	-	531
Real estate	-	-	81,231	81,231
Total	**$ 148,823**	**$ 1,316,584**	**$ 270,990**	**$ 1,736,397**
PBOP Assets:				
Cash and cash equivalents	$ 27,033	$ 423	$ -	$ 27,456
Accounts receivable	2,460	-	-	2,460
Accounts payable	(3,910)	-	-	(3,910)
Equity	164,046	617,845	59,643	841,534
Global tactical asset allocation	34,156	47,238	11,602	92,996
Fixed income securities	425	243,617	-	244,042
Futures contracts	56	-	-	56
Total	**$ 224,266**	**$ 909,123**	**$ 71,245**	**$ 1,204,634**

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 3,088	$ 10,424	$ -	$ 13,512
Accounts receivable	32,232	-	-	32,232
Accounts payable	(28,135)	-	-	(28,135)
Equity	200,436	421,726	19,103	641,265
Global tactical asset allocation	-	67,654	14,208	81,862
Fixed income securities	-	861,180	21,533	882,713
Preferred securities	2,435	-	-	2,435
Private equity	-	-	79,036	79,036
Real estate	-	-	67,618	67,618
Total	**$ 210,056**	**$ 1,360,984**	**$ 201,498**	**$ 1,772,538**
PBOP Assets:				
Cash and cash equivalents	$ 56,747	$ 3,318	$ -	$ 60,065
Accounts receivable	4,058	-	-	4,058
Accounts payable	(3,876)	-	-	(3,876)
Equity	149,740	543,262	8,862	701,864
Global tactical asset allocation	30,999	35,075	8,307	74,381
Fixed income securities	-	190,356	6	190,362
Total	**$ 237,668**	**$ 772,011**	**$ 17,175**	**$ 1,026,854**

The methods used to fair value pension and PBOB assets are described below.

Cash and Cash Equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts Receivable and Accounts Payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and Preferred Securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the net asset value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets, and they are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Global Tactical Asset Allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and

individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds are classified as Level 1 and have observable pricing. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate.

Fixed Income Securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an 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 when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3.

Private Equity and Real Estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (NAV per fund share), based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3.

Future Contracts: Corporate debt securities, foreign debt securities, U.S. Government and Government agency securities (comprised of government agency securities, municipal bonds, government mortgage-backed securities, and index linked government bonds), derivatives (comprised of interest rate swaps, credit default 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 evaluation or an institutional mid evaluation. A bid valuation 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). Often times, 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.

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 Level 3 financial instruments could result in a different fair value measurement at the reporting date.

Changes in Level 3 Plan Investments

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Balance as of the beginning of the year	**$ 201,498**	$ 229,200	**$ 17,175**	$ 29,910
Transfers out of Level 3	**(15,974)**	(1,903)	**-**	(16,270)
Transfers in to Level 3	**64,179**	410	**47,026**	25,684
Actual gain or loss on plan assets				
Realized gain	**9,096**	11,972	**591**	-
Unrealized gain	**7,977**	3,932	**(1,160)**	318
Purchases	**191,721**	143,053	**8,204**	172,139
Sales	**(187,507)**	(185,166)	**(591)**	(194,606)
Balance as of the end of the year	**$ 270,990**	$ 201,498	**$ 71,245**	$ 17,175

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in a decrease in income before taxes of approximately $1.8 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $10.7 million and $10.1 million respectively.

9. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt, which expired on November 30, 2013. Effective April 2014, the Company entered into an Equity Contribution Agreement with the Parent which provides the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit until such time as regulatory approval for short-term borrowing is regained. The Company has not made use of this facility since its effective date. The Company had no short-term debt outstanding to third parties as of March 31, 2014 or 2013.

In June 2012, the Company filed a petition with the NYPSC seeking multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In September 2012, the NYPSC granted this authority. In November 2012, the Company issued $400 million of unsecured long-term debt at 4.119% with a maturity date of November 28, 2042 and $300 million of unsecured long-term debt at 2.721% with a maturity date of November 28, 2022, under this authority.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $604 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $529 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.38% to 0.53% for the year ended March 31, 2014. The bonds are currently in auction rate

mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in either of the years ended March 31, 2014 or 2013.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, 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 the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Current Maturities of Long-term Debt

(in thousands of dollars)	
Years Ending March 31,	
2015	$ 500,000
2016	100,000
2017	-
2018	-
2019	-
Thereafter	1,954,465
Total	$ 2,554,465

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2014 and 2013.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the Merger Rate Plan, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2014**	2013	**2014**	2013	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Total	**289,847**	289,847	**$ 28,985**	$ 28,985	

The Company did not redeem any preferred stock during the years ended March 31, 2014 or 2013. The annual dividend requirement for cumulative preferred stock was approximately $1.1 million for the years ended March 31, 2014 and 2013.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 22,946**	$ (8,381)
State	**7,187**	6,122
Total current tax expense (benefit)	**30,133**	(2,259)
Deferred tax expense:		
Federal	**95,307**	85,696
State	**21,600**	14,573
Total deferred tax expense	**116,907**	100,269
Amortized investment tax credits [1]	**(1,936)**	(1,976)
Total deferred tax expense	**114,971**	98,293
Total income tax expense	**$ 145,104**	$ 96,034

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

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended March 31, 2014 and 2013 is 35.6% and 35.3%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax	**$ 142,816**	$ 95,268
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**18,712**	13,452
Temporary differences flowed through	**(4,342)**	(3,697)
Allowance for equity funds used during construction	**(4,247)**	(2,498)
Investment tax credits	**(1,936)**	(1,976)
Other items, net	**(5,899)**	(4,515)
Total	**2,288**	766
Federal and state income taxes	**$ 145,104**	$ 96,034

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the IRS issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected or required by the final regulations. At March 31, 2014, $12.8 million of deferred tax liabilities have been classified as current in the accompanying balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, the Company decreased its New York State liability by $14.3 million with an offset to regulatory liabilities to reflect the decrease in tax rate.

Deferred Tax Components

	March 31, 2014	March 31, 2013
	(in thousands of dollars)	
Deferred tax assets:		
Postretirement benefits	**$ 111,715**	$ 178,054
Environmental remediation costs	**180,185**	184,755
Allowance for doubtful accounts	**50,100**	53,134
Regulatory liabilities - other	**165,814**	123,594
Future federal benefit on state taxes	**43,071**	40,418
Other items	**18,251**	38,833
Total deferred tax assets [1]	**569,136**	618,788
Deferred tax liabilities:		
Property related differences	**1,839,011**	1,746,203
Regulatory assets - environmental response costs	**167,270**	164,710
Regulatory assets - postretirement benefits	**133,236**	224,837
Other items	**95,419**	31,229
Total deferred tax liabilities	**2,234,936**	2,166,979
Net deferred income tax liabilities	**1,665,800**	1,548,191
Deferred investment tax credits	**21,974**	23,911
Net deferred income tax liabilities and investment tax credits	**1,687,774**	1,572,102
Current portion of deferred income tax assets	**82,855**	100,784
Deferred income tax liabilities	**$ 1,770,629**	$ 1,672,886

[1] There were no valuation allowances for deferred tax assets at March 31, 2014 or 2013.

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $121.0 million and $120.2 million, respectively, of which $12.4 million and $13.8 million would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31, 2014	Years Ended March 31, 2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 120,195**	$ 159,526
Gross increases - tax positions in prior periods	**9,028**	131
Gross decreases - tax positions in prior periods	**(335)**	(37,301)
Gross increases - current period tax positions	**3,917**	2,738
Gross decreases - current period tax positions	**(41)**	(4,899)
Settlements with tax authorities	**(11,781)**	-
Balance as of the end of the year	**$ 120,983**	$ 120,195

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $10.4 million and $13.1 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded a reduction to interest expense of $1.3 million and $1.4 million, respectively. The Company recognizes interest related to unrecognized tax

benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2014 or 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flow.

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group through March 31, 2007. As a result of the agreement with the IRS, the Company anticipates to pay NGNA $8.3 million in the next twelve months.

During the year ended March 31, 2014 the IRS has concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the years ended March 31, 2008 through March 31, 2009. These examinations were completed on March 31, 2014, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax.

The years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's New York State income tax returns for the years ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York.

The following table indicates the earliest tax year subject to examination:

Jurisdiction	Tax Year
Federal	March 31, 2009
New York	March 31, 2006

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2014 and 2013 were $41.6 million and $31.4 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $432.9 million and $438.8 million at March 31, 2014 and 2013, respectively. These costs are expected to be incurred over the next 45 years, and these undiscounted amounts have been recorded as liabilities in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The high end of the range of potential liabilities at March 31, 2014, was estimated at $560.7 million. The Company has recovered amounts from certain insurers

and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42.0 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42.0 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2014 and 2013, the Company has recorded environmental regulatory assets of $432.9 million and $438.8 million, respectively, and environmental regulatory liabilities of $20.6 million and $26.9 million, respectively.

On April 26, 2013, General Electric ("GE") filed a lawsuit against the Company seeking contribution under the Comprehensive Environmental Response, Compensation, and Liability Act for an unspecified portion of GE's alleged response costs incurred in remediating polychlorinated biphenyl ("PCB") contamination in the Hudson River. GE alleges that the Company's removal of the Fort Edward Dam in 1973 resulted in the migration of sediments, contaminated with PCBs released into the environment by GE, downstream of the former dam's location. On June 25, 2013, the Company answered GE's complaint denying liability. The parties executed a confidential settlement agreement on December 13, 2013. By stipulation of the parties and Court order, GE's claims against the Company were dismissed with prejudice on January 13, 2014.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

Nuclear Contingencies

As of March 31, 2014 and 2013, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission ("NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the District of Columbia Circuit. In January 2010 the U.S. government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the U.S. Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has several long-term contracts for the purchase of electricity and gas, gas storage, and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from customers as purchased electricity and gas. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2015	$ 201,385	$ 144,487
2016	153,185	1,132
2017	107,489	-
2018	97,236	-
2019	96,164	636
Thereafter	790,916	-
Total	$ 1,446,375	$ 146,255

The Company can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the NYISO at market prices.

Operating Lease Commitments

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.6 million and $4.0 million for the years ended March 31, 2014 and 2013, respectively.

A summary of future minimum lease payments due each year subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ended March 31,	
2015	$ 4,858
2016	4,754
2017	4,735
2018	4,637
2019	4,640
Thereafter	33,093
Total	$ 56,717

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

13. RELATED PARTY TRANSACTIONS

Advances from Affiliates

In June 2009, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $500 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliate of $200 million and zero, respectively.

In June 2009, the Company entered into an agreement with Niagara Mohawk Holdings, Inc., whereby the Company can borrow up to $450 million from time to time for working capital needs. The average interest rates were 0.7% and 0.6% for the years ended March 31, 2014 and 2013, respectively. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliates of $25 million and $20 million, respectively.

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates balances is as follows:

	Accounts Receivable from Affiliates March 31,		Accounts Payable to Affiliates March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)		*(in thousands of dollars)*	
NGUSA Service Company	**$ -**	$ -	**$ 57,212**	$ 40,094
Opinac North America, Inc.	**-**	-	**16,999**	16,999
NGUSA	**-**	-	**2,419**	70,732
The Narragansett Electric Company	**-**	-	**1,215**	456
Massachusetts Electric Company	**4,966**	4,077	**-**	-
Brooklyn Union Gas Company	**901**	1,780	**-**	-
National Grid Engineering Services, LLC	**4,836**	-	**-**	-
National Grid Electric Services	**-**	-	**680**	4,853
KeySpan Gas East Corporation	**1,085**	927	**-**	-
Other	**859**	543	**635**	1,553
Total	**$ 12,647**	$ 7,327	**$ 79,160**	$ 134,687

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool. The Company is a participant in the Regulated Money Pool and can both borrow and lend funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the intercompany money pool agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable and payable from affiliate balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of $131.7 million and $97.2 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.6% for the years ended March 31, 2014 and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were $466 million and $498.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $15.0 million and $12.6 million before taxes, and $9.1 million and $8.2 million after taxes, for the years ended March 31, 2014 and 2013, respectively.

EXHIBIT 1

National Grid plc

Financial information
submission for the New York Public Service Commission

Year ended	March 31, 2014
Exchange rate (balance sheet)	$1.67:£1.00
Exchange rate (income statement)	$1.62:£1.00
Exchange rate (opening)	$1.52:£1.00
Exchange rate (acquisition)	$2.01:£1.00

Note: Numbers are rounded on conversion into US dollars.
Rounded numbers may not cast.

Consolidating schedules as at March 31, 2014	National Grid plc *IFRS company* *$'m*	National Grid USA *IFRS consolidated (section 2)* *$'m*	National Grid Gas plc *IFRS consolidated (section 3)* *$'m*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)* *$'m*	Other major subsidiaries *IFRS aggregated (section 4)* *$'m*	Total of non-major subsidiaries *IFRS aggregated* *$'m*	Consol-idation adjustments *IFRS* *$'m*	**National Grid plc *IFRS consolidated* *$'m***	National Grid plc *US GAAP adjustments* *$'m*	**National Grid plc *US GAAP consolidated* *$'m***
Condensed balance sheet										
Goodwill	-	7,655	-	-	-	3	2	**7,660**	3,584	**11,244**
Other intangible assets	-	450	387	265	13	-	-	**1,115**	(1,115)	**-**
Property, plant & equipment	-	22,163	20,464	17,529	1,887	(3)	(48)	**61,992**	1,179	**63,171**
Investments in subsidiaries	14,678	-	-	-	179,466	33,270	(227,413)	**-**	-	**-**
Investments	-	193	-	-	432	7	(45)	**1,059**	-	**1,059**
Non-current regulatory assets	-	-	-	-	-	-	-	**-**	3,586	**3,586**
Other non-current assets	1,072	894	1,085	414	40	(2)	-	**3,031**	3,201	**6,233**
Intercompany receivables	15,557	3,690	9,461	32	66,504	23,916	(119,159)	**-**	-	**-**
Inventories	-	331	40	48	27	-	-	**447**	(43)	**404**
Receivables and other current assets	479	3,650	722	412	405	117	(335)	**5,449**	56	**5,505**
Regulatory assets	-	-	-	-	-	-	-	**-**	-	**-**
Financial and other investments	2,469	1,420	699	539	820	53	-	**6,001**	(3,610)	**2,391**
Cash and cash equivalents	40	321	-	-	227	2	-	**590**	3,610	**4,200**
Assets of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total assets	34,295	40,767	32,858	19,238	249,822	57,362	(346,999)	**87,345**	10,448	**97,793**
Borrowings (including bank overdrafts)	(2,213)	(1,216)	(954)	(195)	(427)	(850)	-	**(5,854)**	754	**(5,100)**
Current liabilities	(539)	(2,411)	(1,454)	(1,494)	(529)	(38)	320	**(6,089)**	(30)	**(6,120)**
Current tax liabilities	-	(160)	(45)	5	(80)	(13)	-	**(280)**	116	**(164)**
Intercompany payables	(17,875)	(5,849)	(3,440)	(1,329)	(81,581)	(9,306)	119,434	**-**	-	**-**
Non-current borrowings	(3,085)	(8,459)	(11,190)	(9,538)	(5,254)	(5)	110	**(37,415)**	616	**(36,799)**
Other non-current liabilities	(257)	(2,396)	(2,508)	(1,331)	(230)	2	-	**(6,716)**	1,531	**(5,186)**
Deferred tax liabilities	(7)	(2,877)	(2,666)	(1,227)	(52)	20	-	**(6,806)**	(5,435)	**(12,241)**
Pensions and other post-retirement benefits	-	(3,053)	-	(850)	(405)	(2)	-	**(4,310)**	486	**(3,824)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total liabilities	(23,974)	(26,421)	(22,256)	(15,959)	(88,557)	(10,193)	119,864	**(67,471)**	(1,963)	**(69,434)**
Shareholders' equity	(10,321)	(14,334)	(10,603)	(3,280)	(161,264)	(47,169)	227,137	**(19,860)**	(8,449)	**(28,309)**
Minority interests	-	(12)	2	-	-	-	(2)	**(13)**	(36)	**(50)**
Total liabilities and equity	(34,295)	(40,767)	(32,858)	(19,238)	(249,822)	(57,362)	346,999	**(87,345)**	(10,448)	**(97,793)**

Consolidating schedules as at March 31, 2014	National Grid plc *IFRS company* *$'m*	National Grid USA *IFRS consolidated (section 2)* *$'m*	National Grid Gas plc *IFRS consolidated (section 3)* *$'m*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)* *$'m*	Other major subsidiaries *IFRS aggregated (section 4)* *$'m*	Total of non-major subsidiaries *IFRS aggregated* *$'m*	Consol-idation adjustments *IFRS* *$'m*	**National Grid plc *IFRS consolidated* *$'m***	National Grid plc *US GAAP adjustments* *$'m*	**National Grid plc *US GAAP consolidated* *$'m***
Condensed income statement										
Revenue	-	13,036	4,874	5,486	538	76	(31)	**23,980**	(46)	**23,934**
Other operating income	6	1	172	-	23	39	(241)	**-**	-	**-**
Operating costs	24	(11,138)	(2,845)	(3,839)	(390)	(212)	468	**(17,931)**	(737)	**(18,668)**
Operating profit	31	1,899	2,201	1,647	170	(97)	196	**6,049**	(783)	**5,266**
Net finance costs	(209)	(613)	(457)	(285)	88	62	(232)	**(1,644)**	488	**(1,156)**
Dividend income	1,700	-	-	-	4,563	546	(6,791)	**-**	-	**-**
Share of post-tax results of joint ventures	-	22	-	-	-	-	24	**45**	(22)	**23**
Profit before taxation	1,522	1,308	1,744	1,362	4,820	510	(6,803)	**4,450**	(317)	**4,133**
Taxation	57	(466)	2	(128)	107	(66)	36	**(460)**	351	**(109)**
Profit for the year	1,579	842	1,746	1,234	4,927	444	(6,767)	**3,990**	34	**4,024**
Minority interests	-	23	-	-	-	(3)	-	**19**	(1)	**18**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	**-**	-	**-**
Net income from continuing operations	1,579	865	1,746	1,234	4,927	440	(6,767)	**4,009**	33	**4,042**
Net income from discontinued operations	-	-	-	-	-	-	-	**-**	-	**-**
Net income attributable to equity shareholders	1,579	865	1,746	1,234	4,927	440	(6,767)	**4,009**	33	**4,042**

Condensed cash flow statement										
Net cash inflow from operating activities	63	1,367	2,813	2,024	439	(125)	(74)	**6,508**	(13)	**6,495**
Net cash inflow from investing activities	2,199	(2,571)	(180)	(980)	1,134	(729)	(1,028)	**(2,154)**	(3,275)	**(5,428)**
Net cash inflow from financing activities	(2,771)	1,428	(2,643)	(1,059)	(1,717)	850	1,102	**(4,812)**	-	**(4,812)**
Net increase in cash and cash equivalents	(508)	224	(10)	(15)	(144)	(3)	-	**(458)**	(3,288)	**(3,746)**
Exchange movements	35	-	(1)	0	5	0	-	**39**	627	**666**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Net cash and cash equivalents at start of year	514	97	(5)	5	368	5	-	**985**	6,295	**7,280**
Net cash and cash equivalents at end of year (i)	40	321	(15)	(10)	228	2	-	**565**	3,635	**4,200**

(i) Net of bank overdrafts

Consolidating schedules as at March 31, 2014	National Grid USA Parent Co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	(2)	1,279	338	1,008	725	-	16	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	(1)	7,470	1,812	2,518	2,137	-	70	27	19	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	17,682	3	2	-	-	-	-	-	-	-
Non-current regulatory assets	-	1,105	129	547	445	-	5	2	1	-
Other non-current assets	122	(3,298)	20	22	13	-	2	-	(2)	-
Intercompany receivables	(1,496)	143	276	258	178	36	61	-	-	-
Inventories	-	48	3	62	18	-	-	5	-	-
Receivables and other current assets	41	936	141	418	347	-	8	3	3	1
Current regulatory assets	-	96	-	163	105	-	5	-	-	-
Financial and other investments	21	16	-	83	30	-	-	-	-	-
Cash and cash equivalents	829	28	1	14	13	-	1	-	-	-
	-	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	17,196	7,826	2,722	5,093	4,011	36	168	37	21	1
Borrowings (including bank overdrafts)	(103)	(500)	-	(20)	(1)	-	-	-	-	-
Current liabilities	(88)	(561)	(108)	(441)	(265)	1	(18)	(3)	(1)	-
Current tax liabilities	66	(21)	(57)	-	(14)	-	(3)	(5)	-	-
Intercompany notes payables	(797)	(268)	(412)	(636)	(275)	(30)	(29)	(14)	(6)	(2)
Non-current borrowings	(1,159)	(2,054)	(410)	(798)	(847)	-	(52)	-	-	-
Other non-current liabilities	(22)	(1,598)	(109)	(461)	(367)	(1)	(5)	(2)	(9)	-
Deferred tax liabilities	(9)	(1,771)	(434)	(590)	(467)	-	(14)	(3)	-	-
Pensions and other post-retirement benefits	(3)	(506)	-	(112)	(126)	-	(5)	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(2,115)	(7,279)	(1,530)	(3,058)	(2,362)	(30)	(126)	(27)	(16)	(2)
Shareholders' equity	(15,078)	(547)	(1,192)	(2,035)	(1,649)	(6)	(42)	(5)	(3)	1
Minority interests	(3)	-	-	-	-	-	-	(5)	(2)	-
Total liabilities and equity	(17,196)	(7,826)	(2,722)	(5,093)	(4,011)	(36)	(168)	(37)	(21)	(1)

Consolidating schedules as at March 31, 2014	National Grid USA Parent Co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	36	3,572	383	2,352	1,420	-	28	23	19	-
Other operating income/ (expense)	(37)	12	7	3	7	-	-	-	-	-
Operating costs	(335)	(3,075)	(230)	(2,275)	(1,265)	-	(24)	(19)	(18)	-
Operating profit	(336)	509	160	80	162	-	4	4	1	-
Net finance costs	(44)	(100)	(7)	(53)	(46)	-	(1)	(1)	(1)	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	(380)	409	153	27	116	-	3	3	-	-
Taxation	161	(145)	(61)	(12)	(39)	-	(2)	-	-	-
Profit for the year	(219)	264	92	15	77	-	1	3	-	-
Minority interests	(1)	-	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	(220)	264	92	15	77	-	1	3	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	(220)	264	92	15	77	-	1	3	-	-
Condensed cash flow statement										
Net cash inflow from operating activities	(1,862)	4,225	210	82	171	1	10	25	9	1
Net cash inflow from investing activities	-	(848)	(406)	(438)	(395)	(1)	(29)	(16)	(6)	(1)
Net cash inflow from financing activities	2,735	(3,365)	194	368	226	-	20	(9)	(4)	(1)
Net increase (decrease) in cash and cash equivalents	873	12	(2)	12	2	-	1	-	(1)	(1)
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	(44)	16	3	2	11	-	-	-	1	1
Net cash and cash equivalents at end of year	829	28	1	14	13	-	1	-	-	-

Consolidating schedules as at March 31, 2014	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co. *US GAAP company*	Total of other companies *US GAAP aggregated*	+ **KeySpan Consol *US GAAP company***	= **National Grid USA *US GAAP*** Addition of all Co's	+ Consol-idation adjustments *US GAAP company + ELIM*	*Discontinued* National Grid Operations ***US GAAP*** *company*	= NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+ ADJUSTMENTS =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	20	3,766	7,150	1	-	7,151	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	772	-	4	9,046	23,874	1	-	23,875	(1,624)
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	189	17,876	(17,682)	-	194	(1)
Non-current regulatory assets	-	1	-	-	1,967	4,202	120	-	4,322	754
Other non-current assets	5	697	-	4	389	(2,026)	3,003	-	977	2,787
Intercompany receivables	31	4,901	41	233	4,149	8,811	(8,768)	(41)	2	3,785
Inventories	-	-	-	-	167	303	41	-	344	(56)
Receivables and other current assets	-	56	-	-	1,681	3,635	15	-	3,650	(38)
Current regulatory assets	-	-	-	-	349	718	(147)	-	571	(571)
Financial and other investments	-	4	-	1	-	155	13	-	168	(1)
Cash and cash equivalents	1	484	-	8	191	1,570	1	-	1,571	-
	-	-	-	-	-	-	-	-		-
Assets of businesses held for sale	-	-	-	-	374	374	(221)	-	153	(153)
Total assets	37	6,915	41	270	22,268	66,642	(23,623)	(41)	42,978	4,882
Borrowings (including bank overdrafts)	-	-	-	(6)	(2)	(632)	(422)	-	(1,054)	421
Current liabilities	-	(334)	(12)	(1)	(987)	(2,818)	124	12	(2,682)	532
Current tax liabilities	-	4	-	2	(12)	(40)	(16)	-	(56)	12
Intercompany notes payables	(52)	(5,859)	(29)	(37)	(2,574)	(11,020)	8,757	29	(2,234)	(3,767)
Non-current borrowings	-	-	-	(3)	(3,306)	(8,629)	421	-	(8,208)	(416)
Other non-current liabilities	-	(104)	-	(180)	(2,252)	(5,110)	88	-	(5,022)	783
Deferred tax liabilities	(1)	(160)	-	-	(1,841)	(5,290)	440	-	(4,850)	(2,752)
Pensions and other post-retirement benefits	-	(361)	-	-	(1,617)	(2,730)	(142)	-	(2,872)	306
Liabilities of businesses held for sale	-	-	-	-	(692)	(692)	692	-	-	-
Total liabilities	(53)	(6,814)	(41)	(225)	(13,283)	(36,961)	9,942	41	(26,978)	(4,881)
Shareholders' equity	16	(101)	-	(39)	(8,985)	(29,665)	13,677	-	(15,988)	(1)
Minority interests	-	-	-	(6)	-	(16)	4	-	(12)	-
Total liabilities and equity	(37)	(6,915)	(41)	(270)	(22,268)	(66,642)	23,623	41	(42,978)	(4,882)

Consolidating schedules as at March 31, 2014	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co. *US GAAP company*	Total of other companies *US GAAP aggregated*	+ **KeySpan Consol *US GAAP company***	= **National Grid USA *US GAAP*** Addition of all Co's	+ Consol-idation adjustments *US GAAP company + ELIM*	*Discontinued* National Grid Operations ***US GAAP*** *company*	= NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+ ADJUSTMENTS =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	1	2,175	27	2	4,795	14,833	(2,250)	(27)	12,556	481
Other operating income/ (expense)	-	1	-	(13)	101	81	(64)	-	17	-
Operating costs	-	(2,140)	(27)	(1)	(4,283)	(13,692)	2,302	27	(11,363)	(310)
Operating profit	1	36	-	(12)	613	1,222	(12)	-	1,210	171
Net finance costs	-	(20)	-	(18)	(211)	(502)	55	-	(447)	(5)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1	16	- #	(30)	402	720	43	-	763	166
Taxation	(1)	(15)	-	4	(158)	(268)	(9)	-	(277)	(20)
Profit for the year	-	1	- #	(26)	244	452	34	-	486	146
Minority interests	-	-	-	24	-	23	(3)	-	20	2
Common dividends	-	-	-	-	-	-	(597)	-	(597)	596
Net income from continuing operations	-	1	- #	(2)	244	475	(566)	-	(91)	744
Net income from discontinued operations	-	-	-	-	139	139	(6)	-	133	(133)
Net income attributable to equity shareholders	-	1	-	(2)	383	614	(572)	-	42	611
Condensed cash flow statement										
Net cash inflow from operating activities	(1)	77	12	(79)	765	3,646	(2,409)	(12)	1,225	(490)
Net cash inflow from investing activities	(1)	(156)	(12)	95	(421)	(2,635)	510	12	(2,113)	71
Net cash inflow from financing activities	2	559	-	(10)	(314)	401	1,699	-	2,100	68
Net increase (decrease) in cash and cash equivalents	-	480	-	6	30	1,412	(200)	-	1,212	(351)
Exchange movements	-	-	-	-	(421)	(421)	421	-	-	-
Reclassified to businesses held for sale	-	-	-	-	(314)	(314)	(10)	-	(324)	324
Net cash and cash equivalents at start of year	1	4	-	2	30	27	656	-	683	27
Net cash and cash equivalents at end of year	1	484	-	8	(675)	704	867	-	1,571	-

Consolidating schedules as at March 31, 2014	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP +	National Grid USA *IFRS adjustments*	=	NGUSA *IFRS consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m	*$'m*		*$'m*	*$'m*	*$'m*
Condensed balance sheet						
Goodwill	7,151	504		7,655		7,655
Other intangible assets	-	450		450		450
Property, plant & equipment	22,251	(88)		22,163		22,163
Investments in subsidiaries	-	-		-		-
Investments	193	-		193		193
Non-current regulatory assets	5,076	(5,076)		-		-
Other non-current assets	3,764	(2,870)		894		894
Intercompany receivables	3,787	(97)		3,690		3,690
Inventories	288	43		331		331
Receivables and other current assets	3,612	38		3,650		3,650
Current regulatory assets	-	-		-		-
Financial and other investments	167	1,253		1,420		1,420
Cash and cash equivalents	1,571	(1,250)		321		321
	-	-		-		-
Assets of businesses held for sale	-	-		-		-
Total assets	47,860	(7,093)		40,767	-	40,767
		-				
Borrowings (including bank overdrafts)	(633)	(583)		(1,216)		(1,216)
Current liabilities	(2,150)	(261)		(2,411)		(2,411)
Current tax liabilities	(44)	(116)		(160)		(160)
Intercompany notes payables	(6,001)	152		(5,849)		(5,849)
Non-current borrowings	(8,624)	165		(8,459)		(8,459)
Other non-current liabilities	(4,239)	1,843		(2,396)		(2,396)
Deferred tax liabilities	(7,602)	4,725		(2,877)		(2,877)
Pensions and other post-retirement benefits	(2,566)	(487)		(3,053)		(3,053)
Liabilities of businesses held for sale	-	-		-		-
Total liabilities	(31,859)	5,438		(26,421)	-	(26,421)
Shareholders' equity	(15,989)	1,655		(14,334)		(14,334)
Minority interests	(12)	-		(12)		(12)
Total liabilities and equity	(47,860)	7,093		(40,767)	-	(40,767)

