Brooklyn Union Gas Company
d/b/a
National Grid NY

Consolidated Financial Statements
For the years ended March 31, 2012 and March 31, 2011

BROOKLYN UNION GAS COMPANY

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Report of Independent Auditors

To the Stockholder and Board of Directors of
Brooklyn Union Gas Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholder's equity and comprehensive income, capitalization and cash flows present fairly, in all material respects, the financial position of Brooklyn Union Gas Company (the "Company") at March 31, 2012 and March 31, 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 4, 2012

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

	March 31, 2012	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 98,962**	$ 128,910
Accounts receivable	**248,065**	428,999
Allowance for doubtful accounts	**(49,260)**	(57,364)
Accounts receivable from affiliates	**13,928**	-
Intercompany money pool