Consolidating schedules as at March 31, 2014	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP +	National Grid USA *IFRS adjustments*	=	NGUSA *IFRS consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m	*$'m*		*$'m*	*$'m*	*$'m*
Condensed income statement						
Revenue	13,037	(1)		13,036		13,036
Other operating income/ (expense)	17	(16)		1		1
Operating costs	(11,673)	535		(11,138)		(11,138)
Operating profit	1,381	518		1,899	-	1,899
Net finance costs	(452)	(161)		(613)		(613)
Share of post-tax results of joint ventures	-	22		22		22
Dividend income (expense)	-	-		-		-
Profit before taxation	929	379		1,308	-	1,308
Taxation	(297)	(169)		(466)		(466)
Profit for the year	632	210		842	-	842
Minority interests	22	1		23		23
Common dividends	(1)	(596)		(597)		(597)
Net income from continuing operations	653	(385)		268	-	268
Net income from discontinued operations	-	-		-		-
Net income attributable to equity shareholders	653	(385)		268	-	268
Condensed cash flow statement						
Net cash inflow from operating activities	735	632		1,367	-	1,367
Net cash inflow from investing activities	(2,042)	(529)		(2,571)	-	(2,571)
Net cash inflow from financing activities	2,168	(740)		1,428	-	1,428
Net increase (decrease) in cash and cash equivalents	861	(637)		224	-	224
Exchange movements	-	-		-	-	-
Reclassified to businesses held for sale	-	-		-	-	-
Net cash and cash equivalents at start of year	710	(613)		97	-	97
Net cash and cash equivalents at end of year	1,571	(1,250)		321	-	321
		-				

Consolidating schedules
as at March 31, 2014

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	***Subtotal KeySpan Stand Alone Audited F/S US GAAP company***	*EnergyNorth Natural Gas, Inc US GAAP company*	*KeySpan New England, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	1,451	1,018	396	54	-	**2,919**	-	-	-
Other intangible assets	-	-	-	-	-	**-**	-	-	-
Property, plant & equipment	2,914	2,511	2,256	520	720	**8,921**	-	-	9
Investments in subsidiaries	-	-	-	-	-	**-**	-	-	-
Investments	77	-	-	-	-	**77**	-	1,566	-
Non-current regulatory assets	1,074	485	162	245	-	**1,966**	-	-	-
Other non-current assets	30	15	13	20	12	**90**	-	46	3
Intercompany receivables	92	29	77	27	558	**783**	14	2	1
	-	-	-	-	-				
Inventories	55	27	40	7	66	**195**	-	-	-
Receivables and other current assets	623	437	358	112	36	**1,566**	-	-	-
Current regulatory assets	77	97	160	15	-	**349**	-	-	-
Financial and other investments	-	-	-	-	-	**-**	-	-	-
Cash and cash equivalents	27	9	-	-	-	**36**	-	(2)	2
Assets of businesses held for sale	-	-	-	-	-	**-**	-	-	-
Total assets	6,420	4,628	3,462	1,000	1,392	**16,902**	14	1,612	15
Borrowings (including bank overdrafts)	-	-	(2)	-	-	**(2)**	-	-	-
Current liabilities	(246)	(150)	(261)	(118)	(51)	**(826)**	-	-	(8)
Current tax liabilities	(8)	(15)	(17)	-	(40)	**(80)**	-	23	3
Intercompany notes payables	(469)	(638)	(221)	(21)	(140)	**(1,489)**	(14)	(56)	(11)
Non-current borrowings	(1,041)	(600)	(631)	(125)	(399)	**(2,796)**	-	-	-
Other non-current liabilities	(1,019)	(402)	(583)	(99)	(67)	**(2,170)**	-	(22)	-
Deferred tax liabilities	(782)	(632)	(403)	(189)	(120)	**(2,126)**	-	(17)	(3)
Pensions and other post-retirement benefits	(105)	(212)	(86)	(70)	-	**(473)**	-	(1)	-
Liabilities of businesses held for sale	-	-	-	-	-	**-**	-	-	-
Total liabilities	(3,670)	(2,649)	(2,204)	(622)	(817)	**(9,962)**	(14)	(73)	(19)
Shareholders' equity	(2,750)	(1,979)	(1,258)	(378)	(575)	**(6,940)**	-	(1,539)	4
Minority interests	-	-	-	-	-	**-**	-	-	-
Total liabilities and equity	(6,420)	(4,628)	(3,462)	(1,000)	(1,392)	**(16,902)**	(14)	(1,612)	(15)

Consolidating schedules
as at March 31, 2014

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	***Subtotal KeySpan Stand Alone Audited F/S US GAAP company***	*EnergyNorth Natural Gas, Inc US GAAP company*	*KeySpan New England, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*
Condensed income statement									
Revenue	1,624	1,083	1,270	288	493	**4,758**	-	-	7
Other operating income/ (expense)	15	(4)	5	1	3	**20**	-	-	-
Operating costs	(1,394)	(955)	(1,169)	(256)	(428)	**(4,202)**	-	(1)	(17)
Operating profit	245	124	106	33	68	**576**	-	(1)	(10)
Net finance costs	(55)	(44)	(23)	(9)	(22)	**(153)**	-	(1)	-
Share of post-tax results of joint ventures	-	-	-	-	-	**-**	-	-	-
Dividend income (expense)	-	-	-	-	-	**-**	-	-	-
Profit before taxation	190	80	83	24	46	**423**	-	(2)	(10)
Taxation	(81)	(30)	(32)	(9)	(21)	**(173)**	-	10	4
Profit for the year	109	50	51	15	25	**250**	-	8	(6)
Minority interests	-	-	-	-	-	**-**	-		
Common dividends	-	-	-	-	-	**-**	-		
Net income from continuing operations	109	50	51	15	25	**250**	-	8	(6)
Net income from discontinued operations	-	-	-	-	-	**-**	-		
Net income attributable to equity shareholders	109	50	51	15	25	**250**	-	8	(6)
Condensed cash flow statement									
Net cash inflow from operating activities	109	42	268	77	70	**566**	-	(185)	1
Net cash inflow from investing activities	(264)	(192)	(265)	(73)	(71)	**(865)**	-	**7**	(1)
Net cash inflow from financing activities	165	156	(3)	(4)	1	**315**	-	175	1
Net increase (decrease) in cash and cash equivalents	10	6	-	-	-	**16**	-	(3)	1
Exchange movements	-	-	-	-	-	**-**	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	**-**	-	-	-
Net cash and cash equivalents at start of year	17	3	-	-	-	**20**	-	1	1
Net cash and cash equivalents at end of year	27	9	-	-	-	**36**	-	(2)	2

Consolidating schedules
as at March 31, 2014

	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*KeySpan North East Ventures US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	2	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	1	-	-	(5)	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	7	-	-	-	1	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	2	-	7	-	-	1	1	-	(5)	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	(1)	(1)	-	-	-
Intercompany notes payables	(1)	(3)	(7)	-	-	(3)	7	-	8	(4)
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	1	-	-	1	-	-	1	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(1)	(3)	(6)	-	-	(3)	6	-	9	(4)
Shareholders' equity	(1)	3	(1)	-	-	2	(7)	-	(4)	4
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(2)	-	(7)	-	-	(1)	(1)	-	5	-

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	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*KeySpan North East Ventures US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	-	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	-	-	-	-	-
Operating costs	-	-	-	-	-	-	-	-	-	1
Operating profit	-	-	-	-	-	-	-	-	-	1
Net finance costs	-	-	-	-	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	-	-	-	-	-	-	-	1
Taxation	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	1
Minority interests										
Common dividends										
Net income from continuing operations	-	-	-	-	-	-	-	-	-	1
Net income from discontinued operations										
Net income attributable to equity shareholders	-	-	-	-	-	-	-	-	-	1
Condensed cash flow statement										
Net cash inflow from operating activities	-	-	(8)	-	-	1	1	-	-	-
Net cash inflow from investing activities	-	-	8	-	-	-	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	(1)	(1)	-	-	(1)
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	-	-	-	-	(1)
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	-	-	-	-	1
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2014

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*KeySpan LNG LP Regulated Entity US GAAP company*	*KeySpan LNG GP, LLC US GAAP company*	*KeySpan LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*KEDC Holdings Corp US GAAP company*	*KS Islander East Pipeline, LLC US GAAP company*	*KeySpan Millennium PipelineLLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	24	-	-	-	75	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	4	(9)	(2)	-	-	41	-	137	-	108
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	1	-	6	2	(26)
Intercompany receivables	-	2	-	12	-	-	-	1	-	4
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	1	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	7	-	-	17	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	4	(7)	(2)	37	7	42	-	236	2	86
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	(1)	-	-	-	-	-	-
Current tax liabilities	-	-	-	(3)	-	2	-	5	-	-
Intercompany notes payables	(13)	4	(6)	16	(7)	(27)	-	404	5	32
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	(3)	-	(1)	-	(12)	2	2
Deferred tax liabilities	-	-	-	(3)	-	-	-	(23)	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(13)	4	(6)	6	(7)	(26)	-	374	7	34
Shareholders' equity	9	3	8	(43)	-	(16)	-	(610)	(9)	(120)
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(4)	7	2	(37)	(7)	(42)	-	(236)	(2)	(86)

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as at March 31, 2014

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*KeySpan LNG LP Regulated Entity US GAAP company*	*KeySpan LNG GP, LLC US GAAP company*	*KeySpan LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*KEDC Holdings Corp US GAAP company*	*KS Islander East Pipeline, LLC US GAAP company*	*KeySpan Millennium PipelineLLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	8	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	-	-	3	-	18
Operating costs	-	-	-	(6)	-	-	-	(11)	-	-
Operating profit	-	-	-	2	-	-	-	(8)	-	18
Net finance costs	-	-	-	-	-	(1)	-	(1)	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	-	2	-	(1)	-	(9)	-	18
Taxation	-	-	-	(1)	-	-	-	2	-	(7)
Profit for the year	-	-	-	1	-	(1)	-	(7)	-	11
Minority interests										
Common dividends										
Net income from continuing operations	-	-	-	1	-	(1)	-	(7)	-	11
Net income from discontinued operations										
Net income attributable to equity shareholders	-	-	-	1	-	(1)	-	(7)	-	11
Condensed cash flow statement										
Net cash inflow from operating activities	-	(1)	1	3	-	(2)	-	(23)	1	(2)
Net cash inflow from investing activities	-	3	-	(4)	1	(1)	-	23	(1)	-
Net cash inflow from financing activities	-	(2)	(1)	1	2	3	-	8	-	2
Net increase (decrease) in cash and cash equivalents	-	-	-	-	3	-	-	8	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	4	-	-	9	-	-
Net cash and cash equivalents at end of year	-	-	-	-	7	-	-	17	-	-

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	KeySpan IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*KeySpan Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions,LLC US GAAP company*	*KeySpan Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	(1)	8	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	4	-	21	-	-	88	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	(2)	-	3	-	-	7	-	1	-	-
Intercompany receivables	-	-	8	25	26	23	-	1	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	5	4	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	1	-	6	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	3	-	42	37	26	118	-	2	-	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	(5)	(4)	-	(3)	-	-	-	-
Current tax liabilities	-	-	-	(1)	-	1	-	-	-	-
Intercompany notes payables	3	-	18	(9)	8	(12)	-	(1)	-	-
Non-current borrowings	-	-	-	-	-	(5)	-	-	-	-
Other non-current liabilities	-	-	-	-	-	1	-	(1)	-	-
Deferred tax liabilities	-	-	(1)	(1)	-	(1)	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	3	-	12	(15)	8	(19)	-	(2)	-	-
Shareholders' equity	(6)	-	(54)	(22)	(34)	(99)	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(3)	-	(42)	(37)	(26)	(118)	-	(2)	-	-

Consolidating schedules
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	KeySpan IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*KeySpan Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions,LLC US GAAP company*	*KeySpan Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	10	6	-	-	-	-	-	-
Other operating income/ (expense)	1	-	3	-	-	-	-	-	-	-
Operating costs	-	-	(14)	(5)	-	(1)	-	1	-	-
Operating profit	1	-	(1)	1	-	(1)	-	1	-	-
Net finance costs	-	-	-	-	-	1	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1	-	(1)	1	-	-	-	1	-	-
Taxation	-	-	3	-	(1)	(4)	-	(1)	-	-
Profit for the year	1	-	2	1	(1)	(4)	-	-	-	-
Minority interests										
Common dividends										
Net income from continuing operations	1	-	2	1	(1)	(4)	-	-	-	-
Net income from discontinued operations										
Net income attributable to equity shareholders	1	-	2	1	(1)	(4)	-	-	-	-
Condensed cash flow statement										
Net cash inflow from operating activities	(1)	-	(3)	5	1	(6)	3	-	-	16
Net cash inflow from investing activities	1	-	7	(5)	(1)	(1)	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	7	(3)	-	-	(16)
Net increase (decrease) in cash and cash equivalents	-	-	4	-	-	-	-	-	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	1	-	2	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	1	-	6	-	-	-	-	-	-	-

Consolidating schedules
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	KeySpan Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan-Ravenswood Srvcs, LLC US GAAP company*	*KeySpan Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Gas Portfolio Co US GAAP company*	*KeySpan Corporate Services LLC US GAAP company*	*KeySpan Utility Services LLC US GAAP company*	*KeySpan Engineering Srvcs, LLC US GAAP company*	*KeySpan Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	846	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	1	-	-	-	-	3	-	-	1	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	(17)	-	3,192	-	-	6,617	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	10	1	12	-	-	419	118	-	29	-
Intercompany receivables	126	-	68	-	-	6,123	642	-	196	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	92	130	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	12	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	113	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	120	1	3,272	-	-	14,225	890	-	226	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	(1)	-	-	-	-	(185)	(17)	-	(8)	-
Current tax liabilities	12	1	9	-	-	(59)	18	-	(10)	-
Intercompany notes payables	(202)	(128)	(396)	(5)	-	(2,397)	(1,240)	-	(249)	-
Non-current borrowings	-	-	-	-	-	(707)	-	-	-	-
Other non-current liabilities	7	(1)	1	(1)	-	38	(31)	-	(11)	-
Deferred tax liabilities	(8)	-	-	-	-	57	(23)	-	(1)	-
Pensions and other post-retirement benefits	-	-	-	-	-	(1,841)	47	-	31	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(192)	(128)	(386)	(6)	-	(5,094)	(1,246)	-	(248)	-
Shareholders' equity	72	127	(2,886)	6	-	(9,131)	356	-	22	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(120)	(1)	(3,272)	-	-	(14,225)	(890)	-	(226)	-

Consolidating schedules
as at March 31, 2014

	KeySpan Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan-Ravenswood Srvcs, LLC US GAAP company*	*KeySpan Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Gas Portfolio Co US GAAP company*	*KeySpan Corporate Services LLC US GAAP company*	*KeySpan Utility Services LLC US GAAP company*	*KeySpan Engineering Srvcs, LLC US GAAP company*	*KeySpan Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	-	-	-	483	-	102	-
Other operating income/ (expense)	2	-	-	-	-	315	(21)	-	1	-
Operating costs	4	1	2	1	-	128	(622)	-	(104)	-
Operating profit	6	1	2	1	-	443	(160)	-	(1)	-
Net finance costs	(5)	-	(1)	-	-	(74)	(5)	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1	1	1	1	-	369	(165)	-	(1)	-
Taxation	7	(8)	-	(1)	-	(135)	68	-	(4)	-
Profit for the year	8	(7)	1	-	-	234	(97)	-	(5)	-
Minority interests										
Common dividends										
Net income from continuing operations	8	(7)	1	-	-	234	(97)	-	(5)	-
Net income from discontinued operations										
Net income attributable to equity shareholders	8	(7)	1	-	-	234	(97)	-	(5)	-
Condensed cash flow statement										
Net cash inflow from operating activities	(95)	1	(124)	1	-	151	127	-	26	-
Net cash inflow from investing activities	88	-	-	-	-	(695)	21	-	(10)	-
Net cash inflow from financing activities	7	(1)	124	(1)	-	104	(148)	-	(16)	-
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	(440)	-	-	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	553	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	113	-	-	-	-

Consolidating schedules
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	KS Energy Trading Services LLC US GAAP company	*KeySpan Exploration&Production US GAAP company*	***Total of Other (Unaudited) KeySpan Companies US GAAP company***	***Total of All KeySpan Companies US GAAP company***	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	***KeySpan Consolidated US GAAP company***
	$'m	*$'m*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed balance sheet							
Goodwill	-	-	846	3,765	1	-	3,766
Other intangible assets	-	-	-	-	-	-	-
Property, plant & equipment	-	-	122	9,043	3	-	9,046
Investments in subsidiaries	-	-	-	-	-	-	-
Investments	-	-	11,746	11,823	(11,634)	-	189
Non-current regulatory assets	-	-	-	1,966	1	-	1,967
Other non-current assets	-	-	630	720	(213)	(118)	389
Intercompany receivables	4	-	7,286	8,069	(3,278)	(642)	4,149
			-			-	
Inventories	-	-	-	195	(28)	-	167
Receivables and other current assets	-	-	232	1,798	13	(130)	1,681
Current regulatory assets	-	-	-	349	-	-	349
Financial and other investments	-	-	12	12	(12)	-	-
Cash and cash equivalents	-	-	144	180	11	-	191
Assets of businesses held for sale	-	-	-	-	374	-	374
Total assets	4	-	21,018	37,920	(14,762)	(890)	22,268
Borrowings (including bank overdrafts)	-	-	-	(1)	-	-	(2)
Current liabilities	-	-	(232)	(1,058)	54	17	(987)
Current tax liabilities	(1)	-	(2)	(82)	87	(18)	(12)
Intercompany notes payables	45	-	(4,241)	(5,730)	1,916	1,240	(2,574)
Non-current borrowings	-	-	(712)	(3,508)	202	-	(3,306)
Other non-current liabilities	-	-	(29)	(2,199)	(84)	31	(2,252)
Deferred tax liabilities	-	-	(25)	(2,151)	287	23	(1,841)
Pensions and other post-retirement benefits	1	-	(1,762)	(2,236)	666	(47)	(1,617)
Liabilities of businesses held for sale	-	-	-	-	(692)	-	(692)
Total liabilities	45	-	(7,003)	(16,965)	2,436	1,246	(13,283)
Shareholders' equity	(49)	-	(14,015)	(20,955)	12,326	(356)	(8,985)
Minority interests	-	-	-	-	-	-	-
Total liabilities and equity	(4)	-	(21,018)	(37,920)	14,762	890	(22,268)

Consolidating schedules
as at March 31, 2014

	KS Energy Trading Services LLC US GAAP company	*KeySpan Exploration&Production US GAAP company*	***Total of Other (Unaudited) KeySpan Companies US GAAP company***	***Total of All KeySpan Companies US GAAP company***	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	***KeySpan Consolidated US GAAP company***
	$'m	*$'m*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed income statement							
Revenue	1	-	617	5,375	(97)	(483)	4,795
Other operating income/ (expense)	-	-	322	342	(262)	21	101
Operating costs	(1)	-	(644)	(4,846)	(59)	622	(4,283)
Operating profit	-	-	295	871	(418)	160	613
Net finance costs	-	-	(87)	(240)	24	5	(211)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-
Profit before taxation	-	-	208	631	(394)	165	402
Taxation	1	-	(67)	(240)	150	(68)	(158)
Profit for the year	1	-	141	391	(244)	97	244
Minority interests			-	-	-	-	-
Common dividends			-	-	-	-	-
Net income from continuing operations	1	-	141	391	(244)	97	244
Net income from discontinued operations				-	139	-	139
Net income attributable to equity shareholders	1	-	141	391	(105)	97	383
Condensed cash flow statement							
Net cash inflow from operating activities	54	-	(57)	509	383	(127)	765
Net cash inflow from investing activities	(53)	-	(613)	(1,478)	1,078	(21)	(421)
Net cash inflow from financing activities	(1)	-	242	557	(1,019)	148	(314)
Net increase (decrease) in cash and cash equivalents	-	-	(428)	(412)	442	-	30
Exchange movements	-	-	-	-	-	-	
Reclassified to businesses held for sale	-	-	-	-	(432)	-	(432)
Net cash and cash equivalents at start of year	-	-	572	592	1	-	593
Net cash and cash equivalents at end of year	-	-	144	180	11	-	191

Consolidating schedules as at March 31, 2014	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet														
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	384	-	-	3	-	-	-	-	387	265	-	-	-	265
Property, plant & equipment	20,441	-	-	22	40	-	-	(38)	20,464	17,529	-	-	-	17,529
Investments in subsidiaries	28	-	-	-	-	167	(195)	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	1,094	-	-	-	-	-	-	(8)	1,085	414	-	-	-	414
Intercompany receivables	9,789	792	308	187	37	7,465	(9,117)	-	9,461	32	-	-	-	32
Inventories	40	-	-	-	-	-	-	-	40	48	-	-	-	48
Receivables and other current assets	705	-	-	3	7	-	-	7	722	412	-	-	-	412
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	700	-	-	-	-	-	-	(2)	699	539	-	-	-	539
Cash and cash equivalents	-	2	-	-	-	-	(23)	22	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	33,181	794	308	215	83	7,632	(9,336)	(20)	**32,858**	19,238	-	-	-	**19,238**
Borrowings (including bank overdrafts)	(947)	-	(7)	-	-	-	23	(23)	(954)	(195)	-	-	-	(195)
Current liabilities	(1,411)	-	-	(10)	(30)	-	-	(3)	(1,454)	(1,494)	-	-	-	(1,494)
Current tax liabilities	(45)	-	-	-	-	-	-	-	(45)	5	-	-	-	5
Intercompany payables	(5,007)	-	-	(38)	(3)	(7,508)	9,117	-	(3,440)	(1,329)	-	-	-	(1,329)
Non-current borrowings	(10,084)	(805)	(302)	-	-	-	-	2	(11,190)	(9,538)	-	-	-	(9,538)
Other non-current liabilities	(2,471)	-	-	(8)	(40)	-	-	12	(2,508)	(1,332)	-	-	2	(1,331)
Deferred tax liabilities	(2,668)	-	-	2	-	-	-	-	(2,666)	(1,227)	-	-	-	(1,227)
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	(850)	-	-	-	(850)
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(22,633)	(805)	(308)	(55)	(73)	(7,508)	9,141	(13)	**(22,256)**	(15,960)	-	-	2	**(15,959)**
Shareholders' equity	(10,548)	12	-	(160)	(10)	(123)	198	28	(10,603)	(3,278)	-	-	(2)	(3,280)
Minority interests	-	-	-	-	-	-	(3)	5	2	-	-	-	-	-
Total liabilities and equity	(33,181)	(794)	(308)	(215)	(83)	(7,632)	9,336	20	**(32,858)**	(19,238)	-	-	0	**(19,238)**

Consolidating schedules as at March 31, 2014	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement														
Revenue	4,913	-	-	151	74	-	(233)	(31)	4,874	5,486	-	-	-	5,486
Other operating income	172	-	-	-	-	-	-	-	172	-	-	-	-	-
Operating costs	(2,902)	-	-	(139)	(68)	-	233	31	(2,845)	(3,839)	-	-	-	(3,839)
Operating profit	2,183	-	-	11	6	-	-	-	**2,201**	1,647	-	-	-	**1,647**
Net finance costs	(461)	5	-	2	-	(2)	-	-	(457)	(285)	-	-	-	(285)
Dividend income	8	-	-	-	-	-	-	(8)	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1,729	5	-	13	6	(2)	-	(8)	**1,744**	1,362	-	-	-	**1,362**
Taxation	5	-	-	(3)	-	-	-	-	2	(128)	-	-	-	(128)
Profit for the year	1,734	5	-	10	6	(2)	-	(8)	**1,746**	1,234	-	-	-	**1,234**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	1,734	5	-	10	6	(2)	-	(8)	**1,746**	1,234	-	-	-	**1,234**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	1,734	5	-	10	6	(2)	-	(8)	**1,746**	1,234	-	-	-	**1,234**

Condensed cash flow statement														
Net cash inflow from operating activities	2,780	-	-	10	26	(44)	-	40	2,813	2,024	-	-	-	2,024
Net cash inflow from investing activities	(147)	-	-	(15)	(11)	-	-	(6)	(180)	(980)	-	-	-	(980)
Net cash inflow from financing activities	(2,643)	-	-	5	(13)	44	-	(36)	(2,643)	(1,059)	-	-	-	(1,059)
Net increase in cash and cash equivalents	(10)	-	-	-	2	-	-	(2)	**(10)**	(15)	-	-	-	**(15)**
Exchange movements	(1)	0	-	-	0	-	-	(0)	(1)	0	-	-	-	0
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	(6)	2	-	-	-	-	-	-	(5)	5	-	-	-	5
Net cash and cash equivalents at end of year	(17)	2	-	-	2	-	-	(2)	**(15)**	(10)	-	-	-	**(10)**

Consolidating schedules as at March 31, 2014	National Grid Group Finance plc *IFRS company* *$'m*	National Grid Holdings One plc *IFRS company* *$'m*	Lattice Group plc *IFRS company* *$'m*	National Grid Gas Holdings plc *IFRS company* *$'m*	National Grid Comm. Holdings Ltd *IFRS company* *$'m*	National Grid Grain LNG Ltd *IFRS company* *$'m*	National Grid Property *IFRS company* *$'m*	Thamesport Interchange Ltd *IFRS company* *$'m*	Inter-connectors Ltd *IFRS company* *$'m*	National Grid (US) Holdings Ltd *IFRS company* *$'m*	National Grid (US) Inv. 4 Ltd *IFRS company* *$'m*	National Grid (US) Partner 1 Ltd *IFRS company* *$'m*
Condensed balance sheet												
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	7	5	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	1,437	108	155	185	-	-	-
Investments in subsidiaries	-	28,988	1,125	11,869	267	-	-	-	-	17,971	12,132	8,577
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	4,685	4,700	4,177	924	2,064	177	812	15	47	774	3,326	1,242
Inventories	-	-	-	-	-	13	13	-	-	-	-	-
Receivables and other current assets	-	3	-	-	3	33	(55)	2	18	92	88	-
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	58	-	-	-	-	-	-	5	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	8	-	2	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	4,685	33,750	5,302	12,792	2,341	1,666	887	172	257	18,837	15,547	9,819
Borrowings (including bank overdrafts)	(173)	-	-	-	-	(228)	-	-	-	-	-	-
Current liabilities	-	(5)	(8)	-	(40)	(53)	(82)	(2)	(17)	-	(3)	-
Current tax liabilities	-	(192)	-	-	-	(12)	(8)	-	-	(15)	-	-
Intercompany payables	(88)	(25,189)	(1,351)	(9,818)	(1,045)	(402)	(1,291)	(132)	(38)	(6,048)	(10,878)	(2)
Non-current borrowings	(3,371)	-	-	-	-	(205)	-	-	-	-	-	-
Other non-current liabilities	-	-	10	-	(20)	(15)	(205)	-	-	-	-	-
Deferred tax liabilities	-	-	80	-	3	(168)	28	-	(27)	(3)	(2)	-
Pensions and other post-retirement benefits	-	-	(405)	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(3,633)	(25,386)	(1,674)	(9,818)	(1,102)	(1,084)	(1,557)	(133)	(82)	(6,066)	(10,883)	(2)
Shareholders' equity	(1,052)	(8,364)	(3,628)	(2,975)	(1,239)	(582)	670	(38)	(175)	(12,771)	(4,664)	(9,818)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(4,685)	(33,750)	(5,302)	(12,792)	(2,341)	(1,666)	(887)	(172)	(257)	(18,837)	(15,547)	(9,819)

Consolidating schedules as at March 31, 2014	National Grid Group Finance plc *IFRS company* *$'m*	National Grid Holdings One plc *IFRS company* *$'m*	Lattice Group plc *IFRS company* *$'m*	National Grid Gas Holdings plc *IFRS company* *$'m*	National Grid Comm. Holdings Ltd *IFRS company* *$'m*	National Grid Grain LNG Ltd *IFRS company* *$'m*	National Grid Property *IFRS company* *$'m*	Thamesport Interchange Ltd *IFRS company* *$'m*	Inter-connectors Ltd *IFRS company* *$'m*	National Grid (US) Holdings Ltd *IFRS company* *$'m*	National Grid (US) Inv. 4 Ltd *IFRS company* *$'m*	National Grid (US) Partner 1 Ltd *IFRS company* *$'m*
Condensed income statement												
Revenue	-	-	-	-	-	321	50	10	157	-	-	-
Other operating income	-	-	-	-	-	-	11	-	11	-	-	-
Operating costs	-	(2)	(76)	-	(26)	(204)	(18)	(3)	(31)	-	-	-
Operating profit	-	(2)	(76)	-	(26)	117	44	6	138	-	-	-
Net finance costs	8	(186)	173	-	21	(10)	(19)	(2)	2	(39)	(91)	10
Dividend income	-	1,700	972	972	-	-	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	8	1,512	1,069	972	(5)	107	24	5	139	(39)	(91)	10
Taxation	(2)	62	(19)	21	(16)	2	(10)	-	(28)	6	11	(2)
Profit for the year	6	1,574	1,049	993	(21)	108	15	5	112	(32)	(79)	8
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	6	1,574	1,049	993	(21)	108	15	5	112	(32)	(79)	8
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	6	1,574	1,049	993	(21)	108	15	5	112	(32)	(79)	8

Condensed cash flow statement												
Net cash inflow from operating activities	(3)	5	(5)	39	(11)	191	62	6	131	8	15	(3)
Net cash inflow from investing activities	-	1,623	972	972	(2)	(71)	-	-	(13)	(981)	(975)	(1,001)
Net cash inflow from financing activities	3	(1,627)	(967)	(1,010)	13	(118)	(63)	(6)	(117)	975	960	1,004
Net increase in cash and cash equivalents	-	-	-	-	-	2	(2)	-	2	2	-	-
Exchange movements	-	-	-	-	(0)	(0)	1	-	0	0	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	(2)	(2)	9	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	(2)	-	8	-	2	2	-	-

Consolidating schedules as at March 31, 2014	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*	LG Telecoms *IFRS company*	National Grid Five *IFRS company*	National Grid Eight *IFRS company*	National Grid Eleven *IFRS company*	National Grid Holdings Ltd *IFRS company*	National Grid Twelve *IFRS company*	NGC Jersey Investments *IFRS company*	National Grid Finance Holdings Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet												
Goodwill	-	-	-	-	-	-	-	-	-	-	-	**-**
Other intangible assets	-	-	-	-	-	2	-	-	-	-	-	**13**
Property, plant & equipment	-	-	-	-	-	2	-	-	-	-	-	**1,887**
Investments in subsidiaries	9,666	-	360	-	5,649	18,682	-	13,516	2,721	24,763	23,180	**179,466**
Investments	-	-	-	-	-	-	-	-	-	-	-	**432**
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	**-**
Other non-current assets	40	-	-	-	-	-	-	-	-	-	-	**40**
Intercompany receivables	4,777	-	140	1,142	542	9,414	-	7,348	6,788	10,301	3,106	**66,504**
Inventories	-	-	-	-	-	-	-	-	-	-	-	**27**
Receivables and other current assets	-	220	-	-	-	-	-	-	-	-	-	**405**
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial and other investments	22	464	-	-	-	272	-	-	-	-	-	**820**
Cash and cash equivalents	2	38	-	-	-	177	-	-	-	-	-	**227**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Total assets	14,506	722	500	1,142	6,191	28,548	-	20,864	9,509	35,064	26,287	**249,822**
Borrowings (including bank overdrafts)	(25)	-	-	-	-	-	-	-	-	-	-	**(427)**
Current liabilities	(10)	(285)	-	-	-	-	-	(22)	-	-	-	**(529)**
Current tax liabilities	160	-	-	-	-	(8)	-	-	-	(5)	-	**(80)**
Intercompany payables	(4,290)	-	(835)	(970)	(459)	(8)	-	(10,986)	(4,602)	(308)	(2,514)	**(81,581)**
Non-current borrowings	(1,677)	-	-	-	-	-	-	-	-	-	-	**(5,254)**
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-	-	**(230)**
Deferred tax liabilities	47	(2)	(2)	-	-	-	-	(2)	-	(3)	-	**(52)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-	-	**(405)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities	(5,796)	(287)	(837)	(970)	(459)	(17)	-	(11,010)	(4,602)	(317)	(2,514)	**(88,557)**
Shareholders' equity	(8,710)	(435)	337	(172)	(5,733)	(28,531)	-	(9,854)	(4,907)	(34,747)	(23,772)	**(161,264)**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities and equity	(14,506)	(722)	(500)	(1,142)	(6,191)	(28,548)	-	(20,864)	(9,509)	(35,064)	(26,287)	**(249,822)**

Consolidating schedules as at March 31, 2014	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*	LG Telecoms *IFRS company*	National Grid Five *IFRS company*	National Grid Eight *IFRS company*	National Grid Eleven *IFRS company*	National Grid Holdings Ltd *IFRS company*	National Grid Twelve *IFRS company*	NGC Jersey Investments *IFRS company*	National Grid Finance Holdings Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement												
Revenue	-	-	-	-	-	-	-	-	-	-	-	**538**
Other operating income	-	-	-	-	-	-	-	-	-	-	-	**23**
Operating costs	2	31	(40)	-	-	(2)	-	(15)	-	-	-	**(390)**
Operating profit	2	31	(40)	-	-	(2)	-	(15)	-	-	-	**170**
Net finance costs	(31)	50	(13)	6	3	110	-	(37)	13	94	24	**88**
Dividend income	295	-	82	-	-	-	-	515	-	-	-	**4,563**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit before taxation	266	81	28	6	3	108	-	464	13	94	24	**4,820**
Taxation	96	-	-	(3)	-	(6)	-	10	(5)	(13)	2	**107**
Profit for the year	361	81	28	3	3	102	-	474	8	81	26	**4,927**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income from continuing operations	361	81	28	3	3	102	-	474	8	81	26	**4,927**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income attributable to equity shareholders	361	81	28	3	3	102	-	474	8	81	26	**4,927**

Condensed cash flow statement												
Net cash inflow from operating activities	(3)	28	13	(5)	-	(11)	-	13	-	(31)	2	**439**
Net cash inflow from investing activities	(217)	(53)	502	-	-	(144)	-	517	-	6	-	**1,134**
Net cash inflow from financing activities	220	32	(515)	5	-	3	-	(530)	-	23	(2)	**(1,717)**
Net increase in cash and cash equivalents	-	6	-	-	-	(152)	-	-	-	(2)	-	**(144)**
Exchange movements	0	3	-	-	-	1	-	-	-	0	-	**5**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Net cash and cash equivalents at start of year	2	29	-	-	-	330	-	-	-	2	-	**368**
Net cash and cash equivalents at end of year	2	38	-	-	-	178	-	-	-	-	-	**228**

National Grid plc
IFRS to US GAAP reconciliation
as at March 31, 2014

	$'m	$'m
Profit for the year attributable to equity shareholders under IFRS		4,009
Adjustments to conform with US GAAP		
Revenue	(47)	
Operating costs	(736)	
Net finance costs	487	
Taxation	351	
Other	(22)	
		33
Net income under US GAAP		4,042
Total shareholders equity under IFRS		19,860
Adjustments to conform with US GAAP		
Property, plant & equipment	1,179	
Other intangible assets	(1,115)	
Goodwill	3,584	
Regulatory assets	3,586	
Financial instruments	713	
Pensions and other post-retirement benefits	486	
Current tax liabilities	116	
Deferred taxation	(2,303)	
Other	2,203	
		8,449
Shareholders' equity under US GAAP		28,309

Carlos A. Gavilondo
Senior Counsel II

January 7, 2016

Via Electronic Filing

Honorable Kathleen H. Burgess, Secretary
New York State Department of Public Service
3 Empire State Plaza, 19th Floor
Albany, NY 12223-1350

Re: Case 06-M-0878 – Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisitions and other Regulatory Authorizations

Case 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition

Dear Secretary Burgess:

In accordance with the Public Service Commission's Orders in the above referenced proceedings,[1] enclosed please find copies of certain public financial information concerning National Grid plc and its energy companies' operations in New York and the United States. The enclosed information includes four documents:

(i) The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York ("KEDNY") Financial Statements for the years ended March 31, 2015 and 2014;

(ii) KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI") Financial Statements for the years ended March 31, 2015, 2014 and 2013;

(iii) Niagara Mohawk Power Corporation d/b/a National Grid ("Niagara Mohawk") Financial Statements for the years ended March 31, 2015, 2014 and 2013; and

(iv) National Grid plc – Consolidated Financial Information for the year ending March 31, 2015.

[1] Case 06-M-0878 – Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations, Order Authorizing Acquisition Subject to Conditions and Making Some Revenue Requirement Determinations For KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (Issued and Effective September 17, 2007), p. 126; and Cases 06-M-0878 and 01-M-0075 – Joint Petition of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid plc and National Grid USA for Approval of Merger and Stock Acquisition, Order Adopting Financial Protections for Niagara Mohawk Power Corporation (Issued and Effective March 28, 2008), App. 1, 6(b).

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Please contact me with any questions regarding this filing.

Respectfully submitted,

/s/ Carlos A. Gavilondo
Carlos A. Gavilondo

cc: Allison Esposito
Denise Gerbsch

Enclosures

nationalgrid

Brooklyn Union Gas Company d/b/a National Grid New York

Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

To the Board of Directors of
The Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of The Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brooklyn Union Gas Company at March 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 12, 2015

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating revenues	**$ 1,518,784**	$ 1,624,557
Operating expenses:		
Purchased gas	**586,113**	662,944
Operations and maintenance	**433,353**	447,294
Depreciation and amortization	**90,979**	85,238
Other taxes	**190,192**	200,689
Total operating expenses	**1,300,637**	1,396,165
Operating income	**218,147**	228,392
Other income and (deductions):		
Interest on long-term debt	**(48,918)**	(49,022)
Other interest, including affiliate interest	**1,849**	(6,384)
Income from equity investments	**16,995**	16,439
Other deductions, net	**(4,292)**	(2,201)
Total other deductions, net	**(34,366)**	(41,168)
Income before income taxes	**183,781**	187,224
Income tax expense	**74,354**	79,592
Net income	**$ 109,427**	$ 107,632

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Net income	**$ 109,427**	$ 107,632
Other comprehensive income (loss):		
Unrealized (losses) gains on securities from equity investments	**(85)**	298
Total other comprehensive (loss) income	**(85)**	298
Comprehensive income	**$ 109,342**	$ 107,930
Related tax (expense) benefit:		
Unrealized (losses) gains on securities from equity investments	**$ 59**	$ (208)
Total tax (expense) benefit	**$ 59**	$ (208)

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating activities:		
Net income	**$ 109,427**	$ 107,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**90,979**	85,238
Regulatory amortizations	**38,867**	38,289
Provision for deferred income taxes	**60,457**	60,254
Bad debt expense	**8,526**	3,266
Loss (income) from equity investments, net of dividends received	**4,345**	(919)
Allowance for equity funds used during construction	**-**	(722)
Amortization of debt discount	**2,249**	2,280
Net postretirement benefits expense (contributions)	**16,339**	(9,041)
Net environmental remediation payments	**(42,577)**	(27,698)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**106,450**	(118,456)
Inventory	**(5,819)**	5,057
Regulatory assets and liabilities, net	**(13,461)**	(36,819)
Derivative contracts	**7,019**	(4,109)
Prepaid and accrued taxes	**(11,835)**	(16,313)
Accounts payable and other liabilities	**(1,555)**	24,173
Other, net	**4,428**	(3,751)
Net cash provided by operating activities	**373,839**	108,361
Investing activities:		
Capital expenditures	**(358,248)**	(249,600)
Proceeds from sale of assets	**-**	13,877
Affiliated money pool investing and receivables/payables, net	**(38,010)**	(2,945)
Cost of removal	**(20,676)**	(27,495)
Insurance proceeds applied to capital expenditures	**1,418**	2,830
Other	**3,379**	(50)
Net cash used in investing activities	**(412,137)**	(263,383)
Financing activities:		
Affiliated money pool borrowing and receivables/payables, net	**(2,233)**	164,488
Parent loss tax allocation	**17,461**	-
Net cash provided by financing activities	**15,228**	164,488
Net (decrease) increase in cash and cash equivalents	**(23,070)**	9,466
Cash and cash equivalents, beginning of year	**26,899**	17,433
Cash and cash equivalents, end of year	**$ 3,829**	$ 26,899
Supplemental disclosures:		
Interest paid	**$ (48,952)**	$ (61,303)
State income taxes paid	**(2,972)**	(17,021)
Taxes refunded from Parent	**5,477**	6,130
Significant non-cash items:		
Capital-related accruals included in accounts payable	**39,930**	21,445

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,829**	$ 26,899
Accounts receivable	**391,807**	450,120
Allowance for doubtful accounts	**(30,942)**	(29,120)
Other receivable	**-**	19,005
Accounts receivable from affiliates	**793**	12,349
Intercompany money pool	**118,055**	79,993
Unbilled revenues	**87,257**	123,093
Inventory	**61,192**	55,373
Regulatory assets	**16,429**	20,892
Derivative contracts	**5,013**	3,171
Current portion of deferred income tax assets, net	**26,722**	20,941
Prepaid taxes	**39,759**	39,898
Other	**9,204**	15,776
Total current assets	**729,118**	838,390
Equity investments	**72,416**	76,905
Property, plant and equipment, net	**3,227,937**	2,906,584
Other non-current assets:		
Regulatory assets	**1,184,939**	1,102,498
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**-**	7,124
Other	**19,877**	21,817
Total other non-current assets	**2,655,957**	2,582,580
Total assets	**$ 6,685,428**	$ 6,404,459

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 126,122**	$ 103,098
Accounts payable to affiliates	**61,236**	132,074
Taxes accrued	**13,068**	8,344
Customer deposits	**28,764**	31,961
Interest accrued	**10,952**	12,055
Regulatory liabilities	**71,074**	54,425
Intercompany money pool	**394,472**	337,371
Derivative contracts	**13,046**	8,429
Other	**20,046**	41,588
Total current liabilities	**738,780**	729,345
Other non-current liabilities:		
Regulatory liabilities	**372,695**	379,939
Asset retirement obligations	**13,567**	12,205
Deferred income tax liabilities, net	**857,989**	796,742
Postretirement benefits	**182,188**	104,585
Environmental remediation costs	**542,411**	532,123
Derivative contracts	**951**	3,831
Other	**77,972**	73,617
Total other non-current liabilities	**2,047,773**	1,903,042
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,858,375**	2,731,572
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,898,875**	3,772,072
Total liabilities and capitalization	**$ 6,685,428**	$ 6,404,459

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
Total shareholders' equity			**$ 2,858,375**	$ 2,731,572
Long-term debt:	Interest Rate	Maturity Date		
Notes payable - Senior Unsecured Note	5.60%	November 29, 2016	**400,000**	400,000
Gas facilities revenue bonds:				
1993A and 1993B	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996	5.50%	January 1, 2021	**153,500**	153,500
2005A	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
			640,500	640,500
Long-term debt			**1,040,500**	1,040,500
Total capitalization			**$ 3,898,875**	$ 3,772,072

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)			
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Equity Investments	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 2,614,795**	**$ (410)**	**$ (410)**	**$ 9,257**	**$ 2,623,642**
Net income	-	-	-		-	107,632	107,632
Other comprehensive income							
Unrealized gains on securities from equity investments, net of $208 tax expense	-	-	-	298	298	-	298
Total comprehensive income							107,930
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 2,614,795**	**$ (112)**	**$ (112)**	**$ 116,889**	**$ 2,731,572**
Net income	-	-	-		-	109,427	109,427
Other comprehensive loss							
Unrealized losses on securities from equity investments, net of $59 tax benefit	-	-	-	(85)	(85)	-	(85)
Total comprehensive income							109,342
Parent loss tax allocation	-	-	17,461	-	-	-	17,461
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 2,632,256**	**$ (197)**	**$ (197)**	**$ 226,316**	**$ 2,858,375**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2015 and 2014.

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

BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company") distributes natural gas to approximately 967,000 retail customers and transports natural gas to approximately 262,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company owns a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control is 20.4%. Because this interest provides KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounts for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate is included as income from equity investments in the accompanying consolidated statements of income.

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities for the regulated business of the Company. The consolidated financial statements reflect the ratemaking practices of the applicable regulatory authorities. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through August 12, 2015, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing consolidated financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are amortized to the consolidated statements of income consistent with the treatment of the related costs in the ratemaking process. Iroquois' transmission assets are regulated by the Federal Energy Regulatory Commission ("FERC") and its rates are filed with the FERC.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2015 and 2014 were $35.9 million and $52.6 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying consolidated financial statements.

Income Taxes

Federal and state 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 consolidated financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the consolidated financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2015 or 2014.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $11.5 million and $13.4 million and gas in storage of $49.7 million and $42 million at March 31, 2015 and 2014, respectively.

Derivative Contracts

The Company uses derivative contracts to manage commodity price risk. All derivative contracts are recorded in the accompanying consolidated balance sheets at their fair value. All commodity costs, including the impact of derivative contracts, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative contracts and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative contract on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying consolidated balance sheets. There was no related cash collateral as of March 31, 2015 or 2014.

Fair Value Measurements

The Company measures derivatives at fair value. 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:

- 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; and

- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates for the years ended March 31, 2015 and 2014 were 2.5% and 2.6%, respectively. The average service life for each of the years ended March 31, 2015 and 2014 was 54 years.

Depreciation expense includes a component for estimated future cost of removal which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $194.4 million and $181.3 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the consolidated statements of income as non-cash income in other deductions, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of zero and $0.7 million and AFUDC related to debt of $0.3 million and $0.8 million for the years ended March 31, 2015 and 2014, respectively. The average AFUDC rates for the years ended March 31, 2015 and 2014 were 0.3% and 3.2% respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2015 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-

average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 11, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2015 or 2014.

Prior to 2015, the Company utilized an annual impairment assessment date of January 31. Management has determined that the use of January 1 as its annual impairment assessment date is preferable to January 31 because it facilitates a more timely evaluation in advance of the Company's fiscal year end of March 31. The movement of the date has not resulted in a substantive change in the timing of recording any potential impairment.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 12,205**	$ 11,514
Accretion expense	**732**	691
Revaluations to present values of estimated cash flows	**630**	-
Balance as of the end of the year	**$ 13,567**	$ 12,205

At March 31, 2015 the Company carried out a revaluation study that resulted in a net upward revaluation in estimated costs related to the asset retirement obligations. These increases were due to changes in remediation cost and enhanced asset replacement programs.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status in the accompanying consolidated balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The amendments require an entity to provide information either on the face of the consolidated financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company adopted this guidance effective April 1, 2014 with no impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments also require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a new revenue recognition standard ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of the new guidance is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Revision

During 2015, management determined that certain accounting transactions were not properly recorded in the Company's previously issued consolidated financial statements. The Company corrected the accounting by revising the prior period consolidated financial statements, the impacts of which are described below. The Company concluded that the revisions were not material to any prior periods.

During its review of the Company's accounting for its RDM, management determined it had incorrectly applied its methodology related to the unbilled component of revenue. A cumulative adjustment of $4 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which $12.5 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and $8.5 million was recorded as an increase to net income within operating revenues for the year ended March 31, 2014.

Further, management determined it had not recognized a regulatory liability in relation to the Company's Net Utility Plant Tracker. A cumulative adjustment of $9.4 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which $1.3 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and $8.1 million was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

In addition, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $5 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2014, of which a $3 million was recorded as a decrease to opening retained earnings (as of March 31, 2013) and $2 million was recorded as a decrease to net income for the year ended March 31, 2014.

The following table shows the amounts previously reported as revised:

	As Previously Reported [1]	Adjustments	As Revised
	(in thousands of dollars)		
Consolidated Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 1,623,886	$ 671	$ 1,624,557
Operating income	229,767	(1,375)	228,392
Total other deductions, net	(39,812)	(1,356)	(41,168)
Income before income taxes	189,955	(2,731)	187,224
Income tax expense	80,701	(1,109)	79,592
Net income	109,254	(1,622)	107,632
Consolidated Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 108,760	$ (399)	$ 108,361
Net cash used in investing activities	(263,782)	399	(263,383)

	As Previously Reported [1]	Adjustments	As Revised
	(in thousands of dollars)		
Consolidated Balance Sheet	**March 2014**		**March 2014**
Property, plant and equipment, net	$ 2,914,454	$ (7,870)	$ 2,906,584
Total other non-current assets	2,640,097	19,388	2,659,485
Total current liabilities	722,633	6,712	729,345
Total other non-current liabilities	1,879,860	23,182	1,903,042
Retained Earnings			
March 31, 2014	135,266	(18,377)	116,889
March 31, 2013	26,012	(16,755)	9,257
Shareholders' Equity			
March 31, 2014	2,749,949	(18,377)	2,731,572
March 31, 2013	2,640,397	(16,755)	2,623,642

(1) During 2015, the Company changed its accounting policy for classification of regulatory accounts. The change in policy resulted in reclassification of balances reported at March 31, 2014.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying consolidated balance sheets.

	March 31,	
	2015	2014
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative contracts	**$ 8,984**	$ 1,965
Gas costs adjustment	**7,115**	17,252
Other	**330**	1,675
Total	**16,429**	20,892
Non-current:		
Capital tracker	**-**	8,498
Environmental response costs	**738,119**	718,082
Postretirement benefits	**341,974**	280,710
Property taxes	**8,413**	16,871
Temperature control/interruptible sharing	**48,710**	22,484
Other	**47,723**	55,853
Total	**1,184,939**	1,102,498
Regulatory liabilities		
Current:		
Energy efficiency	**43,076**	41,100
Revenue decoupling mechanism	**11,586**	12,849
Temporary state assessment	**13,330**	-
Other	**3,082**	476
Total	**71,074**	54,425
Non-current:		
Cost of removal	**194,425**	181,329
Delivery rate adjustment	**44,974**	44,974
Excess earnings	**88,082**	88,082
Temporary state assessment	**-**	32,751
Other	**45,214**	32,803
Total	**372,695**	379,939
Net regulatory assets	**$ 757,599**	$ 689,026

Capital tracker: During the primary term of the rate plan (2008–2012), the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company records a carrying charge for CSC expenditures above the CSC rate and the full revenue requirement equivalent of amounts below the rate allowance for CSC expenditures as well as all other capital expenditures. Beginning January 1, 2013, the Capital Tracker was replaced by a Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("NUP Tracker"). The NUP Tracker requires the Company to reconcile its annual actual average net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. If the cumulative two year actual net utility plant and depreciation expense revenue requirement are below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets (“Delivery Rate Surcharge”) of $5 million beginning January 1, 2008, which increased incrementally by $5 million in rate years two through five; aggregating to a total of approximately $75 million over the term of the rate agreement. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a Site Investigation and Remediation (“SIR”) Surcharge in the amount of $25 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances. On June 5, 2015, the Company submitted a petition to the NYPSC to increase its existing SIR Surcharge by $37.5 million annually, effective September 1, 2015 (or sooner) and remaining in effect until new base rates are set. The proposed increase in the SIR Surcharge will allow the Company to recover some of its environmental remediation costs and minimize future bill impacts for customers.

Derivative contracts: The Company evaluates open derivative contracts for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company’s energy efficiency charge and the costs of its energy efficiency programs as approved by the NYPSC.

Environmental response costs: Represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant (“MGP”) sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital (“ROE”). During the primary term of the rate plan (2008-2012), if the level of earned common equity in the applicable rate year exceeded 10.5%, the Company was required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, the threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism is calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: Represents the excess costs of the Company’s pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods, and the non-cash accrual of net actuarial

gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

Property taxes: Represents 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from, or payment to, the Company's customers.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are shared 90% by ratepayers and 10% by shareholders. This regulatory asset represents the ratepayer share of the differences.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2015, the Company over-collected on these costs. The Company is required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative contracts, cost of removal, environmental response costs, and regulatory deferred tax balances), 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.

4. RATE MATTERS

General Rate Case

On June 13, 2013, the NYPSC approved a rate plan extension covering the Company's 2013 and 2014 rate years. The Company's revenue requirements for both years have been modified as follows: (i) there is no change in base delivery rates, other than those previously approved by the NYPSC in the rate plan extension, (ii) the allowed ROE decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure increased from 45% to 48%.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014 the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes a $13.3 million regulatory liability.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and

strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these consolidated financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these consolidated financial statements, the Company cannot predict the outcome of this operational audit.

Capital Reconciliation Mechanism Petition

In June 2015, the Company submitted a petition to the NYPSC requesting a modification to the two-year NUP Tracker ended December 31, 2014. While the Company implemented and largely completed its capital program for 2013 and 2014, its ability to launch certain programs was hampered by SuperStorm Sandy and its aftermath. The impact of these delays and other related issues was a deferred liability, which was offset against the regulatory asset recorded in relation to the primary term of the rate plan. The requested modification to the NUP Tracker Mechanism would provide for an additional two year reconciliation period (calendar years 2015 and 2016) to complete more capital projects and facilitate the Company's plan to invest in its distribution system infrastructure. If approved, the extension would be effective September 1, 2015.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Plant and machinery	**$ 3,787,992**	$ 3,523,161
Land and buildings	**190,530**	174,708
Assets in construction	**238,682**	199,022
Software and other intangibles	**124,399**	124,399
Total property, plant and equipment	**4,341,603**	4,021,290
Accumulated depreciation and amortization	**(1,113,666)**	(1,114,706)
Property, plant and equipment, net	**$ 3,227,937**	$ 2,906,584

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as gas swap contracts, gas option contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities, only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") are as follows:

	March 31,	
	2015	2014
	(in thousands)	
Gas swap contracts	**18,252**	13,732
Gas option contracts	**2,220**	9,350
Gas purchase contracts	**17,564**	22,310
Total	**38,036**	45,392

Amounts Recognized in the Accompanying Consolidated Balance Sheets

	Asset Derivatives			Liability Derivatives		
	March 31,			March 31,		
	2015	2014		**2015**	2014	
	(in thousands of dollars)			*(in thousands of dollars)*		
Current assets:			Current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas swap contracts	**$ 1,573**	$ 1,757	Gas swap contracts	**$ 6,283**	$ 3,432	
Gas option contracts	**36**	905	Gas option contracts	**290**	253	
Gas purchase contracts	**3,404**	509	Gas purchase contracts	**6,473**	4,744	
	5,013	3,171		**13,046**	8,429	
Other non-current assets:			Other non-current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas purchase contracts	**-**	7,124	Gas purchase contracts	**951**	3,831	
	-	7,124		**951**	3,831	
Total	**$ 5,013**	$ 10,295	Total	**$ 13,997**	$ 12,260	

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying consolidated statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2015 and 2014.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative contracts, applicable payables and receivables, and instruments that are subject to master netting agreements, was a liability of $8.7 million and $3.2 million as of March 31, 2015 and 2014, respectively.

The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that are in a liability position at March 31, 2015 and 2014 was $5.3 million and $4.1 million, respectively. The Company had no collateral posted for these instruments at March 31, 2015 or 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $5.4 million and $4.4 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

Gross Amounts Not Offset in the Consolidated Balance Sheets

(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 1,573	$ -	$ 1,573	$ -	$ -	$ 1,573
Gas option contracts	36	-	36	-	-	36
Gas purchase contracts	3,404	-	3,404	-	-	3,404
Total	$ 5,013	$ -	$ 5,013	$ -	$ -	$ 5,013

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 6,283	$ -	$ 6,283	$ -	$ -	$ 6,283
Gas option contracts	290	-	290	-	-	290
Gas purchase contracts	7,424	-	7,424	-	-	7,424
Total	$ 13,997	$ -	$ 13,997	$ -	$ -	$ 13,997

March 31, 2014
Gross Amounts Not Offset in the Consolidated Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of assets presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 1,757	$ -	$ 1,757	$ -	$ -	$ 1,757
Gas option contracts	905	-	905	-	-	905
Gas purchase contracts	7,633	-	7,633	-	-	7,633
Total	$ 10,295	$ -	$ 10,295	$ -	$ -	$ 10,295

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Consolidated Balance Sheets *B*	Net amounts of liabilities presented in the Consolidated Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 3,432	$ -	$ 3,432	$ -	$ -	$ 3,432
Gas option contracts	253	-	253	-	-	253
Gas purchase contracts	8,575	-	8,575	-	-	8,575
Total	$ 12,260	$ -	$ 12,260	$ -	$ -	$ 12,260

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and 2014:

	March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 1,573	$ -	$ 1,573
Gas option contracts	-	-	36	36
Gas purchase contracts	-	17	3,387	3,404
Total	-	1,590	3,423	5,013
Liabilities:				
Derivative contracts				
Gas swap contracts	-	6,283	-	6,283
Gas option contracts	-	-	290	290
Gas purchase contracts	-	84	7,340	7,424
Total	-	6,367	7,630	13,997
Net liabilities	$ -	$ (4,777)	$ (4,207)	$ (8,984)

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 1,757	$ -	$ 1,757
Gas option contracts	-	-	905	905
Gas purchase contracts	-	34	7,599	7,633
Total	-	1,791	8,504	10,295
Liabilities:				
Derivative contracts				
Gas swap contracts	-	3,432	-	3,432
Gas option contracts	-	-	253	253
Gas purchase contracts	-	107	8,468	8,575
Total	-	3,539	8,721	12,260
Net liabilities	$ -	$ (1,748)	$ (217)	$ (1,965)

Derivative Contracts: The Company's Level 2 fair value derivative contracts primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. 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 95% or higher.

The Company's Level 3 fair value derivative contracts primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Changes in Level 3 Derivative Contracts

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (217)**	$ (3,902)
Total gains or losses included in regulatory assets and liabilities	**(10,423)**	5,209
Settlements	**6,433**	(1,524)
Balance as of the end of the year	**$ (4,207)**	$ (217)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2015 or 2014.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 3,087	$ (7,340)	$ (4,253)	Discounted Cash Flow	Forward Curve (A)	$0.96 - $11.47/dth
Gas/Power	Cross commodity contracts	300	-	300	Discounted Cash Flow	Forward Curve	$23.61 - $378.51/dth
Gas	Option contracts	36	(290)	(254)	Discounted Cash Flow	Implied Volatility	34% - 41%
	Total	$ 3,423	$ (7,630)	$ (4,207)			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 7,385	$ (8,468)	$ (1,083)	Discounted Cash Flow	Forward Curve (A)	$2.434 - $17.310/dth
Gas/Power	Cross commodity contracts	214	-	214	Discounted Cash Flow	Forward Curve	$50.93 - $98.98/dth
Gas	Option contracts	905	(253)	652	Discounted Cash Flow	Implied Volatility	29% - 31%
	Total	$ 8,504	$ (8,721)	$ (217)			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's consolidated balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2015 and 2014 was $1.2 billion.

All other financial instruments in the accompanying consolidated balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP plan provides 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.

During the years ended March 31, 2015 and 2014, the Company made contributions of approximately $22.8 million and $45.6 million, respectively, to the Plans.

The Plans' assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying consolidated balance sheets. Pension and PBOP expenses are included in operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2015 and 2014 are as follows:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Pension	**$ 1,055,558**	$ 704,169
PBOP	**985,669**	916,706
	$ 2,041,227	$ 1,620,875

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2015 and 2014 are as follows:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Pension	**$ 15,656**	$ 15,634
PBOP	**19,186**	19,186
	$ 34,842	$ 34,820

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2015 and 2014, the Company recognized an expense in the accompanying consolidated statements of income of $1.1 million and $1 million, respectively, for matching contributions.

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $10.5 million and $10 million, respectively.

9. CAPITALIZATION

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2015 and 2014, $640.5 million of GFRB were outstanding; $230 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.07% to 0.44% during the year ended March 31, 2015 and 0.07% to 0.51% during the year ended March 31, 2014. The GFRB are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rates and the senior secured rating of the Company's bonds. The effect of the failed auctions on interest expense was not material for the years ended March 31, 2015 or 2014.

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2016	$ -
2017	400,000
2018	-
2019	-
2020	-
Thereafter	640,500
Total	$ 1,040,500

The Company is obligated to meet certain non-financial covenants. During the years ended March 31, 2015 and 2014 the Company was in compliance with all such covenants.

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2015 and 2014, the Company was in compliance with the utility capital structure required by the NYPSC.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 9,486**	$ 10,596
State	**4,411**	8,742
Total current tax benefit	**13,897**	19,338
Deferred tax expense:		
Federal	**49,663**	50,816
State	**11,705**	10,349
Total deferred tax expense	**61,368**	61,165
Amortized investment tax credits, net [1]	**(911)**	(911)
Total deferred tax expense	**60,457**	60,254
Total income tax expense	**$ 74,354**	$ 79,592

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2015 and 2014 are 40.5% and 42.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Computed tax	**$ 64,323**	$ 65,527
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**10,475**	12,410
Temporary differences flowed through	**-**	1,404
Investment tax credits	**(911)**	(911)
Other items, net	**467**	1,162
Total	**10,031**	14,065
Federal and state income taxes	**$ 74,354**	$ 79,592

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations, which provide guidance for the application of Internal Revenue Code ("IRC") §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of $10.7 million related to dispositions of depreciable property and an unfavorable §481(a) adjustment of $1.7 million related to repairs deduction following casualty loss.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the New York rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, to reflect the decrease in tax rate, the Company decreased its New York State deferred tax liability by $6.9 million with an offset to regulatory liabilities.

Deferred Tax Components

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 259,968**	$ 230,171
Future federal benefit on state taxes	**41,045**	36,921
Postretirement benefits and other employee benefits	**115,245**	51,667
Regulatory liabilities - other	**140,829**	113,992
Other items	**34,221**	25,120
Total deferred tax assets [1]	**591,308**	457,871
Deferred tax liabilities:		
Property related differences	**787,829**	697,629
Regulatory assets - environmental response costs	**344,783**	311,307
Regulatory assets - postretirement benefits	**135,724**	120,655
Regulatory assets - other	**90,990**	51,659
Other items	**60,346**	48,608
Total deferred tax liabilities	**1,419,672**	1,229,858
Net deferred income tax liabilities	**828,364**	771,987
Deferred investment tax credits	**2,903**	3,814
Net deferred income tax liabilities and investment tax credits	**831,267**	775,801
Current portion of deferred income tax liabilities (assets), net	**(26,722)**	(20,941)
Deferred income tax liabilities, net	**$ 857,989**	$ 796,742

[1] There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2015:

Expiration of net operating losses:	Federal
	(in thousands of dollars)
3/27/2029	$ 35,582
3/31/2033	12,085

Expiration of state and city net operating losses:	NYS
	(in thousands of dollars)
3/31/2029	$ 60,834
3/31/2033	39,254

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits totaled $72.2 million and $73.4 million, respectively, of which $0.8 million and zero, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying consolidated balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 73,428**	$ 113,030
Gross increases - tax positions in prior periods	**1,331**	2,046
Gross decreases - tax positions in prior periods	**(13,988)**	(16,622)
Gross increases - current period tax positions	**11,410**	13,727
Settlements with tax authorities	**-**	(38,753)
Balance as of the end of the year	**$ 72,181**	$ 73,428

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of $3.6 million and $2.5 million, respectively. During the years ended March 31, 2015 and 2014, the Company recorded interest expense of $1.4 million and $3.9 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net, in the accompanying consolidated statements of income. No tax penalties were recognized during the years ended March 31, 2015 or 2014.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

During the year ended March 31, 2014, the Internal Revenue Service ("IRS") concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of KeySpan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's New York State income tax returns for the years ended August 24, 2007 through March 31, 2008. The tax returns for the years ended March 31, 2009 through March 31, 2015 remain subject to examination by the State of New York.

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

Jurisdiction	Tax Year
Federal	August 24, 2007*
New York	August 24, 2007

*The KeySpan consolidated filing group for the tax year ended August 24, 2007 and the NGNA consolidated filing group for the fiscal years ended March 31, 2008 and 2009 are in the process of appealing certain disputed issues with the IRS Office of Appeals.

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

In March of 2010, the Gowanus Canal was named to the United States Environmental Protection Agency ("EPA") Superfund List. The Company's predecessor owned three historical manufactured gas plants located along the Canal. In September of 2013, the EPA issued its Record of Decision, which prescribes the remedy for the Canal. The EPA estimates the entire remedy will cost $506 million. On March 21, 2014, the EPA issued a Unilateral Administrative Order to the Company and more than twenty-five other industrial potentially responsible parties ("PRPs"), to commence the design of the remedy. Although no estimate for the design of the remedy was given, an estimate of 10% of remedy cost is typically used when estimating design costs. The Company is negotiating with the other PRPs to share work and costs.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2015 and 2014 were $42.6 million and $27.7 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized its environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $542.4 million and $532.1 million at March 31, 2015 and 2014, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2015 and 2014 was $658.5 million and $647.2 million, respectively. These costs are expected to be incurred over approximately 40 years, and the discounted amounts have been recorded as reserves in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2015 and 2014, the Company has recorded net environmental regulatory assets of $736.4 million and $718 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately $11.9 million and $11.5 million the years ended March 31, 2015 and 2014, respectively. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the

accompanying consolidated statements of income was approximately $4 million and $3.1 million for the years ended March 31, 2015 and 2014, respectively.

The future minimum lease payments for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars) Years Ending March 31,	
2016	$ 12,232
2017	12,238
2018	12,422
2019	12,633
2020	12,866
Thereafter	63,142
Total	$ 125,533

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Gas	Capital Expenditures
2016	$ 184,970	$ 36,143
2017	158,170	12,535
2018	131,265	-
2019	70,068	-
2020	58,723	-
Thereafter	381,509	-
Total	$ 984,705	$ 48,678

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately $69.1 million.

The Company had recorded an "other receivable" in the accompanying consolidated balance sheets in the amount of $19 million as of March 31, 2014, relating to claims filed against its property damage insurance policy, net of insurance deductibles, allowances, and advance payments received. In December 2014, NGUSA reached a final settlement with its

insurers, of which the Company's allocated portion was $52.2 million (inclusive of advance payments of $29.2 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of $2.6 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying consolidated statements of income.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)		*(in thousands of dollars)*	
Boston Gas Company	**$ -**	$ 16	**$ -**	$ -
KeySpan Corporation	**-**	-	**35,323**	**11,527**
KeySpan Gas East Corporation	**-**	10,034	**6,005**	**-**
National Grid Engineering Services	**588**	2,226	**-**	**-**
NGUSA Service Company	**-**	**-**	**17,264**	117,927
Niagara Mohawk Power Corporation	**180**	-	**-**	901
Other	**25**	73	**2,644**	1,719
Total	**$ 793**	$ 12,349	**$ 61,236**	$ 132,074

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and invest funds. Borrowings from the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the Regulated and Unregulated Money Pool Agreements. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying consolidated statements of cash flows. In addition, for the purpose of presentation in the consolidated statements of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants. Collectively, NGUSA and KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool payable of $394.5 million and $337.4 million at March 31, 2015 and 2014, respectively. NETCO had short-term intercompany money pool

investments of $118.1 million and $80 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.4% and 0.7% for the years ended March 31, 2015 and 2014, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2015 and 2014 were $288.8 million and $243.1 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these consolidated financial statements. The estimated effect on net income would be $5.1 million and $5.4 million before taxes and $3.1 and $3.5 million after taxes, for each of the years ended March 31, 2015 and 2014, if these amounts were allocated to the Company.

nationalgrid

KeySpan Gas East Corporation d/b/a National Grid

Financial Statements

For the years ended March 31, 2015, 2014, and 2013

KEYSPAN GAS EAST CORPORATION

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Independent Auditor's Report

To the Board of Directors
of KeySpan Gas East Corporation

We have audited the accompanying financial statements of KeySpan Gas East Corporation (the "Company"), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KeySpan Gas East Corporation at March 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 29, 2015

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating revenues	**$ 1,080,067**	$ 1,080,682	$ 958,546
Operating expenses:			
Purchased gas	**434,050**	438,931	353,150
Operations and maintenance	**289,648**	320,562	271,962
Depreciation and amortization	**67,765**	60,580	57,371
Other taxes	**141,269**	134,695	132,258
Total operating expenses	**932,732**	954,768	814,741
Operating income	**147,335**	125,914	143,805
Other income and (deductions):			
Interest on long-term debt	**(34,862)**	(34,828)	(34,858)
Other interest, including affiliate interest	**(22,353)**	(13,736)	(10,369)
Other deductions, net	**(5,779)**	(4,466)	(17,882)
Total other deductions, net	**(62,994)**	(53,030)	(63,109)
Income before income taxes	**84,341**	72,884	80,696
Income tax expense	**34,649**	27,417	33,551
Net income	**$ 49,692**	$ 45,467	$ 47,145

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating activities:			
Net income	**$ 49,692**	$ 45,467	$ 47,145
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**67,765**	60,580	57,371
Regulatory amortizations	**55,211**	46,365	35,049
Provision for deferred income taxes	**10,656**	38,876	34,251
Bad debt expense	**13,009**	13,401	528
Allowance for equity funds used during construction	**-**	-	(1,046)
Net postretirement benefits expense (contributions)	**7,606**	(5,912)	(8,726)
Net environmental remediation payments	**(14,404)**	(38,333)	(35,532)
Changes in operating assets and liabilities:			
Accounts receivable and other receivable, net, and unbilled revenues	**57,206**	(58,327)	(134,962)
Inventory	**(8,731)**	16,483	35,486
Regulatory assets and liabilities, net	**55,500**	(25,682)	53,461
Derivative contracts	**(3,164)**	(2,955)	(13,532)
Prepaid and accrued taxes	**29,550**	(9,213)	(3,443)
Accounts payable and other liabilities	**(171)**	(47,732)	47,841
Other, net	**9,958**	8,384	1,404
Net cash provided by operating activities	**329,683**	41,402	115,295
Investing activities:			
Capital expenditures	**(229,561)**	(189,034)	(143,878)
Cost of removal	**(8,357)**	(17,133)	(17,555)
Insurance proceeds applied to capital expenditures	**438**	14,278	14,423
Net cash used in investing activities	**(237,479)**	(191,889)	(147,010)
Financing activities:			
Common stock dividends to Parent	**-**	-	(250,000)
Affiliated money pool borrowing and receivables/payables, net	**(97,700)**	155,897	279,349
Other	**-**	-	16
Net cash (used in) provided by financing activities	**(97,700)**	155,897	29,365
Net (decrease) increase in cash and cash equivalents	**(5,496)**	5,410	(2,350)
Cash and cash equivalents, beginning of year	**8,683**	3,273	5,623
Cash and cash equivalents, end of year	**$ 3,187**	$ 8,683	$ 3,273
Supplemental disclosures:			
Interest paid	$ (44,015)	$ (43,599)	$ (37,321)
State income taxes paid	(8,160)	(8,493)	(2,005)
Taxes (paid to) refunded from Parent	(3,594)	7,454	21,221
Significant non-cash items:			
Capital-related accruals included in accounts payable	29,997	26,517	12,542

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

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,187**	$ 8,683
Accounts receivable	**268,185**	299,390
Allowance for doubtful accounts	**(19,205)**	(19,656)
Other receivable	**-**	38,995
Accounts receivable from affiliates	**25,816**	28,690
Unbilled revenues	**78,610**	79,076
Inventory	**35,977**	27,246
Regulatory assets	**-**	51,568
Derivative contracts	**14,677**	11,156
Current portion of deferred income tax assets, net	**12,431**	-
Other	**6,734**	28,460
Total current assets	**426,412**	553,608
Property, plant and equipment, net	**2,687,958**	2,510,247
Other non-current assets:		
Regulatory assets	**552,376**	527,145
Goodwill	**1,018,407**	1,018,407
Derivative contracts	**21,661**	11,199
Other	**4,162**	4,032
Total other non-current assets	**1,596,606**	1,560,783
Total assets	**$ 4,710,976**	$ 4,624,638

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

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 61,940**	$ 41,062
Accounts payable to affiliates	**9,964**	86,112
Taxes accrued	**29,892**	19,044
Customer deposits	**14,310**	8,995
Interest accrued	**16,723**	19,885
Regulatory liabilities	**61,644**	37,106
Intercompany money pool	**527,114**	551,609
Derivative contracts	**7,319**	2,060
Current portion of deferred income tax liabilities, net	**-**	16,377
Other	**15,498**	11,094
Total current liabilities	**744,404**	793,344
Other non-current liabilities:		
Regulatory liabilities	**322,862**	298,266
Asset retirement obligations	**13,836**	14,078
Deferred income tax liabilities, net	**666,229**	643,594
Postretirement benefits	**249,639**	211,509
Environmental remediation costs	**65,520**	70,432
Derivative contracts	**6,826**	1,266
Other	**26,964**	27,145
Total other non-current liabilities	**1,351,876**	1,266,290
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,014,696**	1,965,004
Long-term debt	**600,000**	600,000
Total capitalization	**2,614,696**	2,565,004
Total liabilities and capitalization	**$ 4,710,976**	$ 4,624,638

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
Total shareholders' equity			**$ 2,014,696**	$ 1,965,004
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	5.60%	November 29, 2016	**100,000**	100,000
Senior Note	5.82%	April 1, 2041	**500,000**	500,000
Total long-term debt			**600,000**	600,000
Total capitalization			**$ 2,614,696**	$ 2,565,004

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance as of March 31, 2012	**$ -**	**$ -**	**$ 2,014,878**	**$ 107,498**	**$ 2,122,376**
Net income	-	-	-	47,145	47,145
Share based compensation	-	-	16	-	16
Common stock dividends to Parent	-	-	(134,505)	(115,495)	(250,000)
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 1,880,389**	**$ 39,148**	**$ 1,919,537**
Net income	-	-	-	45,467	45,467
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 1,880,389**	**$ 84,615**	**$ 1,965,004**
Net income	-	-	-	49,692	49,692
Balance as of March 31, 2015	**$ -**	**$ -**	**$ 1,880,389**	**$ 134,307**	**$ 2,014,696**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock authorized, issued and outstanding, with a par value of $1 per share at March 31, 2015, 2014, and 2013.

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

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

KeySpan Gas East Corporation d/b/a National Grid ("the Company") distributes natural gas to approximately 499,000 retail customers and transports natural gas to approximately 68,000 customers in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which is a wholly-owned subsidiary of National Grid USA ("NGUSA"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 29, 2015, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The New York Public Service Commission ("NYPSC") regulates the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

With respect to base distribution rates, the NYPSC has approved a Revenue Decoupling Mechanism ("RDM"), which applies only to the Company's firm residential heating sales and transportation customers. The RDM requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior year (May-April).

The Company's tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and, therefore, the Company's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2015, 2014, and 2013 were $13.1 million, $12 million, and $13.8 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

Income Taxes

Federal and state 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 also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2015, 2014, or 2013.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $4.5 million and $4.5 million and gas in storage of $31.5 million and $22.7 million at March 31, 2015 and 2014, respectively.

Derivative Contracts

The Company uses derivative contracts to manage commodity price risk. All derivative contracts are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative contracts, are passed on to customers through the Company's gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company's accounting policy is to not offset fair value amounts recognized for derivative contracts and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative contract on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying balance sheets. There was no related cash collateral as of March 31, 2015 or 2014.

Fair Value Measurements

The Company measures derivatives at fair value. 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:

- 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; and
- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite

rates for each of the years ended March 31, 2015, 2014, and 2013 were 2.2%, 2%, and 2.9% respectively. The average service life for each of the years ended March 31, 2015, 2014, and 2013 was 35 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $48.2 million and $49.1 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other deductions, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of zero, zero, and $1 million and AFUDC related to debt of zero, $0.4 million and $0.4 million for the years ended March 31, 2015, 2014, and 2013 respectively. The average AFUDC rates for the years ended March 31, 2015, 2014, and 2013 were 0.3%, 0.7% and 5.7%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2015 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 11, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2015 or 2014.

Prior to 2015, the Company utilized an annual impairment assessment date of January 31. Management has determined that the use of January 1 as its annual impairment assessment date is preferable to January 31 because it facilitates a more timely evaluation in advance of the Company's fiscal year end of March 31. The movement of the date has not resulted in a substantive change in the timing of recording any potential impairment.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 14,078**	$ 13,281
Accretion expense	**845**	797
Revaluations to present values of estimated cash flows	**(1,087)**	-
Balance as of the end of the year	**$ 13,836**	$ 14,078

At March 31, 2015, the Company carried out a revaluation study that resulted in a downward revaluation in estimated costs related to the asset retirement obligations. These decreases were due to changes in remediation cost and enhanced asset replacement programs.

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company participates with other KeySpan subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by the Parent. The Company recognizes its portion of the pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and cannot be allocated to an individual company. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance - Accounting Guidance Not Yet Adopted

Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If

management concludes that substantial doubt exists, the amendments also require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a new revenue recognition standard ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of the new guidance is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Revision

During 2015, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by revising the prior period financial statements, the impacts of which are described below. The Company concluded that the revisions were not material to any prior periods.

During its review of the Company's accounting for its RDM, management determined it had incorrectly applied its methodology related to the unbilled component of revenue. A cumulative adjustment of $8.2 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which $5.8 million was recorded as a decrease to opening retained earnings (as of March 31, 2012) and $2.4 million was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

Further, management determined it had not recognized a regulatory liability for carrying charges related to under-funded pension and PBOP balances. A cumulative adjustment of $6.2 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which $1.8 million was recorded as a decrease to opening retained earnings (as of March 31, 2012) and $2.5 million and $1.9 million were recorded as a decrease to net income within other interest, including affiliate interest for the years ended March 31, 2014 and 2013, respectively.

In addition, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $0.7 (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which $0.2 million was recorded as a decrease to opening retained earnings (as of March 31, 2012) and $0.7 million and $0.2 million were recorded as an increase to net income for the years ended March 31, 2014 and 2013, respectively.

The following table shows the amounts previously reported as revised:

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 1,083,399	$ (2,717)	$ 1,080,682
Operating income	128,631	(2,717)	125,914
Total other deductions, net	(48,674)	(4,356)	(53,030)
Income before income taxes	79,957	(7,073)	72,884
Income tax expense	30,139	(2,722)	27,417
Net income	49,818	(4,351)	45,467
Statement of Income	**March 2013**		**March 2013**
Operating revenues	$ 958,118	$ 428	$ 958,546
Operating income	143,377	428	143,805
Other deductions, net	(59,933)	(3,176)	(63,109)
Income before income taxes	83,444	(2,748)	80,696
Income tax expense	34,694	(1,143)	33,551
Net income	48,750	(1,605)	47,145
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 41,573	$ (171)	$ 41,402
Net cash used in investing activities	(192,060)	171	(191,889)

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Balance Sheet	**March 2014**		**March 2014**
Property, plant, and equipment, net	$ 2,510,609	$ (362)	$ 2,510,247
Total current liabilities	798,253	(4,909)	793,344
Total other non-current liabilities	1,247,790	18,500	1,266,290
Retained Earnings			
March 31, 2014	98,568	(13,953)	84,615
March 31, 2013	48,750	(9,602)	39,148
March 31, 2012	115,495	(7,997)	107,498
Shareholders' Equity			
March 31, 2014	1,978,957	(13,953)	1,965,004
March 31, 2013	1,929,139	(9,602)	1,919,537
March 31, 2012	2,130,373	(7,997)	2,122,376

[1] During 2015, the Company changed its accounting policy for classification of regulatory accounts. The change in policy resulted in a reclassification of balances reported at March 31, 2014.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

	March 31,	
	2015	2014
	(in thousands of dollars)	
Regulatory assets		
Current:		
Gas costs adjustment	**$ -**	$ 51,465
Other	**-**	103
Total	**-**	51,568
Non-current:		
Environmental response costs	**269,590**	286,068
Postretirement benefits	**148,485**	124,267
Property taxes	**53,350**	36,704
Rate mitigation	**28,662**	26,635
Temperature control/interruptible sharing	**33,623**	21,962
Other	**18,666**	31,509
Total	**552,376**	527,145
Regulatory liabilities		
Current:		
Derivative contracts	**22,193**	19,029
Energy efficiency	**5,368**	2,022
Revenue decoupling mechanism	**25,241**	16,055
Temporary state assessment	**4,501**	-
Other	**4,341**	-
Total	**61,644**	37,106
Non-current:		
Capital tracker	**26,204**	36,504
Carrying charges	**65,788**	59,038
Cost of removal	**48,152**	49,095
Delivery rate adjustment	**82,870**	82,870
Environmental response costs	**46,520**	12,808
Temporary state assessment	**-**	18,218
Other	**53,328**	39,733
Total	**322,862**	298,266
Net regulatory assets	**$ 167,870**	$ 243,341

Capital tracker: During the primary term of the rate plan (2008–2012), which remains in effect until modified by the NYPSC, the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company records a carrying charge for CSC expenditures above the CSC rate and the full revenue requirement equivalent of amounts below the rate allowance for CSC expenditures as well as all other capital expenditures.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets ("Delivery Rate Surcharge") of $10 million beginning January 1, 2009, which increased incrementally by $10 million and aggregating to approximately $100 million over the term of the rate agreement. In its order issued and effective November 28, 2012, the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $40 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances.

Derivative contracts: The Company evaluates open derivative contracts for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of its energy efficiency programs as approved by the NYPSC.

Environmental response costs: The regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual SIR costs.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: Represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a ten year period ending August 2017.

Property taxes: Represents 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from, or payment to, the Company's customers.

Rate mitigation: The existing rate agreement provides for the establishment of a regulatory liability to be amortized through revenues for the deferral of amortization adjustments. The NYPSC recognized a negotiated five year revenue increase settlement, aggregating $625.7 million. As part of the NGUSA and KeySpan merger ("Grid merger") settlement these revenues were eliminated with rate mitigators. Of these mitigators, the NYPSC deferred recovery of certain deferred costs, reflected net synergy savings of the Grid merger, and modified the overall allowed rate of return. The rate mitgator will be amortized at a rate of $2 million per year.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Temperature control/interruptible ("TC/IT") sharing: Under the existing rate agreement, the revenue requirement reflects certain levels of imputed TC/IT margins. Differences between the actual margins and imputed margins are shared 90% by ratepayers and 10% by shareholders. This regulatory asset represents the ratepayer share of the differences.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2015, the Company over-collected on these costs. The Company is required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative contracts, cost of removal, environmental response costs, and regulatory deferred tax balances), 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.

4. RATE MATTERS

General Rate Case

The Company has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed return on equity of 9.8% with a 45% equity ratio in the capital structure.

Capital Investment

On June 13, 2014, the Company filed a petition with the NYPSC to implement a three year capital investment program that would allow the Company to invest more than $700 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates.

On December 15, 2014, the Company received an order which authorizes it to replace leak prone pipe up to its forecasted budget of $211.7 million for calendars years 2015 and 2016. The Company is allowed to establish a 21-month surcharge mechanism beginning April 2, 2015 through December 31, 2016, which will be capped at $10 million and $13.4 million, respectively, to address the Company's capital needs for replacement of leak prone pipe, while minimizing future customer bill impacts. The Company was authorized to spend up to its forecasted budget of $202.7 million for calendar years 2015 and 2016 for its Neighborhood Expansion and other related programs. The Company is directed to establish a new deferral mechanism that allows it to defer the pre-tax revenue requirements associated with its capital spending program up to a maximum capital expenditure of $202.7 million made in calendar years 2015 and 2016. The Company's existing city/state deferral mechanism was eliminated as of January 1, 2015 and the non-growth deferral mechanism is continued. The order also included additional obligations and filing requirements.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014 the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and establishes an $11.4 million regulatory liability.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Plant and machinery	**$ 3,209,813**	$ 3,000,836
Land and buildings	**54,672**	53,896
Assets held for future use	**-**	94
Assets in construction	**87,113**	79,072
Software and other intangibles	**51,959**	52,792
Total property, plant and equipment	**3,403,557**	3,186,690
Accumulated depreciation and amortization	**(715,599)**	(676,443)
Property, plant and equipment, net	**$ 2,687,958**	$ 2,510,247

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as gas swap contracts, gas option contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities, only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") are as follows:

	March 31,	
	2015	2014
	(in thousands)	
Gas swap contracts	**5,782**	1,320
Gas option contracts	**700**	7,190
Gas purchase contracts	**26,887**	37,743
Total	**33,369**	46,253

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives		
	March 31,			March 31,		
	2015	2014		**2015**	2014	
	(in thousands of dollars)			*(in thousands of dollars)*		
Current assets:			Current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas swap contracts	**$ 87**	$ 497	Gas swap contracts	**$ 4,130**	$ 27	
Gas option contracts	**-**	726	Gas option contracts	**62**	180	
Gas purchase contracts	**14,590**	9,933	Gas purchase contracts	**3,127**	1,853	
	14,677	11,156		**7,319**	2,060	
Other non-current assets:			Other non-current liabilities:			
Rate recoverable contracts:			Rate recoverable contracts:			
Gas purchase contracts	**21,661**	11,199	Gas purchase contracts	**6,826**	1,266	
	21,661	11,199		**6,826**	1,266	
Total	**$ 36,338**	$ 22,355	Total	**$ 14,145**	$ 3,326	

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2015 and 2014.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative contracts, applicable payables and receivables, and instruments that are subject to master netting agreements, was a liability of $22.2 million and $19 million as of March 31, 2015 and 2014, respectively.

The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that are in a liability position at March 31, 2015 and 2014 was $4.3 million and $1.7 million, respectively. The Company had no collateral posted for these instruments at March 31, 2015 or 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $4.5 million and $1.9 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 87	$ -	$ 87	$ -	$ -	$ 87
Gas purchase contracts	36,251	-	36,251	-	-	36,251
Total	$ 36,338	$ -	$ 36,338	$ -	$ -	$ 36,338

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ (4,130)	$ -	$ (4,130)	$ -	$ -	$ (4,130)
Gas option contracts	(62)	-	(62)	-	-	(62)
Gas purchase contracts	(9,953)	-	(9,953)	-	-	(9,953)
Total	$ (14,145)	$ -	$ (14,145)	$ -	$ -	$ (14,145)

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 497	$ -	$ 497	$ -	$ -	$ 497
Gas option contracts	726	-	726	-	-	726
Gas purchase contracts	21,132	-	21,132	-	-	21,132
Total	$ 22,355	$ -	$ 22,355	$ -	$ -	$ 22,355

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ (27)	$ -	$ (27)	$ -	$ -	$ (27)
Gas option contracts	(180)	-	(180)	-	-	(180)
Gas purchase contracts	(3,119)	-	(3,119)	-	-	(3,119)
Total	$ (3,326)	$ -	$ (3,326)	$ -	$ -	$ (3,326)

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and 2014:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 87	$ -	$ 87
Gas purchase contracts	-	-	36,251	36,251
Total	-	87	36,251	36,338
Liabilities:				
Derivative contracts				
Gas swap contracts	-	4,130	-	4,130
Gas option contracts	-	-	62	62
Gas purchase contracts	-	16	9,937	9,953
Total	-	4,146	9,999	14,145
Net assets	$ -	$ (4,059)	$ 26,252	$ 22,193

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 497	$ -	$ 497
Gas option contracts	-	-	726	726
Gas purchase contracts	-	1,205	19,927	21,132
Total	-	1,702	20,653	22,355
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	180	180
Gas purchase contracts	-	273	2,846	3,119
Total	-	300	3,026	3,326
Net assets	$ -	$ 1,402	$ 17,627	$ 19,029

Derivative Contracts*:* The Company's Level 2 fair value derivative contracts primarily consist of over-the-counter ("OTC") gas swap contracts and gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. 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 95% or higher.

The Company's Level 3 fair value derivative contracts primarily consist of OTC gas option contracts and gas purchase contracts, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Changes in Level 3 Derivative Contracts

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 17,627**	$ 14,314
Total gains or losses included in regulatory assets and liabilities	**11,250**	9,330
Settlements	**(2,625)**	(6,017)
Balance as of the end of the year	**$ 26,252**	$ 17,627

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2015, 2014 or 2013.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 31,361	$ (9,937)	$ 21,424	Discounted Cash Flow	Forward Curve (A)	$0.959 - $3.087/dth
Gas	Cross commodity contracts	4,890	-	4,890	Discounted Cash Flow	Forward Curve	$17.47 - $378.51/dth
Gas	Option contracts	-	(62)	(62)	Discounted Cash Flow	Implied Volatility	34% - 41%
	Total	$ 36,251	$ (9,999)	$ 26,252			

(A) Includes deals with valuation assumptions on gas supply.

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Purchase contracts	$ 16,880	$ (2,846)	$ 14,034	Discounted Cash Flow	Forward Curve (A)	$2.709 - $14.056/dth
Gas	Cross commodity contracts	3,047	-	3,047	Discounted Cash Flow	Forward Curve	$43.19 - $84.28/dth
Gas	Option contracts	726	(180)	546	Discounted Cash Flow	Implied Volatility	29% - 31%
	Total	$ 20,653	$ (3,026)	$ 17,627			

(A) Includes deals with valuation assumptions on gas supply.

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas purchase and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to peaking gas deals based on forward gas curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2015 and 2014 was $771.2 million and $696.9 million, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP plan provides 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.

During the years ended March 31, 2015, 2014, and 2013, the Company made contributions of approximately $23 million, $27 million, and $29.1 million, respectively, to the Plans.

The Plans' assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in

the accompanying balance sheets. Pension and PBOP expenses are included in operations and maintenance expense in the accompanying statements of income.

KeySpan's unfunded obligations at March 31, 2015 and 2014 are as follows:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Pension	**$ 1,005,558**	$ 704,169
PBOP	**985,669**	916,706
	$ 1,991,227	$ 1,620,875

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2015, 2014, and 2013 are as follows:

	Years Ended March 31,		
	2015	**2014**	2013
	(in thousands of dollars)		
Pension	**$ 11,466**	$ 11,465	$ 11,284
PBOP	**13,863**	13,863	13,877
	$ 25,329	$ 25,328	$ 25,161

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees, The Company recognized an expense in the accompanying statements of income of $0.3 million for matching contributions, for each of the years ended March 31, 2015, 2014, and 2013.

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $9.4 million and $11.3 million, respectively.

9. CAPITALIZATION

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2016	$ -
2017	100,000
2018	-
2019	-
2020	-
Thereafter	500,000
Total	$ 600,000

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 58% of total utility capitalization. At March 31, 2015 and 2014, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of KeySpan, the Company is permitted to declare dividends to the extent of retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition. At the date of acquisition, the balance of retained earnings of the Company existing immediately prior of $478.6 million was reclassified into additional paid-in capital.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 23,659**	$ (11,684)	$ (4,312)
State	**334**	225	3,612
Total current tax expense (benefit)	**23,993**	(11,459)	(700)
Deferred tax expense:			
Federal	**3,290**	35,278	29,396
State	**7,366**	3,598	4,855
Total deferred tax expense	**10,656**	38,876	34,251
Total income tax expense	**$ 34,649**	$ 27,417	$ 33,551

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2015, 2014, and 2013 are 41.1%, 37.6%, and 41.6%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Computed tax	**$ 29,520**	$ 25,509	$ 28,244
Change in computed taxes resulting from:			
State income tax, net of federal benefit	**5,004**	2,484	5,504
Other items, net	**125**	(576)	(197)
Total	**5,129**	1,908	5,307
Federal and state income taxes	**$ 34,649**	$ 27,417	$ 33,551

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations which provide guidance for the application of Internal Revenue Code ("IRC") §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of the Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of $2.9 million related to dispositions of depreciable property.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the New York rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, to reflect the decrease in tax rate, the Company decreased its New York State deferred tax liability by $6.2 million with an offset to regulatory liabilities. During the year ended March 31, 2015, the Company updated the impact of the tax rate change and increased its New York State deferred tax liability by $0.1 million with an offset to regulatory liabilities.

Deferred Tax Components

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 28,348**	$ 30,509
Future federal benefit on state taxes	**36,002**	36,343
Net operating losses	**32,743**	22,866
Postretirement benefits and other employee benefits	**130,385**	93,787
Regulatory liabilities - other	**115,627**	93,744
Other items	**21,275**	21,564
Total deferred tax assets [1]	**364,380**	298,813
Deferred tax liabilities:		
Property related differences	**779,761**	707,771
Regulatory assets - environmental response costs	**114,297**	123,644
Regulatory assets - other	**100,923**	100,125
Other items	**23,197**	27,244
Total deferred tax liabilities	**1,018,178**	958,784
Net deferred income tax liabilities	**653,798**	659,971
Current portion of deferred income tax (assets) liabilities, net	**(12,431)**	16,377
Deferred income tax liabilities, net	**$ 666,229**	$ 643,594

[1] There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2015:

Expiration of net operating losses:	Federal
	(in thousands of dollars)
3/31/2029	$ 43,551
3/31/2030	8,523
3/31/2032	24,583
3/31/2033	14,757
3/31/2034	78,503

Expiration of state and city net operating losses:	NYS
	(in thousands of dollars)
3/31/2035	$ 178,670

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits totaled $60.2 million and $64.5 million, respectively, of which $0.7 million would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 64,525**	$ 102,918	$ 92,618
Gross increases - tax positions in prior periods	**-**	9,937	2,364
Gross decreases - tax positions in prior periods	**(12,079)**	(13,491)	(421)
Gross increases - current period tax positions	**7,774**	9,271	10,769
Gross decreases - current period tax positions	**(12)**	(12)	(407)
Settlements with tax authorities	**-**	(44,098)	(2,005)
Balance as of the end of the year	**$ 60,208**	$ 64,525	$ 102,918

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of $1 million and $4.5 million, respectively. During the years ended March 31, 2015, 2014, and 2013, the Company recorded an increase in interest expense of $4.2 million, a reduction to interest expense of $0.6 million, and an increase in interest expense of $4.7 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net, in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2015, 2014, or 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

During the year ended March 31, 2014, the Internal Revenue Service ("IRS") concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of KeySpan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's New York State income tax returns for the years ended December 31, 2003 through March 31, 2008. The tax returns for the years ended March 31, 2009 through March 31, 2015 remain subject to examination by the State of New York.

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

Jurisdiction	Tax Year
Federal	August 24, 2007*
New York	December 31, 2003

*The KeySpan consolidated filing group for the tax year ended August 24, 2007 and the NGNA consolidated filing group for the fiscal years ended March 31, 2008 and 2009, are in the process of appealing certain disputed issues with the IRS Office of Appeals.

11. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the New York State Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent ("ACO") or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2015, 2014, and 2013 were $14.4 million, $38.3 million, and $35.5 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized its environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $65.5 million and $70.4 million at March 31, 2015 and 2014, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2015 and 2014 was $82.7 million and $87.8 million, respectively. These costs are expected to be incurred over approximately 40 years, and the discounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2015 and 2014, the Company has recorded net environmental regulatory assets of $223.1 million and $272.3 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Gas	Capital Expenditures
2016	$ 284,796	$ 4,854
2017	271,006	-
2018	243,666	-
2019	183,258	-
2020	140,086	-
Thereafter	670,039	-
Total	$ 1,792,851	$ 4,854

Legal Matters

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former MGP located in Bay Shore. The Company has been conducting a remediation at Bay Shore pursuant to an ACO with the New York State DEC. The Company intends to contest each of the lawsuits vigorously.

The Company continues to pursue a number of refund claims with respect to garbage and other taxes levied on the Company by local authorities on Long Island, most significantly Nassau County.

In addition to the matters described above, the Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) through March 31, 2014 were approximately $135 million.

The Company had recorded an "other receivable" in the accompanying balance sheets in the amount of $39 million as of March 31, 2014, relating to claims filed against its property damage insurance policy, net of insurance deductibles, allowances, and advance payments received. In December 2014, NGUSA reached a final settlement with its insurers, of which the Company's allocated portion was $102.1 million (inclusive of advance payments of $54.2 million), and received final payment for the remaining amounts due. This resulted in the Company recognizing a gain of $8.5 million for the year ended March 31, 2015, recorded as a reduction to operations and maintenance expense in the accompanying statements of income.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates March 31,		Accounts Payable to Affiliates March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)		*(in thousands of dollars)*	
Brooklyn Union Gas Company	**$ 6,005**	$ -	**$ -**	$ 10,034
KeySpan Corporation	**18,130**	27,279	**-**	-
NG Electric Services, LLC	**-**	-	**3,847**	3,652
NGUSA Service Company	**-**	-	**5,036**	69,594
Niagara Mohawk Power Corporation	**469**	-	**-**	1,085
Other	**1,212**	1,411	**1,081**	1,747
Total	**$ 25,816**	$ 28,690	**$ 9,964**	$ 86,112

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool borrowings of $527.1 million and $551.6 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.3%, 0.7% and 1.5% for the years ended March 31, 2015, 2014, and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2015, 2014, and 2013 were $255.7 million, $253.4 million and $123.6 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $3.6 million, $4.2 million, and $3 million before taxes and $2.2 million, $2.8 million, and $2 million after taxes, for the years ended March 31, 2015, 2014, and 2013, respectively, if these amounts were allocated to the Company.

nationalgrid

Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2015, 2014, and 2013

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Board of Directors
of Niagara Mohawk Power Company

We have audited the accompanying financial statements of Niagara Mohawk Power Company (the Company), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for each of the three years in the period ended March 31, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara Mohawk Power Company at March 31, 2015 and 2014, and the results of its operations and their cash flows for each of the three years in the period ended March 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company has restated its fiscal 2014 and 201
financial statements to correct an error. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

July 2, 2015

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Operating revenues:			
Electric services	**$ 2,586,376**	$ 2,906,264	$ 2,789,431
Gas distribution	**585,478**	620,268	587,655
Total operating revenues	**$ 3,171,854**	$ 3,526,532	$ 3,377,086
Operating expenses:			
Purchased electricity	**827,611**	1,074,126	880,592
Purchased gas	**247,209**	269,381	247,183
Operations and maintenance	**1,245,829**	1,264,238	1,414,866
Depreciation and amortization	**230,473**	218,660	214,368
Other taxes	**250,876**	254,802	244,803
Total operating expenses	**2,801,998**	3,081,207	3,001,812
Operating income	**369,856**	445,325	375,274
Other income and (deductions):			
Interest on long-term debt	**(100,331)**	(91,664)	(76,407)
Other interest, including affiliate interest	**(10,775)**	(9,383)	(18,385)
Other income, net	**12,692**	16,258	5,717
Total other deductions, net	**(98,414)**	(84,789)	(89,075)
Income before income taxes	**271,442**	360,536	286,199
Income tax expense	**94,873**	126,283	101,582
Net income	**$ 176,569**	$ 234,253	$ 184,617

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Net income	**$ 176,569**	$ 234,253	$ 184,617
Other comprehensive income (loss):			
Unrealized gains on securities	**407**	715	1,183
Change in pension and other postretirement obligations	**(144)**	1,102	(674)
Total other comprehensive income	**263**	1,817	509
Comprehensive income	**$ 176,832**	$ 236,070	$ 185,126
Related tax (expense) benefit:			
Unrealized gains on securities	**$ (267)**	$ (429)	$ (789)
Change in pension and other postretirement obligations	**94**	(661)	449
Total tax expense	**$ (173)**	$ (1,090)	$ (340)

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014 (Restated)	2013 (Restated)
Operating activities:			
Net income	**$ 176,569**	$ 234,253	$ 184,617
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**230,473**	218,660	214,368
Regulatory amortizations	**(24,463)**	(38,365)	197,260
Provision for deferred income taxes	**92,502**	96,150	103,841
Bad debt expense	**62,941**	35,248	(18,241)
Loss from equity investments, net of dividends received	**156**	87	354
Allowance for equity funds used during construction	**(13,270)**	(10,040)	(6,869)
Amortization of debt discount and issuance costs	**3,673**	3,692	3,739
Net postretirement benefits expense (contributions)	**23,966**	106,399	(51,085)
Net environmental remediation payments	**(32,575)**	(41,554)	(31,438)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**45,914**	(185,417)	(120,104)
Accounts receivable from/payable to affiliates, net	**-**	-	27,296
Inventory	**(12,133)**	(4,938)	15,900
Regulatory assets and liabilities, net	**121,071**	(22,824)	164,907
Derivative contracts	**92,995**	(6,316)	(69,274)
Prepaid and accrued taxes	**(15,454)**	44,261	(13,129)
Accounts payable and other liabilities	**(20,935)**	48,128	(85,830)
Other, net	**22,262**	(9,809)	(15,777)
Net cash provided by operating activities	**753,692**	467,615	500,535
Investing activities:			
Capital expenditures	**(611,438)**	(545,316)	(497,850)
Changes in restricted cash and special deposits	**1,526**	34,982	(16,602)
Affiliated money pool investing and receivables/payables, net	**(221,837)**	(67,483)	89,925
Cost of removal	**(37,966)**	(41,359)	(49,152)
Other	**(1,270)**	(2,750)	(5,614)
Net cash used in investing activities	**(870,985)**	(621,926)	(479,293)
Financing activities:			
Common stock dividends to Parent	**-**	-	(210,000)
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**(600,000)**	(45,600)	(500,000)
Proceeds from long-term debt	**900,000**	-	700,000
Payment of debt issuance costs	**(5,000)**	-	(4,200)
Affiliated money pool borrowing and receivables/payables, net	**-**	(30,189)	-
(Repayments of) advances from affiliates	**(200,000)**	205,000	346
Capital contributions	**-**	25,000	-
Parent loss tax allocation	**12,415**	15,715	445
Share based compensation	**-**	(2,677)	5,686
Net cash provided by (used in) financing activities	**106,355**	166,189	(8,783)
Net (decrease) increase in cash and cash equivalents	**(10,938)**	11,878	12,459
Cash and cash equivalents, beginning of year	**26,550**	14,672	2,213
Cash and cash equivalents, end of year	**$ 15,612**	$ 26,550	$ 14,672
Supplemental disclosures:			
Interest paid	$ (88,018)	$ (84,503)	$ (91,047)
Income taxes (paid) refunded	(5,376)	15,099	(99,349)
Significant non-cash items:			
Capital-related accruals included in accounts payable	27,753	30,236	11,396
Share based compensation	180	(2,677)	5,686

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 15,612**	$ 26,550
Restricted cash and special deposits	**14,316**	15,842
Accounts receivable	**656,707**	732,812
Allowance for doubtful accounts	**(133,428)**	(120,723)
Accounts receivable from affiliates	**19,170**	12,647
Intercompany money pool	**278,048**	131,670
Unbilled revenues	**114,404**	134,449
Inventory	**60,249**	48,116
Regulatory assets	**76,726**	89,556
Derivative contracts	**22,808**	38,277
Current portion of deferred income tax assets, net	**165,036**	92,939
Prepaid taxes	**34,955**	15,367
Other	**31,983**	52,855
Total current assets	**1,356,586**	1,270,357
Equity investments	**2,562**	2,718
Property, plant and equipment, net	**7,886,060**	7,466,113
Other non-current assets:		
Regulatory assets	**1,430,354**	1,104,975
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**8,184**	7,762
Postretirement benefits asset	**211,565**	310,382
Other	**79,716**	74,569
Total other non-current assets	**3,018,951**	2,786,820
Total assets	**$ 12,264,159**	$ 11,526,008

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014 (Restated)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 194,326**	$ 247,842
Accounts payable to affiliates	**7,898**	76,834
Advances from affiliates	**25,000**	225,000
Current portion of long-term debt	**-**	500,000
Taxes accrued	**20,358**	20,370
Customer deposits	**32,214**	30,032
Interest accrued	**33,846**	27,887
Regulatory liabilities	**204,359**	180,902
Derivative contracts	**56,222**	6,734
Other	**123,016**	89,227
Total current liabilities	**697,239**	1,404,828
Other non-current liabilities:		
Regulatory liabilities	**867,883**	829,334
Asset retirement obligations	**10,929**	10,380
Deferred income tax liabilities, net	**1,941,721**	1,765,998
Postretirement benefits	**740,555**	506,034
Environmental remediation costs	**415,234**	432,923
Derivative contracts	**36,714**	8,254
Other	**325,279**	328,112
Total other non-current liabilities	**4,338,315**	3,881,035
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,374,149**	4,185,782
Long-term debt	**2,854,456**	2,054,363
Total capitalization	**7,228,605**	6,240,145
Total liabilities and capitalization	**$ 12,264,159**	$ 11,526,008

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014 (Restated)
Total shareholders' equity			**$ 4,374,149**	$ 4,185,782
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.55%	October 1, 2014	**-**	500,000
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
Senior Note	3.51%	October 1, 2024	**500,000**	-
Senior Note	4.28%	October 1, 2034	**400,000**	-
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
			2,350,000	1,950,000
State Authority Financing - tax exempt				
NYSERDA tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA tax exempt	Variable	October 1, 2013 - July 1, 2029	**429,465**	529,465
			504,465	604,465
Unamortized debt discounts			**(9)**	(102)
Total debt			**2,854,456**	2,554,363
Current portion of long-term debt			**-**	500,000
Long-term debt			**2,854,456**	2,054,363
Total capitalization			**$ 7,228,605**	$ 6,240,145

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-for-sale Securities	Pension and Other Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012 - restated	**$ 187,365**	**$ 28,985**	**$ 2,954,692**	**$ 350**	**$ (1,096)**	**$ (746)**	**$ 762,241**	**$ 3,932,537**
Net income	-	-	-	-	-	-	184,617	184,617
Other comprehensive income (loss)								
Unrealized gains on securities, net of $789 tax expense	-	-	-	1,183	-	1,183	-	1,183
Change in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	(674)	(674)	-	(674)
Total comprehensive income								185,126
Parent loss tax allocation	-	-	445	-	-	-	-	445
Share based compensation	-	-	5,686	-	-	-	-	5,686
Common stock dividends to Parent	-	-	-	-	-	-	(210,000)	(210,000)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2013 - restated	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 735,798**	**$ 3,912,734**
Net income	-	-	-	-		-	234,253	234,253
Other comprehensive income (loss)								
Unrealized gains on securities, net of $429 tax expense	-	-	-	715	-	715	-	715
Change in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Total comprehensive income								236,070
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent loss tax allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014 - restated	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 968,991**	**$ 4,185,782**
Net income	-	-	-	-		-	176,569	176,569
Other comprehensive income (loss)								
Unrealized gains on securities, net of $267 tax expense	-	-	-	407	-	407	-	407
Change in pension and other postretirement obligations, net of $94 tax benefit	-	-	-	-	(144)	(144)	-	(144)
Total comprehensive income								176,832
Parent loss tax allocation	-	-	12,415	-	-	-	-	12,415
Share based compensation	-	-	180	-	-	-	-	180
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2015	**$ 187,365**	**$ 28,985**	**$ 3,011,456**	**$ 2,655**	**$ (812)**	**$ 1,843**	**$ 1,144,500**	**$ 4,374,149**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2015 and 2014.

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

The Company is a wholly-owned subsidiary of Niagara Mohawk Holdings, Inc., which is a wholly-owned subsidiary of National Grid USA ("NGUSA" or "Parent"), 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. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 2, 2015, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") regulate the rates the Company charges its customers. In certain cases, the rate actions of the NYPSC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. Regulatory assets and liabilities are amortized to the statements of income consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has a revenue decoupling mechanism which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2015, 2014, and 2013 were $38.6 million, $41.7 million, and $39.1 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had prepaid property taxes of $15.7 million and $15.4 million at March 31, 2015 and 2014, respectively.

Income Taxes

Federal and state 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 also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. 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.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company determines its current and deferred taxes based on the separate return method. The Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its subsidiaries. Tax benefits attributable to the tax attributes of other group companies and allocated by NGNA are treated as capital contributions.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by the New York Independent System Operator ("NYISO"). Special deposits primarily consist of health care claims deposits. The Company had restricted cash of $12.1 million and zero and special deposits of $2.2 million and $15.8 million at March 31, 2015 and 2014, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written

off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2015, 2014, or 2013.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the NYPSC.

The Company had materials and supplies of $43.2 million and $40.4 million and gas in storage of $17.1 million and $7.7 million at March 31, 2015 and 2014, respectively.

Derivative Contracts

The Company uses derivative contracts to manage commodity price risk. All derivative contracts are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative contracts, are passed on to customers through the Company's commodity rate adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract for which it elected the normal purchase normal sale exception, no longer qualifies, the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

The Company's accounting policy is to not offset fair value amounts recognized for derivative contracts and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative contract on a gross basis, with related cash collateral recorded within restricted cash and special deposits in the accompanying balance sheets. There was $12.1 million related cash collateral as of March 31, 2015 and no related cash collateral at March 31, 2014.

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivatives, or executory contracts. Power purchase agreements that do not qualify as leases or derivatives are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. 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:

- 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; and
- 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. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. The average composite rates and average service lives for the years ended March 31, 2015, 2014, and 2013 are as follows:

	Composite Rates			**Average Service Lives**		
	Years Ended March 31,			**Years Ended March 31,**		
	2015	2014	2013	**2015**	2014	2013
Electric	**2.2%**	2.2%	2.1%	**58 years**	58 years	58 years
Gas	**2.1%**	2.1%	2.5%	**49 years**	49 years	49 years
Common	**4.7%**	4.5%	4.5%	**38 years**	38 years	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $370.2 million and $380 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $13.3 million, $10 million, and $6.9 million and AFUDC related to debt of $4.7 million, $4.7 million and $3.7 million for the years ended March 31, 2015, 2014, and 2013, respectively. The average AFUDC rates for the years ended March 31, 2015, 2014, and 2013 were 6.5%, 6.4%, and 6.1%, respectively.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. Goodwill is tested for impairment using a two-step approach. The first step compares the estimated fair value of the Company with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is considered not impaired. If the carrying value exceeds the estimated fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2015 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

- To estimate fair value utilizing the market approach, the Company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach included the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 11, which the Company believes is appropriate based on comparison of its business with the benchmark companies.

The Company determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2015 or 2014.

Prior to 2015, the Company utilized an annual impairment assessment date of January 31. Management has determined that the use of January 1 as its annual impairment assessment date is preferable to January 31 because it facilitates a more timely evaluation in advance of the Company's fiscal year end of March 31. The movement of the date has not resulted in a substantive change in the timing of recording any potential impairment.

Available-For-Sale Securities

The Company holds available-for-sale securities that include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in other non-current assets in the accompanying balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment, primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,380**	$ 10,329
Accretion expense	**518**	507
Liabilities settled	**-**	(456)
Liabilities incurred in the current year	**31**	-
Balance as of the end of the year	**$ 10,929**	$ 10,380

Accretion expense is deferred as part of the Company's asset retirement obligation regulatory asset as management believes it is probable that such amounts will be collected in future rates.

Employee Benefits

The Company has defined benefit pension and postretirement benefit ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets in the accompanying balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying statements of income.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," to improve the reporting of reclassifications out of AOCI. The amendments require an entity to provide information either on the face of the financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company adopted this guidance effective April 1, 2014 with no impact on its financial position, results of operations or cash flows.

Accounting Guidance Not Yet Adopted

Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments also require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued a new revenue recognition standard ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The objective of the new guidance is to provide a single comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration the entity expects to receive. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Financial Statement Restatement

During 2015, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by restating the prior period financial statements, the impacts of which are described below.

During its review of the Company's accounting for its RDM, management determined it had incorrectly applied its methodology related to the unbilled component of revenue. A cumulative adjustment of $21.3 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, which was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

Additionally, adjustments were made to correct the timing of recognition of revenue and regulatory assets related to the Company's Electricity Supply Reconciliation Mechanism. A cumulative adjustment of $7.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which $2.2 million was recorded as a decrease to opening retained earnings (as of March 31, 2012) and $1.2 million and $8.9 million were recorded as an increase to net income within operating revenues for the years ended March 31, 2014 and 2013, respectively.

Further, management determined it had not recognized a regulatory liability in relation to the Company's Net Utility Plant Tracker. A cumulative adjustment of $8.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, which was recorded as a decrease to net income within operating revenues for the year ended March 31, 2014.

In addition, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $0.2 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2014, of which a $0.1 million increase and a $0.2 million decrease were recorded to net income for the years ended March 31, 2014 and 2013, respectively.

The following table shows the amounts previously reported as restated:

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Consolidated Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 3,571,821	$ (45,289)	$ 3,526,532
Operating income	489,421	(44,096)	445,325
Total other deductions, net	(81,376)	(3,413)	(84,789)
Income before income taxes	408,045	(47,509)	360,536
Income tax expense	145,104	(18,821)	126,283
Net income	262,941	(28,688)	234,253
Consolidated Statement of Income	**March 2013**		**March 2013**
Operating revenues	$ 3,362,700	$ 14,386	$ 3,377,086
Operating income	360,888	14,386	375,274
Other deductions, net	(88,694)	(381)	(89,075)
Income before income taxes	272,194	14,005	286,199
Income tax expense	96,034	5,548	101,582
Net income	176,160	8,457	184,617
Consolidated Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 466,336	$ 1,279	$ 467,615
Net cash used in investing activities	(620,647)	(1,279)	(621,926)
Consolidated Statement of Cash Flows	**March 2013**		**March 2013**
Net cash provided by operating activities	$ 500,647	$ (112)	$ 500,535
Net cash used in investing activities	(479,405)	112	(479,293)

	As Previously Reported [1]	Adjustments	As Restated
		(in thousands of dollars)	
Consolidated Balance Sheet	**March 2014**		**March 2014**
Total current assets	$ 1,267,659	$ 2,697	$ 1,270,356
Property, plant and equipment, net	7,469,908	(3,795)	7,466,113
Total current liabilities	1,393,277	11,550	1,404,827
Total other non-current liabilities	3,871,254	9,781	3,881,035
Retained Earnings			
March 31, 2014	991,420	(22,429)	968,991
March 31, 2013	729,539	6,259	735,798
March 31, 2012	764,439	(2,198)	762,241

[1] During 2015, the Company changed its accounting policy for classification of regulatory accounts. The change in policy resulted in a reclassification of balances reported at March 31, 2014.

3. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded in the accompanying balance sheets.

	March 31,	
	2015	2014
	(in thousands of dollars)	
Regulatory assets		
Current:		
Amortization of deferral recoveries	**$ -**	$ 15,819
Derivative contracts	**61,944**	-
Gas costs adjustment	**9,190**	45,499
Rate adjustment mechanisms	**208**	26,207
Revenue decoupling mechanism	**5,147**	-
Other	**237**	2,031
Total	**76,726**	89,556
Non-current:		
Dunkirk settlement deferral	**60,351**	65,794
Environmental response costs	**415,234**	432,923
Postretirement benefits	**729,771**	425,648
Regulatory deferred tax asset	**78,790**	67,839
Storm costs	**96,238**	73,332
Other	**49,970**	39,439
Total	**1,430,354**	1,104,975
Regulatory liabilities		
Current:		
Derivative contracts	**-**	31,052
Energy efficiency	**68,305**	61,582
Gas costs adjustment	**3,169**	18,786
Rate adjustment mechanisms	**100,154**	10,294
Revenue decoupling mechanism	**4,082**	22,752
Temporary state assessment	**28,649**	-
Other	**-**	36,436
Total	**204,359**	180,902
Non-current:		
Carrying charges	**61,039**	56,901
Cost of removal	**370,163**	380,001
Economic development fund	**56,198**	37,502
Excess storm reserve	**87,778**	58,778
Postretirement benefits	**97,562**	104,915
Temporary state assessment	**-**	59,537
Other	**195,143**	131,700
Total	**867,883**	829,334
Net regulatory assets	**$ 434,838**	$ 184,295

Amortization of deferral recoveries: In March 2013, the Company implemented a revised Electricity Supply Reconciliation Mechanism ("ESRM") methodology to better align the revenue with expense. This change resulted in unintentional financial impacts that the Company would not be able to recover. Therefore, the Company and NYPSC Staff agreed that the best way

to allow the Company to recover the unreconciled dollars would be a return to the original ESRM methodology that was in place prior to March 2013. The NYPSC allowed the Company to recover the unreconciled costs of $31.6 million over a twelve-month period beginning November 2013 applied to ESRM rates.

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Derivative contracts (assets and liabilities): The Company evaluates open derivative contracts for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Dunkirk settlement deferral: Represents the Company's deferral costs of procuring Reliability Support Services ("RSS") from Dunkirk Power LLC and related accrued carrying charges to ensure that local reliability needs are met.

Economic development fund: Represents actual expenditures and economic development discounts below the rate allowance, deferred for future return.

Energy efficiency ("EE"): Represents the difference between revenue billed to customers through its EE Charge and the costs of the Company's EE programs as approved by the NYPSC.

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess storm reserve: Represents the cumulative storm reserve allowance / funding for major storm incremental costs. The Joint Proposal (NMPC rate proceeding Case 12-E-0201) establishes an annual allowance for major storm recovery of $29 million in each of the three years. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers over the next year.

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The amount in regulatory liabilities primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods. These balances accrue carrying charges as calculated in accordance with the Company's pension and PBOP reserve mechanism.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

Regulatory deferred tax asset: Represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flow through accounting treatment and tax rate changes. The income tax benefits or charges for certain plant related timing differences, such as equity AFUDC, are immediately flowed through to, or collected from, customers. The amortization of the related regulatory deferred tax asset, for these items, follows the book life of the underlying plant asset. The Company also has a recovery of historic unfunded deferred tax balances that are currently amortizing into rates at a stated annual revenue requirement under the current rate plan.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: The Company's rate plan provides for a rate allowance of $29 million regulatory liability annually for incremental major storm costs. The Company has recorded $22.9 million storm cost regulatory assets arising from qualified storm events for recovery during the year.

Temporary state assessment: 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 ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers respectively for rates effective July 1, 2014 through June 30, 2015.

The Company records carrying charges on all regulatory balances (with the exception of amortization of deferral recoveries, derivative contracts, cost of removal, and regulatory deferred tax balances), 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.

4. RATE MATTERS

March 2013 Electric and Gas Filing

In March 2013, the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The term of the new rate plan is from April 1, 2013 through March 31, 2016 and provides for an electric revenue requirement of $1,338.3 million in the first year, $1,395.9 million in the second year, and $1,432.5 million in the third year. It also provides for a gas revenue requirement of $307.4 million in the first year, $314.7 million in the second year, and $322 million in the third year.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA complaint also challenged certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the NYISO, with a corresponding overall weighted cost of capital of 6.60%. On February 24, 2015, the parties filed a Settlement Agreement which reduces the ROE used in calculating rates for transmission service under the NYISO OATT to 10.3%, inclusive of incentive adders, from November 2, 2012 until the date of a FERC order accepting the Settlement Agreement, and prospectively thereon. The Settlement Agreement also provides for a one-time refund of $180,000 plus interest on that amount calculated at the FERC rate pursuant to 18 C.F.R. §35.19a(a)(2)(iii) from November 2, 2012 until the date the refund is provided, along with a one-time refund of $200,000 without interest for the non-ROE transmission formula rate issues raised in the MEUA complaint. Any change in the ROE would not have an impact on net income as the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism. On May 13, 2015, the FERC issued a letter order approving the Company's Transmission ROE settlement without any modification.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its RSS costs under two agreements with NRG to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014, the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC. On March 19, 2015, the FERC issued two orders relating to the Company's December 6, 2013 filing of proposed tariff revisions to the TSC Rate. In the first order, the FERC set for hearing and settlement judge procedures the justness and reasonableness of the Company's proposed Wholesale TSC formula rate revisions and the Dunkirk RSS charges. In the second order, the FERC rejected a request for rehearing filed by the MEUA regarding the FERC's decision to accept the December 6, 2013 amendment for filing retroactive to July 1, 2013. The FERC held the hearing on the first order in abeyance pending the outcome of settlement proceedings before a settlement judge.

Dunkirk RSS Agreement Extension

On May 18, 2015, the NYPSC approved a seven-month extension of the existing RSS agreement between the Company and Dunkirk. The approval extends the end date of the RSS from May 31, 2015 to December 31, 2015, and provides for recovery of the RSS costs under the surcharge mechanism currently in place. The extension is needed to address reliability issues until the Company's Five Mile Road substation and associated reconductoring projects are in service (estimated at December 31, 2015).

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of NGUSA's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On September 5, 2014, the NYPSC approved a settlement that resolves all outstanding issues relating to the audit and provides for no rate adjustments for the Company.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of these financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, the Company filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which the Company calculates its supply-related Mass Market Adjustment ("MMA"). The Company proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting the Company's waiver request (the "Emergency Order"). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, the Company's request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing the Company to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

Petition for Authorization to Defer an Actuarial Experience Pension Settlement Loss for the Year Ending March 31, 2014

On February 28, 2014 and August 13, 2014 the Company filed petitions seeking authorization to defer $14.1 million related to a pension settlement loss incurred during the year ending March 31, 2014.

Commodity Rate Mechanism Changes

On October 23, 2014, the NYPSC approved tariff revisions filed by the Company that modified several components of Rule 46 – Supply Service Charges of the Company's tariff, NYPSC No. 220-Electricity. The revisions provide the Company with a measure of flexibility to manage significant volatility resulting from the reconciliation of commodity costs, like those experienced in January and March of 2014 due to the unanticipated extreme cold weather, for its residential and small commercial customers ("mass market customers"). The tariff revisions went into effect October 29, 2014 and will allow for more flexibility in the timing of the Company's reconciliation of revenues and expenses for mass market customers.

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes property, plant and equipment at cost along with accumulated depreciation and amortization:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Plant and machinery	**$ 10,157,553**	$ 9,558,727
Land and buildings	**558,383**	545,537
Assets in construction	**343,906**	435,275
Software and other intangibles	**8,141**	6,361
Total property, plant and equipment	**11,067,983**	10,545,900
Accumulated depreciation and amortization	**(3,181,923)**	(3,079,787)
Property, plant and equipment, net	**$ 7,886,060**	$ 7,466,113

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as swaps, options and gas purchase contracts, to manage commodity price risk associated with its natural gas and electricity purchases. The Company's risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms ("dths") and megawatt hours ("mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands)		*(in thousands)*	
Gas swap contracts (dths)	**-**	-	**4,380**	1,360
Gas option contracts (dths)	**-**	-	**760**	6,250
Gas purchase contracts (dths)	**-**	-	**5,178**	14,758
Electric swap contracts (mwhs)	**10,779**	6,637	**-**	-
Electric option contracts (mwhs)	**154**	154	**-**	-
Total	**10,933**	6,791	**10,318**	22,368

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives		
	March 31,			March 31,		
	2015	2014		**2015**	2014
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 3**	$ 525	Gas swap contracts	**$ 3,911**	$ 27
Gas option contracts	**-**	612	Gas option contracts	**65**	175
Gas purchase contracts	**10**	182	Gas purchase contracts	**170**	5,105
Electric swap contracts	**22,795**	36,360	Electric swap contracts	**51,123**	1,417
Electric option contracts	**-**	598	Electric option contracts	**953**	10
	22,808	38,277		**56,222**	6,734
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**8,184**	7,762	Electric swap contracts	**36,714**	8,254
	8,184	7,762		**36,714**	8,254
Total	**$ 30,992**	$ 46,039	Total	**$ 92,936**	$ 14,988

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2015 and 2014.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered into for commodity price risk management. Credit risk represents the risk of loss due to counterparty non-performance. Credit risk is managed by assessing each counterparty's credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, and counterparty credit approval, as well as all valuation and control procedures. The EERC is chaired by the Global Tax and Treasury Director and reports to the Finance Committee. The EPRMC is chaired by the Vice President of U.S. Treasury and reports to the EERC.

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties.

The Company's credit exposure for all derivative contracts and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was a liability of $49.8 million and an asset of $28.2 million as of March 31, 2015 and 2014, respectively.

The Company enters into commodity transactions on New York Mercantile Exchange ("NYMEX"). The NYMEX clearing houses act as the counterparty to each trade. Transactions on the NYMEX must adhere to comprehensive collateral and margining requirements. As a result, transactions on the NYMEX are significantly collateralized and have limited counterparty credit risk.

The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that are in a liability position at March 31, 2015 and 2014 was $62 million and $9.7 million, respectively. The Company had $12.1 million and zero collateral posted for these instruments at March 31, 2015 and 2014. If the Company's credit rating were to be downgraded by one level, it would be required to post $13.6 million and zero additional collateral to its counterparties at March 31, 2015 and 2014, respectively. If the Company's credit rating were to be downgraded by two levels, it would be required to post $23.6 million and zero additional collateral to its counterparties at March 31, 2015 and 2014, respectively. If the Company's credit rating were to be downgraded by three levels, it would be required to post $58.9 million and $9.9 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 3	$ -	$ 3	$ -	$ -	$ 3
Gas purchase contracts	10	-	10	-	-	10
Electric swap contracts	30,979	-	30,979	-	-	30,979
Total	$ 30,992	$ -	$ 30,992	$ -	$ -	$ 30,992

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 3,911	$ -	$ 3,911	$ -	$ -	$ 3,911
Gas option contracts	65	-	65	-	-	65
Gas purchase contracts	170	-	170	-	-	170
Electric swap contracts	87,837	-	87,837	-	12,100	75,737
Electric option contracts	953	-	953	-	-	953
Total	$ 92,936	$ -	$ 92,936	$ -	$ 12,100	$ 80,836

March 31, 2014
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 525	$ -	$ 525	$ -	$ -	$ 525
Gas option contracts	612	-	612	-	-	612
Gas purchase contracts	182	-	182	-	-	182
Electric swap contracts	44,122	-	44,122	-	2,800	41,322
Electric option contracts	598	-	598	-	-	598
Total	$ 46,039	$ -	$ 46,039	$ -	$ 2,800	$ 43,239

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative contracts						
Gas swap contracts	$ 27	$ -	$ 27	$ -	$ -	$ 27
Gas option contracts	175	-	175	-	-	175
Gas purchase contracts	5,105	-	5,105	-	-	5,105
Electric swap contracts	9,671	-	9,671	-	-	9,671
Electric option contracts	10	-	10	-	-	10
Total	$ 14,988	$ -	$ 14,988	$ -	$ -	$ 14,988

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2015 and 2014:

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 3	$ -	$ 3
Gas purchase contracts	-	6	4	10
Electric swap contracts	-	30,979	-	30,979
Available-for-sale securities	20,008	9,926	-	29,934
Total	20,008	40,914	4	60,926
Liabilities:				
Derivative contracts				
Gas swap contracts	-	3,911	-	3,911
Gas option contracts	-	-	65	65
Gas purchase contracts	-	-	170	170
Electric swap contracts	-	87,837	-	87,837
Electric option contracts	-	-	953	953
Total	-	91,748	1,188	92,936
Net assets	$ 20,008	$ (50,834)	$ (1,184)	$ (32,010)

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 525	$ -	$ 525
Gas option contracts	-	-	612	612
Gas purchase contracts	-	182	-	182
Electric swap contracts	-	43,982	140	44,122
Electric option contracts	-	-	598	598
Available-for-sale securities	18,818	9,174	-	27,992
Total	18,818	53,863	1,350	74,031
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	175	175
Gas purchase contracts	-	5,105	-	5,105
Electric swap contracts	-	9,671	-	9,671
Electric option contracts	-	-	10	10
Total	-	14,803	185	14,988
Net assets	$ 18,818	$ 39,060	$ 1,165	$ 59,043

Derivative Contracts*:* The Company's Level 2 fair value derivative contracts primarily consist of over-the-counter ("OTC") electric and gas swaps and forward gas purchase contracts with pricing inputs obtained from the NYMEX and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. 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 95% or higher.

The Company's Level 3 fair value derivative contracts primarily consist of gas option and electric option and swap transactions, which are valued based on internally-developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curves with correlation coefficients less than 95%, where optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves and are reviewed by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative contracts categorized in Level 2 and Level 3.

Available-for-Sale Securities: Available-for-sale securities are included in other non-current assets in the accompanying balance sheets and primarily include equity and debt investments based on quoted market prices (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Changes in Level 3 Derivative Contracts

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 1,165**	$ 357
Transfers out of Level 3	**4,743**	818
Total gains or losses included in regulatory assets and liabilities	**(9,270)**	(260)
Settlements	**2,178**	250
Balance as of the end of the year	**$ (1,184)**	$ 1,165

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2015, 2014 or 2013.

Quantitative Information About Level 3 Fair Value Measurements

The following tables provide information about the Company's Level 3 valuations:

Commodity	Level 3 Position	Fair Value as of March 31, 2015			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ -	$ (65)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.272-$0.295/dth 34% - 41%
Gas	Physical contracts	4	(170)	(166)	Discounted Cash Flow	Forward Curve	$0.959-$1.270/dth
Electric	Option contracts	-	(953)	(953)	Discounted Cash Flow	Implied Volatility	30% - 69%
	Total	$ 4	$ (1,188)	$ (1,184)			

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Gas	Option contracts	$ 612	$ (175)	$ 437	Discounted Cash Flow	Forward Curve Implied Volatility	$0.120-$0.720/dth 29% - 31%
Electric	Swap contracts	140	-	140	Discounted Cash Flow	Implied Volatility	29% - 65%
Electric	Option contracts	598	(10)	588	Discounted Cash Flow	Implied Volatility	29% - 65%
	Total	$ 1,350	$ (185)	$ 1,165			

The significant unobservable inputs listed above would have a direct impact on the fair values of the Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement of the Company's gas option derivatives and electric option and swap derivatives are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2015 and 2014 was $3 billion and $2.6 billion, respectively.

All other financial instruments in the accompanying balance sheets such as accounts receivable, accounts payable, and the intercompany money pool are stated at cost, which approximates fair value.

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. A portion of the cost of these plans is charged to the Company to the extent employee's participating in those plans provide services to the Company. The Company is also allocated costs associated with affiliated service companies' employees for work performed on the Company's behalf.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $25.9 million to the qualified pension plan during the year ended March 31, 2016.

PBOP Plans

The Company's PBOP Plans 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 PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $41.8 million to the PBOP Plans during the year ended March 31, 2016.

Defined Contribution Plan

NGUSA has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2015, 2014, and 2013, the Company recognized an expense in the accompanying statements of income of $7.9 million, $7.7 million and $7.2 million, respectively, for matching contributions.

Components of Net Periodic Benefit Costs

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Service cost	**$ 23,583**	$ 24,888	$ 24,772
Interest cost	**60,957**	60,507	63,590
Expected return on plan assets	**(100,068)**	(93,849)	(92,618)
Amortization of prior service cost, net	**3,719**	4,805	4,805
Amortization of net actuarial loss	**52,606**	61,957	77,397
Settlement loss	**-**	13,815	967
Total cost	**$ 40,797**	$ 72,123	$ 78,913

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Service cost	**$ 20,687**	$ 20,618	$ 16,676
Interest cost	**76,608**	70,219	68,827
Expected return on plan assets	**(83,046)**	(73,904)	(63,329)
Amortization of prior service cost, net	**12,681**	12,681	12,681
Amortization of net actuarial loss	**27,888**	26,371	37,366
Total cost	**$ 54,818**	$ 55,985	$ 72,221

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Net actuarial loss (gain)	**$ 114,848**	$ (12,327)	$ 4,084
Amortization of net actuarial loss	**(52,606)**	(61,957)	(77,396)
Amortization of prior service cost, net	**(3,719)**	(4,805)	(4,805)
Total	**$ 58,523**	$ (79,089)	$ (78,117)
Included in regulatory assets	**$ 58,285**	$ (77,880)	$ (78,619)
Included in AOCI	**238**	(1,209)	502
Total	**$ 58,523**	$ (79,089)	$ (78,117)

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Net actuarial loss	**$ 296,489**	$ 54,283	$ 60,618
Amortization of loss	**(27,888)**	(26,371)	(37,366)
Amortization of prior service cost	**(12,681)**	(12,681)	(12,681)
Total	**$ 255,920**	$ 15,231	$ 10,571
Included in regulatory assets	**$ 255,920**	$ 15,231	$ 10,571
Included in AOCI	**-**	-	-
Total	**$ 255,920**	$ 15,231	$ 10,571

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Net actuarial loss	**$ 258,156**	$ 195,914	$ 270,198
Prior service cost	**20,019**	23,738	28,543
Total	**$ 278,175**	$ 219,652	$ 298,741
Included in regulatory assets	**$ 276,574**	$ 218,289	$ 296,168
Included in AOCI	**1,601**	1,363	2,573
Total	**$ 278,175**	$ 219,652	$ 298,741

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Net actuarial loss	**$ 460,638**	$ 192,037	$ 164,125
Prior service cost	**(7,441)**	5,240	17,921
Total	**$ 453,197**	$ 197,277	$ 182,046
Included in regulatory assets	**$ 453,197**	$ 197,277	$ 182,046
Included in AOCI	**-**	-	-
Total	**$ 453,197**	$ 197,277	$ 182,046

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2016 for the Pension Plans is $65.3 million and $4 million, respectively, and for the PBOP Plans is $58.2 million and $1.9 million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,449,308)**	$ (1,479,164)	**$ (1,752,928)**	$ (1,605,949)
Service cost	**(28,339)**	(29,883)	**(24,427)**	(23,999)
Interest cost on projected benefit obligation	**(67,418)**	(67,033)	**(81,160)**	(74,154)
Net actuarial loss	**(177,053)**	(41,993)	**(284,758)**	(109,971)
Benefits paid	**94,333**	54,108	**74,835**	71,626
Actual Medicare Part D subsidy received	**-**	-	**(8)**	(282)
Employer group waiver plan subsidy received	**-**	-	**(11,636)**	(10,199)
Settlements	**-**	114,657	**-**	-
Benefit obligation as of the end of the year	**(1,627,785)**	(1,449,308)	**(2,080,082)**	(1,752,928)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,736,397**	1,772,538	**1,204,634**	1,026,854
Actual return on plan assets	**161,291**	132,212	**58,011**	124,086
Company contributions	**403**	412	**85,553**	125,320
Benefits paid	**(94,333)**	(54,108)	**(74,835)**	(71,626)
Settlements	**-**	(114,657)	**-**	-
Fair value of plan assets as of the end of the year	**1,803,758**	1,736,397	**1,273,363**	1,204,634
Funded status	**$ 175,973**	$ 287,089	**$ (806,719)**	$ (548,294)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.6 billion and $1.4 billion at March 31, 2015 and 2014, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Other non-current assets	**$ 211,565**	$ 310,382	**$ -**	$ -
Current liabilities	**(382)**	(411)	**(7,300)**	(4,600)
Other non-current liabilities	**-**	-	**(740,555)**	(506,034)
Total	**$ 211,183**	$ 309,971	**$ (747,855)**	$ (510,634)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2015:

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOP Plans
2016	$ 153,873	$ 76,895
2017	156,032	79,929
2018	153,811	82,450
2019	146,946	85,283
2020	141,632	87,902
Thereafter	608,782	469,717
Total	$ 1,361,076	$ 882,176

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2015	2014	2013
Benefit Obligations:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	7.00%	6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.80%**	4.70%	5.10%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**7.00%**	6.75%	6.75%

	PBOP Plans		
	Years Ended March 31,		
	2015	2014	2013
Benefit Obligations:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	7.00%-7.25%	7.00%-7.50%
Net Periodic Benefit Costs:			
Discount rate	**4.80%**	4.70%	5.10%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**7.00%-7.25%**	7.00%-7.50%	7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

Mortality assumptions are used to estimate life expectancies of plan participants and the expected period over which they will receive pension benefits. The mortality assumption is composed of a base table that represents the current expectation

of life expectancy of the population and an improvement scale that anticipates future improvements in life expectancy. In October 2014, the Society of Actuaries ("SOA") issued updated mortality tables (RP-2014) and a mortality improvement scale (MP-2014), which reflect longer life expectancies than previously projected.

The Company's pension and PBOP obligations as of March 31, 2015 reflect a change in the underlying mortality assumption consistent with the SOA study. These changes resulted in an increase in the projected benefit obligation of $106 million as of March 31, 2015.

The expected 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 assumptions. 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.

Assumed Health Cost Trend Rate

	March 31,	
	2015	2014
Health care cost trend rate assumed for next year		
Pre 65	**8.00%**	8.00%
Post 65	**6.50%**	7.00%
Prescription	**6.50%**	7.00%
Rate to which the cost trend is assumed to decline (ultimate)	**5.00%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2022**	2022
Post 65	**2022**	2021
Prescription	**2022**	2021

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	**March 31, 2015**
1% point increase	
Total of service cost plus interest cost	$ 20,242
Postretirement benefit obligation	316,378
1% point decrease	
Total of service cost plus interest cost	(16,673)
Postretirement benefit obligation	(274,475)

Plan Assets

NGUSA manages the benefit plan investments to minimize the long-term cost of operating the plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the 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 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. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations for the benefit plans as of March 31, 2015 and 2014 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2015	2014	**2015**	2014
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**0%**	0%
Real estate	**4%**	4%	**0%**	0%
Infrastructure	**2%**	2%	**0%**	0%
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets.

	March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,394	$ 18,817	$ -	$ 20,211
Accounts receivable	22,683	-	-	22,683
Accounts payable	(20,421)	-	-	(20,421)
Equity	152,747	412,278	67,565	632,590
Global tactical asset allocation	-	-	69,640	69,640
Fixed income securities	-	863,994	11,231	875,225
Preferred securities	-	14,496	-	14,496
Futures contracts	244	-	-	244
Private equity	-	-	94,875	94,875
Real estate	-	-	94,215	94,215
Total	**$ 156,647**	**$ 1,309,585**	**$ 337,526**	**$ 1,803,758**
PBOP Assets:				
Cash and cash equivalents	$ 23,265	$ 304	$ -	$ 23,569
Accounts receivable	2,078	-	-	2,078
Accounts payable	(1,104)	-	-	(1,104)
Equity	177,166	661,829	56,688	895,683
Global tactical asset allocation	34,364	-	62,800	97,164
Fixed income securities	449	255,663	-	256,112
Futures contracts	(139)	-	-	(139)
Total	**$ 236,079**	**$ 917,796**	**$ 119,488**	**$ 1,273,363**

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,974	$ 20,449	$ -	$ 22,423
Accounts receivable	11,275	-	-	11,275
Accounts payable	(13,239)	-	-	(13,239)
Equity	145,859	393,053	72,145	611,057
Global tactical asset allocation	-	51,846	13,297	65,143
Fixed income securities	-	851,236	15,972	867,208
Preferred securities	2,423	-	-	2,423
Futures contracts	531	-	-	531
Private equity	-	-	88,345	88,345
Real estate	-	-	81,231	81,231
Total	**$ 148,823**	**$ 1,316,584**	**$ 270,990**	**$ 1,736,397**
PBOP Assets:				
Cash and cash equivalents	$ 27,033	$ 423	$ -	$ 27,456
Accounts receivable	2,460	-	-	2,460
Accounts payable	(3,910)	-	-	(3,910)
Equity	164,046	617,845	59,643	841,534
Global tactical asset allocation	34,156	47,238	11,602	92,996
Fixed income securities	425	243,617	-	244,042
Futures contracts	56	-	-	56
Total	**$ 224,266**	**$ 909,123**	**$ 71,245**	**$ 1,204,634**

The methods used to fair value pension and PBOP assets are described below.

Cash and Cash Equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts Receivable and Accounts Payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and Preferred Securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the net asset value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets, and they are

classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3 investments.

Global Tactical Asset Allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate.

Fixed Income Securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an 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 when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are classified as Level 3.

Private Equity and Real Estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (NAV per fund share), based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3.

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 Level 3 financial instruments could result in a different fair value measurement at the reporting date.

Changes in Level 3 Plan Investments

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)			
Balance as of the beginning of the year	**$ 270,990**	$ 201,498	**$ 71,245**	$ 17,175
Transfers out of Level 3	**(89,977)**	(15,974)	**-**	-
Transfers into Level 3	**101,182**	64,179	**-**	47,026
Actual gain or loss on plan assets:				
Realized gain	**19,234**	9,096	**4,889**	591
Unrealized gain (loss)	**17,668**	7,977	**7,404**	(1,160)
Purchases	**130,065**	191,721	**41,824**	8,204
Sales	**(111,636)**	(187,507)	**(5,874)**	(591)
Balance as of the end of the year	**$ 337,526**	$ 270,990	**$ 119,488**	$ 71,245

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $14.4 million and $10.7 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the year ended March 31, 2015:

	Unrealized Gain (Loss) on Available-for-sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of the beginning of the year	$ 2,248	$ (668)	$ 1,580
Other comprehensive income before reclassifications:			
Unrecognized net acturial loss (net of $0 and $133 tax benefit, respectively)	-	(204)	(204)
Gain on investment (net of $588 tax expense and $0, respectively)	897	-	897
Amounts reclassified from other comprehensive income:			
Amortization of net actuarial loss (net of $0 and $$39 tax expense, respectively)	-	60	60
Gain on investment (net of $321 tax benefit and $0 , respectively) [1]	(490)	-	(490)
Net current period other comprehensive income	407	(144)	263
Balance as of the end of the year	2,655	(812)	1,843

[1] Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt, which expired on November 30, 2013. The Company's subsequent request for short-term borrowing authority was approved and became effective January 12, 2015 for a period of two years.

Effective April 25, 2014, the Company entered into an Equity Contribution Agreement with the Parent which provided the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit, until such time as regulatory approval for short-term borrowing was regained. The Company did not make use of this Equity Contribution Agreement; however, prior to the agreement the Company had received an equity contribution of $25 million in February 2014. Since the Company has regained its short-term borrowing authority, as of January 12, 2015, the Equity Contribution Agreement is no longer in effect. The Company had no short-term debt outstanding to third-parties as of March 31, 2015 or 2014.

In September 2012, the NYPSC granted multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In November 2012, the Company issued $400 million and $300 million of unsecured long-term debt, and in September 2014, the Company issued $500 million and $400 million of unsecured long-term debt under this authority.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $504 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $429 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.37% to 0.45% for the year ended March 31, 2015. The bonds are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in any of the years ended March 31, 2015, 2014, or 2013.

In March 2015, the Company executed the optional redemption provision of the NYSERDA Pollution Control Revenue Bonds Series 1985 A in the amount of $100 million. The bonds were scheduled to mature on July 1, 2015.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which are callable at par. Pursuant to agreements between NYSERDA and the Company, 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 the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes.

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars)	
Years Ending March 31,	
2016	$ -
2017	-
2018	-
2019	-
2020	750,000
Thereafter	2,104,465
Total	$ 2,854,465

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2015, 2014, and 2013.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the Merger Rate Plan, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		**Call**
Series	**2015**	2014	**2015**	2014	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share"), subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation,

receivership or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of New York State. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

The Company did not redeem any preferred stock during the years ended March 31, 2015, 2014, or 2013. The annual dividend requirement for cumulative preferred stock was approximately $1.1 million for each of the years ended March 31, 2015, 2014, and 2013.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ (9,498)**	$ 22,946	$ (8,381)
State	**11,869**	7,187	6,122
Total current tax expense (benefit)	**2,371**	30,133	(2,259)
Deferred tax expense:			
Federal	**81,468**	79,859	90,250
State	**12,970**	18,227	15,567
Total deferred tax expense	**94,438**	98,086	105,817
Amortized investment tax credits [1]	**(1,936)**	(1,936)	(1,976)
Total deferred tax expense	**92,502**	96,150	103,841
Total income tax expense	**$ 94,873**	$ 126,283	$ 101,582

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2015, 2014, and 2013 are 35%, 35%, and 35.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Computed tax	**$ 95,005**	$ 126,188	$ 100,170
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(3,722)**	(4,342)	(2,498)
Investment tax credits	**(1,936)**	(1,936)	(1,976)
State income tax, net of federal benefit	**16,144**	16,519	14,098
Temporary differences flowed through	**(5,053)**	(4,247)	(3,697)
Other items, net	**(5,565)**	(5,899)	(4,515)
Total	**(132)**	95	1,412
Federal and state income taxes	**$ 94,873**	$ 126,283	$ 101,582

The Company is included in the NGNA and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations which provide guidance for the application of IRC §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of the Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of $53.9 million related to dispositions of depreciable property and unfavorable 481(a) adjustment of $38.3 million related to repairs deduction following casualty loss.

On March 31, 2014, New York's legislature enacted, as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, to reflect the decrease in tax rate, the Company decreased its New York State deferred tax liability by $14.3 million with an offset to regulatory liabilities. During the year ended March 31, 2015, the Company updated the impact of the tax rate change and further decreased its New York State deferred tax liability by $0.7 million with an offset to regulatory liabilities.

Deferred Tax Components

	March 31,	
	2015	2014
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 55,373**	$ 50,100
Environmental remediation costs	**172,574**	180,185
Future federal benefit on state taxes	**50,587**	42,148
Postretirement benefits and other employee benefits	**256,583**	111,715
Regulatory liabilities - other	**210,396**	166,505
Other items	**50,955**	34,452
Total deferred tax assets [1]	**796,468**	585,105
Deferred tax liabilities:		
Property related differences	**2,045,876**	1,837,413
Regulatory assets - environmental response costs	**159,104**	167,270
Regulatory assets - postretirement benefits	**262,498**	133,236
Other items	**85,637**	98,271
Total deferred tax liabilities	**2,553,115**	2,236,190
Net deferred income tax liabilities	**1,756,647**	1,651,085
Deferred investment tax credits	**20,038**	21,974
Net deferred income tax liabilities and investment tax credits	**1,776,685**	1,673,059
Current portion of deferred income tax assets, net	**(165,036)**	(92,939)
Deferred income tax liabilities, net	**$ 1,941,721**	$ 1,765,998

[1] There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits totaled $128.1 million and $121 million, respectively, of which $6.7 million and $12.4 million, respectively, would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table presents changes to the Company's unrecognized tax benefits:

	Years Ended March 31,		
	2015	2014	2013
	(in thousands of dollars)		
Balance as of the beginning of the year	**$ 120,983**	$ 120,195	$ 159,526
Gross increases - tax positions in prior periods	**7,925**	9,028	131
Gross decreases - tax positions in prior periods	**(10,234)**	(335)	(37,301)
Gross increases - current period tax positions	**9,431**	3,917	2,738
Gross decreases - current period tax positions	**-**	(41)	(4,899)
Settlements with tax authorities	**-**	(11,781)	-
Balance as of the end of the year	**$ 128,105**	$ 120,983	$ 120,195

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of $10.8 million and $10.4 million, respectively. During the years ended March 31, 2015, 2014, and 2013, the Company recorded a reduction to interest expense of $3.4 million, $1.3 million and $1.4 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2015, 2014, or 2013.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group through March 31, 2007.

During the year ended March 31, 2014, the IRS concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the years ended March 31, 2008 and 2009. These examinations were completed on March 31, 2014, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

During the year ended March 31, 2015, the State of New York concluded its examination of the Company's New York State income tax returns for the years ended March 31, 2006 through March 31, 2008. The examination did not result in adjustments to the Company's taxable income. The tax returns for the years ended March 31, 2009 through March 31, 2015 remain subject to examination by the State of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2008 *
New York	March 31, 2009

* The NGNA consolidated filings group is in the process of appealing certain disputed issues with the IRS Office of Appeals for the years ended March 31, 2008 through March 31, 2009.

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2015, 2014, and 2013 were $32.6 million, $41.6 million and $31.4 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $415.2 million and $432.9 million at March 31, 2015 and 2014, respectively. These costs are expected to be incurred over approximately 40 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2015 and 2014, the Company has recorded environmental regulatory assets of $415.2 million and $432.9 million, respectively, and environmental regulatory liabilities of $31.8 million and $23.8 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.9 million, $4.6 million, and $4 million for the years ended March 31, 2015, 2014, and 2013, respectively.

The future minimum lease payments for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars) Years Ending March 31,	
2016	$ 4,853
2017	4,927
2018	4,868
2019	4,603
2020	4,584
Thereafter	24,000
Total	$ 47,835

Purchase Commitments

The Company has several long-term contracts for the purchase of electricity and gas, gas storage, and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third-parties. Such charges are currently recovered from customers as purchased electricity and gas. In addition, the Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2016	$ 173,851	$ 101,286
2017	160,686	4,057
2018	148,368	-
2019	134,550	-
2020	133,828	-
Thereafter	729,481	-
Total	$ 1,480,764	$ 105,343

The Company can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the NYISO at market prices.

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

Nuclear Contingencies

As of March 31, 2015 and 2014, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission ("NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the District of Columbia Circuit. In January 2010 the U.S. government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the U.S. Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of net outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)		*(in thousands of dollars)*	
Boston Gas Company	**$ -**	$ 351	**$ 1,699**	$ -
Brooklyn Union Gas Company	**-**	901	**180**	-
KeySpan Gas East Corporation	**-**	1,085	**452**	-
Massachusetts Electric Company	**8,057**	4,966	**-**	-
National Grid Engineering Services, LLC	**2,643**	4,836	**-**	-
NGUSA	**-**	-	**4,240**	2,419
NGUSA Service Company	**7,236**	-	**-**	54,885
Opinac North America, Inc.	**-**	-	**-**	16,999
The Narragansett Electric Company	**429**	-	**-**	1,215
Other	**805**	508	**1,327**	1,316
Total	**$ 19,170**	$ 12,647	**$ 7,898**	$ 76,834

Advances from Affiliates

In June 2009, the Company received board authorization to borrow up to $500 million from the direct or indirect parent from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2015 and 2014, the Company had an outstanding advance from affiliate of $25 million and $200 million, respectively.

In June 2009, the Company received board authorization to borrow up to $450 million from Niagara Mohawk Holdings, Inc. from time to time for working capital needs. The average interest rates were 0.3%, 0.7%, and 0.6% for the years ended March 31, 2015, 2014, and 2013, respectively. At March 31, 2015 and 2014, the Company had an outstanding advance from affiliates of zero and $25 million, respectively.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable from affiliates and accounts payable to affiliates balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the statement of cash flows, it is assumed all amounts settled through intercompany money pool are constructive cash receipts and payments, and therefore are presented as such.

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of $278 million and $131.7 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.3%, 0.7%, and 0.6% for the years ended March 31, 2015, 2014, and 2013, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, when a specific cost/causation principle is not determinable, costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2015, 2014, and 2013 were $467 million, $463.7 million and $498.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $14.1 million, $15 million, and $12.6 million before taxes and $8.5 million, $9.1 million, and $8.2 million after taxes, for the years ended March 31, 2015, 2014, and 2013, respectively, if these amounts were allocated to the Company.

EXHIBIT 1

National Grid plc

Financial information
submission for the New York Public Service Commission

Year ended	March 31, 2015
Exchange rate (balance sheet)	$1.49:£1.00
Exchange rate (income statement)	$1.58:£1.00
Exchange rate (opening)	$1.52:£1.00
Exchange rate (acquisition)	$2.01:£1.00

Note: Numbers are rounded on conversion into US dollars.
Rounded numbers may not cast.

Consolidating schedules as at March 31, 2015	National Grid plc *IFRS company* *$'m*	National Grid USA *IFRS consolidated (section 2)* *$'m*	National Grid Gas plc *IFRS consolidated (section 3)* *$'m*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)* *$'m*	Other major subsidiaries *IFRS aggregated (section 4)* *$'m*	Total of non-major subsidiaries *IFRS aggregated* *$'m*	Consol-idation adjustments *IFRS* *$'m*	**National Grid plc *IFRS consolidated*** ***$'m***	National Grid plc *US GAAP adjustments* *$'m*	**National Grid plc *US GAAP consolidated*** ***$'m***
Condensed balance sheet										
Goodwill	-	7,636	-	-	-	3	1	**7,640**	3,134	**10,775**
Other intangible assets	-	549	371	257	13	-	-	**1,191**	(1,191)	**0**
Property, plant & equipment	-	23,880	18,475	16,538	1,628	(4)	(43)	**60,474**	2,650	**63,124**
Investments in subsidiaries	13,102	-	-	-	119,759	9,007	(141,868)	**-**	-	**-**
Investments	-	189	-	-	352	4	415	**962**	1	**963**
Non-current regulatory assets	-	-	-	-	-	-	-	**-**	2,157	**2,157**
Other non-current assets	220	768	1,486	597	3	(1)	(489)	**2,584**	3,556	**6,140**
Intercompany receivables	17,560	(26)	8,453	61	70,428	5,379	(101,853)	**-**	-	**-**
Inventories	-	397	39	45	25	-	-	**505**	-	**505**
Receivables and other current assets	420	3,076	737	399	202	24	(383)	**4,474**	(21)	**4,453**
Regulatory assets	-	-	-	-	-	-	-	**-**	651	**651**
Financial and other investments	1,099	469	538	710	879	50	55	**3,800**	(918)	**2,882**
Cash and cash equivalents	15	154	1	4	12	4	(15)	**177**	918	**1,094**
Assets of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total assets	32,416	37,092	30,099	18,612	193,301	14,465	(244,180)	**81,807**	10,937	**92,744**
Borrowings (including bank overdrafts)	(1,586)	(1,426)	(780)	(367)	(350)	(1)	15	**(4,497)**	554	**(3,942)**
Current liabilities	(487)	(2,551)	(1,290)	(1,452)	(794)	(31)	382	**(6,181)**	(860)	**(7,041)**
Current tax liabilities	(6)	(347)	(50)	9	126	(22)	6	**(273)**	113	**(161)**
Intercompany payables	(19,461)	(1,048)	(3,294)	(2,201)	(71,610)	(4,497)	102,147	**-**	-	**-**
Non-current borrowings	(1,657)	(8,443)	(10,165)	(8,184)	(5,612)	(7)	83	**(33,980)**	1,190	**(32,789)**
Other non-current liabilities	(610)	(2,391)	(2,542)	(1,559)	(597)	-	-	**(7,697)**	1,682	**(6,015)**
Deferred tax liabilities	(6)	(2,637)	(2,456)	(1,152)	(147)	16	(1)	**(6,381)**	(6,465)	**(12,846)**
Pensions and other post-retirement benefits	-	(4,019)	-	(713)	(285)	-	-	**(5,018)**	368	**(4,650)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total liabilities	(23,813)	(22,862)	(20,578)	(15,619)	(79,269)	(4,543)	102,631	**(64,026)**	(3,418)	**(67,444)**
Shareholders' equity	(8,603)	(14,216)	(9,520)	(2,992)	(114,032)	(9,923)	141,550	**(17,764)**	(7,487)	**(25,251)**
Minority interests	-	(14)	(1)	-	-	-	(1)	**(18)**	(32)	**(50)**
Total liabilities and equity	(32,416)	(37,092)	(30,099)	(18,612)	(193,301)	(14,465)	244,180	**(81,807)**	(10,937)	**(92,744)**

Consolidating schedules as at March 31, 2015	National Grid plc *IFRS company*	National Grid USA *IFRS consolidated (section 2)*	National Grid Gas plc *IFRS consolidated (section 3)*	National Grid Elect. Trans. plc *IFRS consolidated (section 3)*	Other major subsidiaries *IFRS aggregated (section 4)*	Total of non-major subsidiaries *IFRS aggregated*	Consol-idation adjustments *IFRS*	**National Grid plc *IFRS consolidated***	National Grid plc *US GAAP adjustments*	**National Grid plc *US GAAP consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	***$'m***
Condensed income statement										
Revenue	-	12,633	4,808	5,924	552	91	(30)	**23,980**	(377)	**23,603**
Other operating income	-	2	110	2	50	17	(181)	**-**	-	**-**
Operating costs	-	(11,163)	(2,781)	(3,989)	(73,657)	3,100	70,474	**(18,017)**	(199)	**(18,216)**
Operating profit	-	1,472	2,138	1,936	(73,055)	3,209	70,263	**5,963**	(576)	**5,387**
Net finance costs	(352)	(654)	(551)	(396)	120	79	(136)	**(1,890)**	58	**(1,832)**
Dividend income	2,138	-	-	-	63,194	(3,209)	(62,199)	**-**	-	**-**
Share of post-tax results of joint ventures	-	24	-	-	-	(2)	50	**73**	(24)	**49**
Profit before taxation	1,786	842	1,587	1,540	(9,741)	77	7,979	**4,146**	(542)	**3,604**
Taxation	79	(305)	(366)	(323)	20	(65)	(13)	**(973)**	69	**(904)**
Profit for the year	1,865	537	1,221	1,216	(9,721)	13	7,966	**3,172**	(472)	**2,700**
Minority interests	-	18	(5)	-	-	-	-	**13**	(1)	**12**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	**-**	-	**-**
Net income from continuing operations	1,865	555	1,216	1,216	(9,721)	13	7,966	**3,185**	(473)	**2,712**
Net income from discontinued operations	-	-	-	-	-	-	-	**-**	-	**-**
Net income attributable to equity shareholders	1,865	555	1,216	1,216	(9,721)	13	7,966	**3,185**	(473)	**2,712**

Condensed cash flow statement										
Net cash inflow from operating activities	55	2,670	2,529	2,270	465	(85)	(5)	**7,899**	(32)	**7,867**
Net cash inflow from investing activities	3,319	(1,507)	(992)	(1,645)	39,314	23,274	(64,921)	**(3,157)**	(2,413)	**(5,570)**
Net cash inflow from financing activities	(3,417)	(1,330)	(1,521)	(610)	(39,994)	(23,185)	64,925	**(5,132)**	-	**(5,132)**
Net increase in cash and cash equivalents	(43)	(167)	16	14	(216)	5	(1)	**(390)**	(2,445)	**(2,834)**
Exchange movements	(2)	-	1	0	(5)	1	1	**(4)**	93	**89**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Net cash and cash equivalents at start of year	40	321	(15)	(10)	228	2	-	**566**	3,274	**3,840**
Net cash and cash equivalents at end of year (i)	(4)	154	1	4	7	7	-	**172**	922	**1,094**

(i) Net of bank overdrafts

Consolidating schedules as at March 31, 2015	National Grid USA parent co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	(2)	1,279	338	1,008	725	-	16	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	(5)	7,886	1,964	2,683	2,366	-	70	24	11	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	18,987	3	2	-	-	-	-	-	-	-
Non-current regulatory assets	-	1,430	139	669	522	-	6	2	-	-
Other non-current assets	67	300	13	14	11	-	2	-	1	-
Intercompany receivables	1,834	299	19	115	26	34	52	-	-	-
Inventories	-	60	2	60	29	-	-	5	-	-
Receivables and other current assets	99	893	68	542	314	-	10	2	1	-
Current regulatory assets	-	77	-	291	132	-	4	2	1	-
Financial and other investments	48	14	-	80	45	-	-	-	-	-
Cash and cash equivalents	429	17	2	9	19	-	1	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	21,457	12,258	2,547	5,471	4,189	34	161	35	14	-
Borrowings (including bank overdrafts)	(1,170)	-	(39)	-	(1)	-	-	-	-	-
Current liabilities	(190)	(640)	(41)	(548)	(304)	-	(21)	(3)	(3)	-
Current tax liabilities	116	(25)	(44)	(18)	(26)	-	(3)	(7)	1	-
Intercompany notes payables	(3,929)	(73)	(319)	(574)	(248)	(28)	(13)	(10)	2	(1)
Non-current borrowings	1	(2,854)	(372)	(798)	(846)	-	(51)	-	-	-
Other non-current liabilities	(20)	(1,653)	(155)	(467)	(381)	-	(5)	(2)	(7)	-
Deferred tax liabilities	(39)	(1,942)	(462)	(627)	(463)	-	(15)	-	(2)	-
Pensions and other post-retirement benefits	(4)	(741)	(18)	(226)	(191)	-	(6)	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(5,235)	(7,928)	(1,450)	(3,258)	(2,460)	(28)	(114)	(22)	(9)	(1)
Shareholders' equity	(16,222)	(4,330)	(1,097)	(2,213)	(1,729)	(6)	(47)	(8)	(3)	1
Minority interests	-	-	-	-	-	-	-	(5)	(2)	-
Total liabilities and equity	(21,457)	(12,258)	(2,547)	(5,471)	(4,189)	(34)	(161)	(35)	(14)	-

Consolidating schedules as at March 31, 2015	National Grid USA parent co. *US GAAP company*	Consol NMHI *US GAAP company*	New England Power *US GAAP company*	Mass Electric *US GAAP company*	Narr Electric *US GAAP company*	Granite State *US GAAP company*	Nantucket Electric *US GAAP company*	NE Hydro-Mass *US GAAP company*	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	90	3,172	455	2,587	1,500	-	34	23	19	-
Other operating income/ (expense)	514	13	-	25	6	-	-	1	-	-
Operating costs	(238)	(2,802)	(270)	(2,498)	(1,346)	(1)	(29)	(20)	(18)	-
Operating profit	366	383	185	114	160	(1)	5	4	1	-
Net finance costs	(42)	(111)	(12)	(48)	(52)	-	(1)	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	324	272	173	66	108	(1)	4	4	1	-
Taxation	94	(95)	(71)	(23)	(30)	-	(2)	(1)	-	-
Profit for the year	418	177	102	43	78	(1)	2	3	1	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Common dividends	-	(1)	-	-	-	-	-	-	-	-
Net income from continuing operations	418	176	102	43	78	(1)	2	3	1	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	418	176	102	43	78	(1)	2	3	1	-
Condensed cash flow statement										
Net cash inflow from operating activities	(818)	(2,921)	238	49	196	(1)	10	13	8	1
Net cash inflow from investing activities	(1,223)	(850)	37	(94)	(161)	-	8	(32)	1	-
Net cash inflow from financing activities	1,641	3,760	(274)	40	(29)	1	(18)	19	(9)	(1)
Net increase (decrease) in cash and cash equivalent	(400)	(11)	1	(5)	6	-	-	-	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	829	28	1	14	13	-	1	-	-	-
Net cash and cash equivalents at end of year	429	17	2	9	19	-	1	-	-	-

Consolidating schedules as at March 31, 2015	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co *US GAAP company*	Total of other companies *US GAAP aggregated*	+ **KeySpan Consol *US GAAP company***	= **National Grid USA *US GAAP*** Addition of all Co's	+ Consol-idation adjustments *US GAAP company + ELIM*	*Discontinued* National Grid Operations *US GAAP company*	= NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+ ADJUSTMENTS =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	3,766	7,130	(1)	-	7,129	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	858	-	2	9,809	25,668	3	-	25,671	(61)
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	186	19,178	(18,988)	-	190	-
Non-current regulatory assets	-	-	-	-	2,168	4,936	(15)	-	4,921	432
Other non-current assets	2	931	-	18	284	1,643	(803)	-	840	3,829
Intercompany receivables	31	3,791	159	219	4,838	11,417	(11,256)	(159)	2	48
Inventories	-	-	-	-	239	395	2	-	397	-
Receivables and other current assets	-	45	-	2	1,442	3,418	(11)	-	3,407	(446)
Current regulatory assets	-	-	-	-	147	654	13	-	667	(14)
Financial and other investments	-	-	-	3	-	190	-	-	190	-
Cash and cash equivalents	2	(54)	-	3	21	449	1	-	450	-
Assets of businesses held for sale	-	-	-	-	241	241	(171)	-	70	(70)
Total assets	35	5,571	159	247	23,141	75,319	(31,226)	(159)	43,934	3,718
Borrowings (including bank overdrafts)	-	-	-	-	(10)	(1,220)	-	-	(1,220)	-
Current liabilities	-	(342)	(1)	(2)	(988)	(3,083)	(15)	1	(3,097)	190
Current tax liabilities	-	(67)	-	2	(75)	(146)	62	-	(84)	(150)
Intercompany notes payables	(53)	(4,438)	(152)	(77)	(2,588)	(12,501)	11,213	152	(1,136)	(34)
Non-current borrowings	-	-	-	-	(3,293)	(8,213)	(1)	-	(8,214)	(5)
Other non-current liabilities	-	(101)	-	(152)	(2,364)	(5,307)	108	-	(5,199)	(358)
Deferred tax liabilities	-	(176)	-	-	(1,918)	(5,644)	752	-	(4,892)	(3,554)
Pensions and other post-retirement benefits	-	(445)	-	-	(1,985)	(3,616)	(223)	-	(3,839)	189
Liabilities of businesses held for sale	-	-	-	-	(670)	(670)	649	-	(21)	21
Total liabilities	(53)	(5,569)	(153)	(229)	(13,891)	(40,400)	12,545	153	(27,702)	(3,701)
Shareholders' equity	18	(2)	(6)	(12)	(9,250)	(34,906)	18,682	6	(16,218)	(17)
Minority interests	-	-	-	(6)	-	(13)	(1)	-	(14)	-
Total liabilities and equity	(35)	(5,571)	(159)	(247)	(23,141)	(75,319)	31,226	159	(43,934)	(3,718)

Consolidating schedules as at March 31, 2015	Wayfinder *US GAAP company*	NG-USA Service Co. *US GAAP company*	PSEG Elec Service TSA Co *US GAAP company*	Total of other companies *US GAAP aggregated*	+	**KeySpan Consol *US GAAP company***	=	**National Grid USA *US GAAP*** Addition of all Co's	+	Consol-idation adjustments *US GAAP company* *+ ELIM*	*Discontinued* National Grid Operations *US GAAP company*	=	NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+	ADJUSTMENTS	=
	$'m	*$'m*	*$'m*	*$'m*		*$'m*		*$'m*		*$'m*	*$'m*		*$'m*		*$'m*	
Condensed income statement																
Revenue	1	2,342	94	1		4,693		15,011		(2,586)	(94)		12,331		57	
Other operating income/ (expense)	(4)	-	-	(45)		69		579		(600)	-		(21)		6	
Operating costs	(1)	(2,294)	(88)	(2)		(4,167)		(13,774)		2,476	88		(11,210)		(122)	
Operating profit	(4)	48	6	(46)		595		1,816		(710)	(6)		1,100		(59)	
Net finance costs	-	(23)	-	(12)		(210)		(511)		29	-		(482)		6	
Share of post-tax results of joint ventures	-	-	-	-		-		-		-	-		-		-	
Dividend income (expense)	-	-	-	-		-		-		-	-		-		-	
Profit before taxation	(4)	25	6	(58)		385		1,305		(681)	(6)		618		(53)	
Taxation	2	21	-	15		(152)		(242)		41	-		(201)		16	
Profit for the year	(2)	46	6	(43)		233		1,063		(640)	(6)		417		(37)	
Minority interests	-	-	-	19		-		19		(1)	-		18		-	
Common dividends	-	-	-	-		-		(1)		1	-		-		(1)	
Net income from continuing operations	(2)	46	6	(24)		233		1,081		(640)	(6)		435		(38)	
Net income from discontinued operations	-	-	-	-		-		-		12	-		12		(12)	
Net income attributable to equity shareholders	(2)	46	6	(24)		233		1,081		(628)	(6)		447		(50)	
Condensed cash flow statement																
Net cash inflow from operating activities	(4)	74	(5)	(47)		1,249		(1,958)		4,104	5		2,151		2,142	
Net cash inflow from investing activities	4	(156)	5	59		(1,587)		(3,989)		1,382	(5)		(2,612)		(1,739)	
Net cash inflow from financing activities	1	(456)	-	(17)		25		4,683		(5,439)	-		(756)		(307)	
Net increase (decrease) in cash and cash equivalent	1	(538)	-	(5)		(313)		(1,264)		47	-		(1,217)		96	
Exchange movements	-	-	-	-		-		-		-	-		-		-	
Reclassified to businesses held for sale	-	-	-	-		143		143		(47)	-		96		(96)	
Net cash and cash equivalents at start of year	1	484	-	8		191		1,570		1	-		1,571		-	
Net cash and cash equivalents at end of year	2	(54)	-	3		21		449		1	-		450		-	

Consolidating schedules as at March 31, 2015	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP	+	National Grid USA *IFRS adjustments*	=	NGUSA *IFRS consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m		*$'m*		*$'m*	*$'m*	*$'m*
Condensed balance sheet							
Goodwill	7,129		507		7,636	-	7,636
Other intangible assets	-		549		549	-	549
Property, plant & equipment	25,610		(1,730)		23,880	-	23,880
Investments in subsidiaries	-		-			-	-
Investments	190		(1)		189	-	189
Non-current regulatory assets	5,353		(5,353)			-	-
Other non-current assets	4,669		(3,901)		768	-	768
Intercompany receivables	50		(76)		(26)	-	(26)
Inventories	397		-		397	-	397
Receivables and other current assets	2,961		115		3,076	-	3,076
Current regulatory assets	653		(653)			-	-
Financial and other investments	190		279		469	-	469
Cash and cash equivalents	450		(296)		154	-	154
Assets of businesses held for sale	-		-		-	-	-
Total assets	47,652		(10,561)		37,092	-	37,092
			-				-
Borrowings (including bank overdrafts)	(1,220)		(206)		(1,426)	-	(1,426)
Current liabilities	(2,907)		356		(2,551)	-	(2,551)
Current tax liabilities	(234)		(113)		(347)	-	(347)
Intercompany notes payables	(1,170)		122		(1,048)	-	(1,048)
Non-current borrowings	(8,219)		(224)		(8,443)	-	(8,443)
Other non-current liabilities	(5,557)		3,166		(2,391)	-	(2,391)
Deferred tax liabilities	(8,446)		5,809		(2,637)	-	(2,637)
Pensions and other post-retirement benefits	(3,650)		(369)		(4,019)	-	(4,019)
Liabilities of businesses held for sale	-		-		-	-	-
Total liabilities	(31,403)		8,541		(22,862)	-	(22,862)
Shareholders' equity	(16,235)		2,019		(14,216)	-	(14,216)
Minority interests	(14)		-		(14)	-	(14)
Total liabilities and equity	(47,652)		10,560		(37,092)	-	(37,092)

Consolidating schedules as at March 31, 2015	US GAAP UNAUDITED CONSOLIDATED NGUSA SAP	+	National Grid USA *IFRS adjustments*	=	NGUSA *IFRS consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m		*$'m*		*$'m*	*$'m*	*$'m*
Condensed income statement							
Revenue	12,388		245		12,633	-	12,633
Other operating income/ (expense)	(15)		17		2	-	2
Operating costs	(11,332)		169		(11,163)	-	(11,163)
Operating profit	1,041		431		1,472	-	1,472
Net finance costs	(476)		(178)		(654)	-	(654)
Share of post-tax results of joint ventures	-		24		24	-	24
Dividend income (expense)	-		-		-	-	-
Profit before taxation	565		277		842	-	842
Taxation	(185)		(120)		(305)	-	(305)
Profit for the year	380		157		537	-	537
Minority interests	18		-		18	-	18
Common dividends	(1)		1		-	-	-
Net income from continuing operations	397		158		555	-	555
Net income from discontinued operations	-		-		-	-	-
Net income attributable to equity shareholders	397		158		555	-	555
Condensed cash flow statement							
Net cash inflow from operating activities	4,293		(1,623)		2,670	-	2,670
Net cash inflow from investing activities	(4,351)		2,844		(1,507)	-	(1,507)
Net cash inflow from financing activities	(1,063)		(267)		(1,330)	-	(1,330)
Net increase (decrease) in cash and cash equivalent	(1,121)		954		(167)	-	(167)
Exchange movements	-		-		-	-	-
Reclassified to businesses held for sale	-		-		-	-	-
Net cash and cash equivalents at start of year	1,571		(1,250)		321	-	321
Net cash and cash equivalents at end of year	450		(296)		154	-	154

Consolidating schedules
as at March 31, 2015

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	***Subtotal KeySpan Stand Alone Audited F/S US GAAP company***	*EnergyNorth Natural Gas, Inc US GAAP company*	*National Grid NE Holdings 2, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	1,451	1,018	396	54	-	**2,919**	-	-	-
Other intangible assets	-	-	-	-	-	**-**	-	-	-
Property, plant & equipment	3,228	2,688	2,491	562	713	**9,682**	-	-	9
Investments in subsidiaries	-	-	-	-	-	**-**	-	-	-
Investments	72	-	-	-	-	**72**	-	1,693	-
Non-current regulatory assets	1,185	552	181	251	-	**2,169**	-	-	-
Other non-current assets	21	26	6	2	13	**68**	-	22	6
Intercompany receivables	119	26	8	40	658	**851**	16	-	1
Inventories	61	36	50	9	82	**238**	-	-	-
Receivables and other current assets	529	362	360	125	37	**1,413**	-	-	-
Current regulatory assets	16	-	126	5	-	**147**	-	-	-
Financial and other investments	-	-	-	-	-	**-**	-	-	-
Cash and cash equivalents	4	3	3	-	-	**10**	-	-	3
Assets of businesses held for sale	-	-	-	-	-	**-**	-	-	-
Total assets	6,686	4,711	3,621	1,048	1,503	**17,569**	16	1,715	19
Borrowings (including bank overdrafts)	-	-	(10)	-	-	**(10)**	-	-	-
Current liabilities	(267)	(172)	(177)	(118)	(67)	**(801)**	-	-	-
Current tax liabilities	(16)	(35)	(27)	(7)	(65)	**(150)**	-	3	-
Intercompany notes payables	(456)	(537)	(300)	(29)	(181)	**(1,503)**	(15)	(69)	(21)
Non-current borrowings	(1,041)	(600)	(621)	(125)	(400)	**(2,787)**	-	-	-
Other non-current liabilities	(1,008)	(436)	(638)	(111)	(84)	**(2,277)**	-	8	-
Deferred tax liabilities	(858)	(666)	(450)	(199)	(112)	**(2,285)**	-	5	(3)
Pensions and other post-retirement benefits	(182)	(250)	(98)	(68)	-	**(598)**	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	**-**	-	-	-
Total liabilities	(3,828)	(2,696)	(2,321)	(657)	(909)	**(10,411)**	(15)	(53)	(24)
Shareholders' equity	(2,858)	(2,015)	(1,300)	(391)	(594)	**(7,158)**	(1)	(1,662)	5
Minority interests	-	-	-	-	-	**-**	-	-	-
Total liabilities and equity	(6,686)	(4,711)	(3,621)	(1,048)	(1,503)	**(17,569)**	(16)	(1,715)	(19)

Consolidating schedules
as at March 31, 2015

	Brooklyn Union Gas Co - KEDNY US GAAP company	*KeySpan Gas East Corp - KEDLI US GAAP company*	*Boston Gas Company US GAAP company*	*Colonial Consolidated US GAAP company*	*GenCo Consolidated US GAAP company*	***Subtotal KeySpan Stand Alone Audited F/S US GAAP company***	*EnergyNorth Natural Gas, Inc US GAAP company*	*National Grid NE Holdings 2, LLC US GAAP company*	*Transgas Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*
Condensed income statement									
Revenue	1,519	1,080	1,298	303	464	**4,664**	-	-	6
Other operating income/ (expense)	13	(6)	(3)	1	1	**6**	-	50	-
Operating costs	(1,301)	(933)	(1,187)	(276)	(417)	**(4,114)**	-	(9)	(9)
Operating profit	231	141	108	28	48	**556**	-	41	(3)
Net finance costs	(47)	(57)	(35)	(10)	(20)	**(169)**	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	**-**	-	-	-
Dividend income (expense)	-	-	-	-	-	**-**	-	-	-
Profit before taxation	184	84	73	18	28	**387**	-	41	(3)
Taxation	(74)	(35)	(29)	(8)	(12)	**(158)**	-	4	1
Profit for the year	110	49	44	10	16	**229**	-	45	(2)
Minority interests	-	-	-	-	-	**-**	-	-	-
Common dividends	-	-	-	-	-	**-**	-	-	-
Net income from continuing operations	110	49	44	10	16	**229**	-	45	(2)
Net income from discontinued operations	-	-	-	-	-	**-**	-	-	-
Net income attributable to equity shareholders	110	49	44	10	16	**229**	-	45	(2)

Condensed cash flow statement									
Net cash inflow from operating activities	374	329	162	31	84	**980**	-	(93)	(9)
Net cash inflow from investing activities	(412)	(237)	(312)	(36)	(92)	**(1,089)**	(1)	2	(1)
Net cash inflow from financing activities	15	(98)	153	5	8	**83**	1	93	11
Net increase (decrease) in cash and cash equivalents	(23)	(6)	3	-	-	**(26)**	-	2	1
Exchange movements	-	-	-	-	-	**-**	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	**-**	-	-	-
Net cash and cash equivalents at start of year	27	9	-	-	-	**36**	-	(2)	2
Net cash and cash equivalents at end of year	4	3	3	-	-	**10**	-	-	3

Consolidating schedules
as at March 31, 2015

	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*National Grid North East Ventures Inc. US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	2	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	1	-	-	(4)	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	7	-	-	-	1	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	-	2	7	-	-	1	1	-	(4)	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	(1)	-	-	1
Intercompany notes payables	-	(4)	(6)	-	-	(3)	7	-	8	(5)
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	(4)	(6)	-	-	(3)	6	-	8	(4)
Shareholders' equity	-	2	(1)	-	-	2	(7)	-	(4)	4
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	-	(2)	(7)	-	-	(1)	(1)	-	4	-

Consolidating schedules
as at March 31, 2015

	PCC Land Company, Inc. US GAAP company	*Philadelphia Coke Co., Inc US GAAP company*	*KeySpan C.I. I, LTD US GAAP company*	*KeySpan UK Limited US GAAP company*	*KeySpan C.I. II, LTD US GAAP company*	*KeySpan International Corp US GAAP company*	*National Grid North East Ventures Inc. US GAAP company*	*Northeast Gas Markets LLC US GAAP company*	*Nicodama Beheer V.B.V. US GAAP company*	*KeySpan Energy Devlp Co (NS) US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	-	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	-	-	-	-	-
Operating costs	-	-	-	-	-	-	-	-	-	-
Operating profit	-	-	-	-	-	-	-	-	-	-
Net finance costs	-	-	-	-	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	-	-	-	-	-	-	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	-	-	-	-	-	-	-	-	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	-	-	-	-	-	-	-	-

Condensed cash flow statement										
Net cash inflow from operating activities	-	-	1	-	-	-	-	-	-	(1)
Net cash inflow from investing activities	2	(2)	(1)	-	-	-	-	-	-	-
Net cash inflow from financing activities	(2)	2	-	-	-	-	-	-	-	1
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2015

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*National Grid LNG LLC US GAAP company*	*National Grid LNG GP, LLC US GAAP company*	*National Grid LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*National Grid Development Holdings Corp. US GAAP company*	*National Grid Islander East Pipeline, LLC US GAAP company*	*National Grid Millennium Pipeline LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	28	-	-	-	75	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	5	(8)	(1)	-	-	41	-	168	-	109
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	1	-	11	2	(34)
Intercompany receivables	-	2	-	18	2	4	-	-	-	9
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	1	-	-	-	1	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	1	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	5	(6)	(1)	47	3	46	-	255	2	84
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	(2)	-	-	-	-	-	-
Current tax liabilities	-	-	-	(1)	-	-	-	(1)	-	(4)
Intercompany notes payables	(13)	4	(6)	5	(3)	(29)	-	418	7	54
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	(2)	-	-	-	(13)	-	2
Deferred tax liabilities	-	-	-	(3)	-	-	-	(24)	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	(13)	4	(6)	(3)	(3)	(29)	-	380	7	52
Shareholders' equity	8	2	7	(44)	-	(17)	-	(635)	(9)	(136)
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(5)	6	1	(47)	(3)	(46)	-	(255)	(2)	(84)

Consolidating schedules
as at March 31, 2015

	KeySpan Luxembourg S.A.R.L. US GAAP company	*KeySpan CI Midstream Limited US GAAP company*	*KeySpan Midstream, Inc. US GAAP company*	*National Grid LNG LLC US GAAP company*	*National Grid LNG GP, LLC US GAAP company*	*National Grid LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*	*National Grid Development Holdings Corp. US GAAP company*	*National Grid Islander East Pipeline, LLC US GAAP company*	*National Grid Millennium Pipeline LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	-	8	-	-	-	-	-	-
Other operating income/ (expense)	-	-	-	-	-	-	-	19	-	25
Operating costs	-	-	-	(6)	-	-	-	(10)	-	-
Operating profit	-	-	-	2	-	-	-	9	-	25
Net finance costs	-	-	-	-	-	(1)	-	(1)	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	-	2	-	(1)	-	8	-	25
Taxation	-	-	-	(1)	-	-	-	3	-	(9)
Profit for the year	-	-	-	1	-	(1)	-	11	-	16
Minority interests	-	-	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	-	-	-	1	-	(1)	-	11	-	16
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	-	1	-	(1)	-	11	-	16
Condensed cash flow statement										
Net cash inflow from operating activities	(1)	(1)	(1)	-	-	-	-	(18)	2	27
Net cash inflow from investing activities	-	-	-	-	-	-	-	(13)	(2)	(27)
Net cash inflow from financing activities	1	1	1	-	(6)	-	-	14	-	-
Net increase (decrease) in cash and cash equivalents	-	-	-	-	(6)	-	-	(17)	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	7	-	-	17	-	-
Net cash and cash equivalents at end of year	-	-	-	-	1	-	-	-	-	-

Consolidating schedules
as at March 31, 2015

	National Grid IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*National Grid Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions, LLC US GAAP company*	*National Grid Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	7	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	4	-	23	-	-	91	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	(2)	-	1	1	-	6	-	1	-	-
Intercompany receivables	-	-	48	1	26	(1)	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	3	5	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	5	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total assets	2	-	80	14	26	96	-	1	-	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	(3)	(5)	-	(4)	-	-	-	-
Current tax liabilities	-	-	(1)	-	-	-	-	-	-	-
Intercompany notes payables	5	-	(20)	15	8	8	-	(1)	-	-
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	(1)	-	(2)	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	5	-	(24)	9	8	2	-	(1)	-	-
Shareholders' equity	(7)	-	(56)	(23)	(34)	(98)	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(2)	-	(80)	(14)	(26)	(96)	-	(1)	-	-

Consolidating schedules
as at March 31, 2015

	National Grid IGTS Corp. US GAAP company	*Broken Bridge Corp. US GAAP company*	*National Grid Energy Management, LLC US GAAP company*	*Metro Energy L.L.C. US GAAP company*	*KeySpan Energy Services Inc. US GAAP company*	*KeySpan Home Energy Srvcs, LLC US GAAP company*	*Fritze LLC US GAAP company*	*KeySpan Plumbing Solutions Inc US GAAP company*	*KS Plumb Heating Solutions, LLC US GAAP company*	*National Grid Energy Supply, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement										
Revenue	-	-	10	6	-	-	-	-	-	-
Other operating income/ (expense)	1	-	1	-	-	1	-	-	-	-
Operating costs	-	-	(9)	(5)	-	-	-	-	-	-
Operating profit	1	-	2	1	-	1	-	-	-	-
Net finance costs	-	-	-	-	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1	-	2	1	-	1	-	-	-	-
Taxation	-	-	-	-	-	(4)	-	-	-	-
Profit for the year	1	-	2	1	-	(3)	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	1	-	2	1	-	(3)	-	-	-	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	1	-	2	1	-	(3)	-	-	-	-
Condensed cash flow statement										
Net cash inflow from operating activities	1	-	3	-	-	(1)	-	(1)	-	-
Net cash inflow from investing activities	(2)	-	(4)	-	-	(2)	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	3	-	1	-	-
Net increase (decrease) in cash and cash equivalents	(1)	-	(1)	-	-	-	-	-	-	-
Exchange movements	-	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	1	-	6	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	5	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2015

	National Grid Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan Energy Corporation US GAAP company*	*National Grid Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Corporation US GAAP company*	*National Grid Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet							
Goodwill	-	-	-	-	-	846	-
Other intangible assets	-	-	-	-	-	-	-
Property, plant & equipment	1	-	-	-	-	3	-
Investments in subsidiaries	-	-	-	-	-	-	-
Investments	(29)	-	3,414	-	-	7,044	-
Non-current regulatory assets	(1)	-	-	-	-	-	-
Other non-current assets	3	1	17	-	-	527	95
Intercompany receivables	248	-	-	-	-	6,822	742
Inventories	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	1	41
Current regulatory assets	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	3	-
Assets of businesses held for sale	-	-	-	-	-	-	-
Total assets	222	1	3,431	-	-	15,246	878
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-
Current liabilities	(2)	-	-	-	-	(177)	(19)
Current tax liabilities	16	-	2	-	-	7	-
Intercompany notes payables	(321)	(128)	(324)	(5)	-	(2,524)	(1,218)
Non-current borrowings	-	-	-	-	-	(715)	-
Other non-current liabilities	4	-	-	(1)	-	33	(31)
Deferred tax liabilities	-	-	-	-	-	13	2
Pensions and other post-retirement benefits	-	-	-	-	-	(2,358)	47
Liabilities of businesses held for sale	-	-	-	-	-	-	-
Total liabilities	(303)	(128)	(322)	(6)	-	(5,721)	(1,219)
Shareholders' equity	81	127	(3,109)	6	-	(9,525)	341
Minority interests	-	-	-	-	-	-	-
Total liabilities and equity	(222)	(1)	(3,431)	-	-	(15,246)	(878)

Consolidating schedules
as at March 31, 2015

	National Grid Services, Inc. US GAAP company	*KSI Mechanical, LLC US GAAP company*	*KeySpan Energy Corporation US GAAP company*	*National Grid Technologies Inc US GAAP company*	*KeySpan My Home Key, Inc. US GAAP company*	*KeySpan Corporation US GAAP company*	*National Grid Electric Services LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement							
Revenue	-	-	-	-	-	-	3
Other operating income/ (expense)	(3)	-	72	-	-	209	1
Operating costs	(1)	-	-	-	-	(13)	(13)
Operating profit	(4)	-	72	-	-	196	(9)
Net finance costs	(4)	-	-	-	-	(56)	(3)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-
Profit before taxation	(8)	-	72	-	-	140	(12)
Taxation	2	-	1	-	-	10	6
Profit for the year	(6)	-	73	-	-	150	(6)
Minority interests	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-
Net income from continuing operations	(6)	-	73	-	-	150	(6)
Net income from discontinued operations	-	-	-	-	-	-	-
Net income attributable to equity shareholders	(6)	-	73	-	-	150	(6)

Condensed cash flow statement							
Net cash inflow from operating activities	6	-	(146)	-	-	212	101
Net cash inflow from investing activities	(76)	-	-	-	-	(665)	-
Net cash inflow from financing activities	70	-	146	-	-	343	(101)
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	(110)	-
Exchange movements	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	113	-
Net cash and cash equivalents at end of year	-	-	-	-	-	3	-

Consolidating schedules
as at March 31, 2015

	National Grid Engineering & Surveying Inc. US GAAP company	*National Grid Energy Trading Services LLC US GAAP company*	*National Grid Exploration & Production US GAAP company*	***Total of Other (Unaudited) KeySpan Companies US GAAP company***	***Total of All KeySpan Companies US GAAP company***	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	***KeySpan Consolidated US GAAP company***
	$'m	*$'m*	*$'m*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed balance sheet								
Goodwill	-	-	-	846	3,765	1	-	3,766
Other intangible assets	-	-	-	-	-	-	-	-
Property, plant & equipment	1	-	-	126	9,808	1	-	9,809
Investments in subsidiaries	-	-	-	-	-	-	-	-
Investments	-	-	-	12,551	12,623	(12,437)	-	186
Non-current regulatory assets	-	-	-	(1)	2,168	-	-	2,168
Other non-current assets	39	1	-	698	766	(387)	(95)	284
Intercompany receivables	160	3	-	8,109	8,960	(3,380)	(742)	4,838
Inventories	-	-	-	-	238	1	-	239
Receivables and other current assets	-	-	-	52	1,465	18	(41)	1,442
Current regulatory assets	-	-	-	-	147	-	-	147
Financial and other investments	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	12	22	(1)	-	21
Assets of businesses held for sale	-	-	-	-	-	241	-	241
Total assets	200	4	-	22,393	39,962	(15,943)	(878)	23,141
Borrowings (including bank overdrafts)	-	-	-	-	(10)	-	-	(10)
Current liabilities	(6)	-	-	(218)	(1,019)	12	19	(988)
Current tax liabilities	3	-	-	24	(126)	51	-	(75)
Intercompany notes payables	(271)	45	-	(4,402)	(5,905)	2,099	1,218	(2,588)
Non-current borrowings	-	-	-	(715)	(3,502)	209	-	(3,293)
Other non-current liabilities	(7)	-	-	(7)	(2,284)	(111)	31	(2,364)
Deferred tax liabilities	(1)	-	-	(14)	(2,299)	383	(2)	(1,918)
Pensions and other post-retirement benefits	47	1	-	(2,263)	(2,861)	923	(47)	(1,985)
Liabilities of businesses held for sale	-	-	-	-	-	(670)	-	(670)
Total liabilities	(235)	46	-	(7,595)	(18,006)	2,896	1,219	(13,891)
Shareholders' equity	35	(50)	-	(14,798)	(21,956)	13,047	(341)	(9,250)
Minority interests	-	-	-	-	-	-	-	-
Total liabilities and equity	(200)	(4)	-	(22,393)	(39,962)	15,943	878	(23,141)

Consolidating schedules
as at March 31, 2015

	National Grid Engineering & Surveying Inc. US GAAP company	*National Grid Energy Trading Services LLC US GAAP company*	*National Grid Exploration & Production US GAAP company*	***Total of Other (Unaudited) KeySpan Companies US GAAP company***	***Total of All KeySpan Companies US GAAP company***	*KeySpan Adjustments & Eliminations US GAAP company*	*Discontinued KeySpan Operations US GAAP company*	***KeySpan Consolidated US GAAP company***
	$'m	*$'m*	*$'m*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed income statement								
Revenue	54	-	-	87	4,751	(55)	(3)	4,693
Other operating income/ (expense)	1	1	-	378	384	(314)	(1)	69
Operating costs	(57)	(1)	-	(133)	(4,247)	67	13	(4,167)
Operating profit	(2)	-	-	332	888	(302)	9	595
Net finance costs	-	-	-	(65)	(234)	21	3	(210)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-
Profit before taxation	(2)	-	-	267	654	(281)	12	385
Taxation	2	-	-	15	(143)	(3)	(6)	(152)
Profit for the year	-	-	-	282	511	(284)	6	233
Minority interests	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-
Net income from continuing operations	-	-	-	282	511	(284)	6	233
Net income from discontinued operations	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	-	282	511	(284)	6	233

Condensed cash flow statement								
Net cash inflow from operating activities	(45)	(2)	-	34	1,014	336	(101)	1,249
Net cash inflow from investing activities	-	1	-	(791)	(1,880)	293	-	(1,587)
Net cash inflow from financing activities	45	1	-	625	708	(784)	101	25
Net increase (decrease) in cash and cash equivalents	-	-	-	(132)	(158)	(155)	-	(313)
Exchange movements	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	143	-	143
Net cash and cash equivalents at start of year	-	-	-	144	180	11	-	191
Net cash and cash equivalents at end of year	-	-	-	12	22	(1)	-	21

Consolidating schedules as at March 31, 2015	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***
Condensed balance sheet														
Goodwill	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Other intangible assets	345	-	-	27	-	-	-	-	**371**	257	-	-	-	**257**
Property, plant & equipment	18,456	-	-	3	49	-	-	(33)	**18,475**	16,538	-	-	-	**16,538**
Investments in subsidiaries	25	-	-	-	-	149	(174)	-	**-**	-	-	-	-	**-**
Investments	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Non-current regulatory assets	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Other non-current assets	1,494	-	-	-	-	-	-	(7)	**1,486**	597	-	-	-	**597**
Intercompany receivables	8,772	863	307	189	27	6,772	(8,476)	-	**8,453**	61	-	-	-	**61**
Inventories	39	-	-	-	-	-	-	-	**39**	45	-	-	-	**45**
Receivables and other current assets	723	-	-	1	6	-	-	6	**737**	399	-	-	-	**399**
Regulatory assets	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Financial and other investments	538	-	-	-	-	-	-	-	**538**	710	-	-	-	**710**
Cash and cash equivalents	6	-	-	(1)	(3)	-	(34)	34	**1**	4	-	-	-	**4**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total assets	30,396	863	307	218	79	6,920	(8,684)	(0)	**30,099**	18,612	-	-	-	**18,612**
Borrowings (including bank overdrafts)	(774)	-	(6)	-	-	-	34	(34)	**(780)**	(367)	-	-	-	**(367)**
Current liabilities	(1,243)	-	-	(15)	(31)	-	-	(1)	**(1,290)**	(1,452)	-	-	-	**(1,452)**
Current tax liabilities	(50)	-	-	-	-	-	-	-	**(50)**	9	-	-	-	**9**
Intercompany payables	(4,911)	-	1	(45)	3	(6,810)	8,476	(9)	**(3,294)**	(2,201)	-	-	-	**(2,201)**
Non-current borrowings	(8,993)	(872)	(301)	-	-	-	-	1	**(10,165)**	(8,184)	-	-	-	**(8,184)**
Other non-current liabilities	(2,505)	-	-	(6)	(42)	-	-	10	**(2,542)**	(1,561)	-	-	1	**(1,559)**
Deferred tax liabilities	(2,456)	-	-	-	-	-	-	-	**(2,456)**	(1,152)	-	-	-	**(1,152)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	**-**	(713)	-	-	-	**(713)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Total liabilities	(20,933)	(872)	(306)	(65)	(70)	(6,810)	8,511	(33)	**(20,578)**	(15,621)	-	-	1	**(15,619)**
Shareholders' equity	(9,464)	9	(1)	(153)	(9)	(110)	177	31	**(9,520)**	(2,991)	-	-	(1)	**(2,992)**
Minority interests	-	-	-	-	-	-	(3)	1	**(1)**	-	-	-	-	**-**
Total liabilities and equity	(30,396)	(863)	(307)	(218)	(79)	(6,920)	8,684	(0)	**(30,099)**	(18,612)	-	-	0	**(18,612)**

Consolidating schedules as at March 31, 2015	National Grid Gas plc *IFRS company*	British Transco Finance BV *IFRS company*	British Transco Finance Inc *IFRS company*	NG Metering Limited *IFRS company*	Xoserve Limited *IFRS company*	Other NGG subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Gas plc *IFRS consolidated***	National Grid Elec. Trans. plc *IFRS company*	NGET subsidiary companies *IFRS aggregated*	Consol-idation adjustments *IFRS*	Rounding and other differences *IFRS*	**National Grid Elec. Trans. plc *IFRS consolidated***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***
Condensed income statement														
Revenue	4,837	-	-	142	76	-	(227)	(19)	**4,808**	5,924	-	-	-	**5,924**
Other operating income	110	-	-	-	-	-	-	-	**110**	2	-	-	-	**2**
Operating costs	(2,827)	-	-	(131)	(71)	-	227	21	**(2,781)**	(3,989)	-	-	-	**(3,989)**
Operating profit	2,120	-	-	11	5	-	-	2	**2,138**	1,936	-	-	-	**1,936**
Net finance costs	(555)	3	-	2	-	(2)	-	2	**(551)**	(396)	-	-	-	**(396)**
Dividend income	3	-	-	-	-	-	-	(3)	**-**	-	-	-	-	**-**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Profit before taxation	1,568	3	-	13	5	(2)	-	(0)	**1,587**	1,540	-	-	-	**1,540**
Taxation	(363)	-	-	(3)	-	-	-	-	**(366)**	(323)	-	-	-	**(323)**
Profit for the year	1,205	3	-	9	5	(2)	-	(0)	**1,221**	1,216	-	-	-	**1,216**
Minority interests	-	-	-	-	-	-	-	(5)	**(5)**	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income from continuing operations	1,205	3	-	9	5	(2)	-	(5)	**1,216**	1,216	-	-	-	**1,216**
Net income from discontinued operations	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net income attributable to equity shareholders	1,205	3	-	9	5	(2)	-	(5)	**1,216**	1,216	-	-	-	**1,216**
Condensed cash flow statement														
Net cash inflow from operating activities	2,485	-	-	19	27	(43)	-	41	**2,529**	2,270	-	-	-	**2,270**
Net cash inflow from investing activities	(951)	-	-	(13)	(27)	-	-	(2)	**(992)**	(1,645)	-	-	-	**(1,645)**
Net cash inflow from financing activities	(1,513)	-	-	(8)	(3)	43	-	(39)	**(1,521)**	(610)	-	-	-	**(610)**
Net increase in cash and cash equivalents	21	-	-	(2)	(3)	-	-	0	**16**	14	-	-	-	**14**
Exchange movements	(1)	(0)	-	0	0	-	-	0	**(1)**	(1)	-	-	-	**(1)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	**-**	-	-	-	-	**-**
Net cash and cash equivalents at start of year	(14)	2	-	-	-	-	-	(2)	**(14)**	(9)	-	-	-	**(9)**
Net cash and cash equivalents at end of year	6	1	-	(1)	(3)	-	-	(1)	**1**	4	-	-	-	**4**

Consolidating schedules as at March 31, 2015	National Grid Group Finance plc *IFRS company*	National Grid Holdings One plc *IFRS company*	Lattice Group plc *IFRS company*	National Grid Gas Holdings plc *IFRS company*	National Grid Comm. Holdings Ltd *IFRS company*	National Grid Grain LNG Ltd *IFRS company*	National Grid Property *IFRS company*	Thamesport Interchange Ltd *IFRS company*	Inter-connectors Ltd *IFRS company*	National Grid (US) Holdings Ltd *IFRS company*	National Grid (US) Inv. 4 Ltd *IFRS company*	National Grid (US) Partner 1 Ltd *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet												
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	9	3	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	1,262	65	140	159	-	-	-
Investments in subsidiaries	-	19,667	1,002	10,570	95	-	(116)	-	-	16,975	11,965	8,577
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	3	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	3,955	8,940	2,805	459	1,185	-	502	19	73	688	3,010	1,247
Inventories	-	-	-	-	-	13	12	-	-	-	-	-
Receivables and other current assets	-	9	-	-	34	27	(40)	-	7	-	62	-
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	3	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	1	-	-	-	(1)	10	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,955	28,623	3,808	11,029	1,323	1,304	434	159	239	17,663	15,037	9,825
Borrowings (including bank overdrafts)	(110)	-	-	-	-	(25)	-	-	-	-	-	-
Current liabilities	-	(12)	(7)	-	(39)	(42)	(67)	(1)	(28)	(244)	(86)	-
Current tax liabilities	-	(82)	-	-	(7)	(10)	(7)	-	-	(13)	-	-
Intercompany payables	(83)	(21,039)	(260)	(8,361)	(122)	(301)	(875)	(119)	(39)	(6,051)	(10,849)	-
Non-current borrowings	(2,814)	-	-	-	-	(157)	-	-	-	-	-	-
Other non-current liabilities	-	-	13	-	(13)	(21)	(198)	(13)	-	-	-	-
Deferred tax liabilities	-	-	55	-	4	(153)	30	1	(24)	(3)	(1)	-
Pensions and other post-retirement benefits	-	-	(285)	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(3,007)	(21,133)	(484)	(8,361)	(177)	(710)	(1,117)	(132)	(91)	(6,311)	(10,937)	-
Shareholders' equity	(947)	(7,490)	(3,323)	(2,669)	(1,146)	(594)	683	(27)	(149)	(11,351)	(4,100)	(9,825)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(3,955)	(28,623)	(3,808)	(11,029)	(1,323)	(1,304)	(434)	(159)	(239)	(17,663)	(15,037)	(9,825)

Consolidating schedules as at March 31, 2015	National Grid Group Finance plc *IFRS company* *$'m*	National Grid Holdings One plc *IFRS company* *$'m*	Lattice Group plc *IFRS company* *$'m*	National Grid Gas Holdings plc *IFRS company* *$'m*	National Grid Comm. Holdings Ltd *IFRS company* *$'m*	National Grid Grain LNG Ltd *IFRS company* *$'m*	National Grid Property *IFRS company* *$'m*	Thamesport Interchange Ltd *IFRS company* *$'m*	Inter-connectors Ltd *IFRS company* *$'m*	National Grid (US) Holdings Ltd *IFRS company* *$'m*	National Grid (US) Inv. 4 Ltd *IFRS company* *$'m*	National Grid (US) Partner 1 Ltd *IFRS company* *$'m*
Condensed income statement												
Revenue	-	-	-	-	-	312	43	9	188	-	-	-
Other operating income	-	-	-	-	-	-	43	-	8	-	-	-
Operating costs	-	(6)	(74)	-	(457)	(200)	(131)	(17)	(35)	-	-	-
Operating profit	-	(6)	(74)	-	(457)	112	(46)	(8)	161	-	-	-
Net finance costs	16	(142)	169	2	27	(8)	(19)	(2)	2	(27)	(68)	8
Dividend income	-	2,286	1,104	1,104	464	-	76	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	16	2,138	1,199	1,106	33	104	11	(9)	162	(27)	(68)	8
Taxation	(5)	44	(19)	19	3	(24)	9	2	(35)	5	9	(2)
Profit for the year	11	2,182	1,180	1,125	36	80	21	(8)	128	(22)	(58)	6
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	11	2,182	1,180	1,125	36	80	21	(8)	128	(22)	(58)	6
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	11	2,182	1,180	1,125	36	80	21	(8)	128	(22)	(58)	6

Condensed cash flow statement												
Net cash inflow from operating activities	(2)	65	(13)	21	(62)	189	52	6	169	5	11	(2)
Net cash inflow from investing activities	-	8,866	1,104	1,104	170	(65)	99	(2)	3	-	-	-
Net cash inflow from financing activities	2	(8,929)	(1,092)	(1,125)	(110)	(126)	(148)	(5)	(172)	(5)	(11)	2
Net increase in cash and cash equivalents	-	2	-	-	(2)	(2)	3	-	-	-	-	-
Exchange movements	-	(0)	-	-	2	0	(1)	-	(0)	(2)	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	(2)	-	8	-	2	2	-	-
Net cash and cash equivalents at end of year	-	1	-	-	(1)	(1)	10	-	1	-	-	-

Consolidating schedules as at March 31, 2015	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*	LG Telecoms *IFRS company*	National Grid Five *IFRS company*	National Grid Eight *IFRS company*	National Grid Eleven *IFRS company*	National Grid Holdings Ltd *IFRS company*	National Grid Twelve *IFRS company*	NGC Jersey Investments *IFRS company*	National Grid Finance Holdings Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet												
Goodwill	-	-	-	-	-	-	-	-	-	-	-	**-**
Other intangible assets	-	-	-	-	-	1	-	-	-	-	-	**13**
Property, plant & equipment	-	-	-	-	-	1	-	-	-	-	-	**1,628**
Investments in subsidiaries	10,478	-	365	-	-	16,411	-	12,881	-	7,119	3,769	**119,759**
Investments	-	-	-	-	-	-	-	-	-	-	-	**352**
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	**-**
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	**3**
Intercompany receivables	5,177	-	91	497	(1)	6,867	-	12,542	6,822	9,265	6,270	**70,428**
Inventories	-	-	-	-	-	-	-	-	-	-	-	**25**
Receivables and other current assets	-	102	-	-	-	-	-	-	-	-	-	**202**
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial and other investments	334	536	-	-	-	6	-	-	-	-	-	**879**
Cash and cash equivalents	-	-	-	-	-	1	-	-	-	-	-	**12**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Total assets	15,989	639	456	497	(1)	23,288	-	25,423	6,822	16,384	10,039	**193,301**
Borrowings (including bank overdrafts)	(215)	-	-	-	-	-	-	-	-	-	-	**(350)**
Current liabilities	(71)	(175)	-	-	-	-	-	(19)	-	-	-	**(794)**
Current tax liabilities	261	-	-	-	-	(10)	-	-	-	(4)	-	**126**
Intercompany payables	(4,183)	1	(376)	(505)	1	(7)	-	(16,394)	(1,540)	(297)	(1)	**(71,610)**
Non-current borrowings	(2,640)	-	-	-	-	-	-	-	-	-	-	**(5,612)**
Other non-current liabilities	(365)	-	-	-	-	-	-	-	-	-	-	**(597)**
Deferred tax liabilities	(50)	(1)	(1)	-	-	-	-	(1)	-	-	-	**(147)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-	-	**(285)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities	(7,265)	(175)	(377)	(505)	1	(18)	-	(16,415)	(1,540)	(301)	(1)	**(79,269)**
Shareholders' equity	(8,724)	(463)	(79)	7	-	(23,270)	-	(9,008)	(5,282)	(16,083)	(10,037)	**(114,032)**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities and equity	(15,989)	(639)	(456)	(497)	1	(23,288)	-	(25,423)	(6,822)	(16,384)	(10,039)	**(193,301)**

Consolidating schedules as at March 31, 2015	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*	LG Telecoms *IFRS company*	National Grid Five *IFRS company*	National Grid Eight *IFRS company*	National Grid Eleven *IFRS company*	National Grid Holdings Ltd *IFRS company*	National Grid Twelve *IFRS company*	NGC Jersey Investments *IFRS company*	National Grid Finance Holdings Ltd *IFRS company*	**Other major subsidiaries *IFRS total***
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement												
Revenue	-	-	-	-	-	-	-	-	-	-	-	**552**
Other operating income	-	-	-	-	-	-	-	-	-	-	-	**50**
Operating costs	-	41	(254)	-	(401)	-	-	(51,249)	(4,994)	(15,863)	-	**(73,657)**
Operating profit	-	41	(254)	-	(401)	-	-	(51,249)	(4,994)	(15,863)	-	**(73,055)**
Net finance costs	(24)	-	(10)	(17)	2	91	-	(10)	25	96	11	**120**
Dividend income	-	-	273	-	-	-	-	52,464	5,346	-	-	**63,194**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit before taxation	(24)	41	9	(17)	(399)	91	-	1,204	377	(15,767)	11	**(9,741)**
Taxation	33	-	1	3	-	(9)	-	-	(3)	(19)	3	**20**
Profit for the year	9	41	10	(14)	(399)	82	-	1,204	374	(15,786)	14	**(9,721)**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income from continuing operations	9	41	10	(14)	(399)	82	-	1,204	374	(15,786)	14	**(9,721)**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	**-**
Net income attributable to equity shareholders	9	41	10	(14)	(399)	82	-	1,204	374	(15,786)	14	**(9,721)**

Condensed cash flow statement												
Net cash inflow from operating activities	(3)	46	9	(5)	(2)	(8)	-	9	(5)	(19)	2	**465**
Net cash inflow from investing activities	(1,126)	(87)	393	-	4,944	2,540	-	370	3,073	-	17,927	**39,314**
Net cash inflow from financing activities	1,125	6	(404)	5	(4,942)	(2,707)	-	(380)	(3,068)	19	(17,928)	**(39,994)**
Net increase in cash and cash equivalents	(5)	(35)	(2)	-	-	(175)	-	(1)	-	-	-	**(216)**
Exchange movements	0	(2)	0	-	-	(2)	-	-	-	-	-	**(5)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Net cash and cash equivalents at start of year	2	38	-	-	-	178	-	-	-	-	-	**228**
Net cash and cash equivalents at end of year	(3)	1	(1)	-	-	1	-	-	-	-	-	**7**

National Grid plc
IFRS to US GAAP reconciliation
as at March 31, 2015

	$'m	$'m
Profit for the year attributable to equity shareholders under IFRS		3,185
Adjustments to conform with US GAAP		
Revenue	(377)	
Operating costs	(199)	
Net finance costs	58	
Taxation	69	
Other	(24)	
		(473)
Net income under US GAAP		2,712
Total shareholders equity under IFRS		17,764
Adjustments to conform with US GAAP		
Property, plant & equipment	2,650	
Other intangible assets	(1,191)	
Goodwill	3,134	
Regulatory assets	2,808	
Financial instruments	3,022	
Pensions and other post-retirement benefits	368	
Current tax liabilities	113	
Deferred taxation	(2,465)	
Other	(952)	
		7,487
Shareholders' equity under US GAAP		25,251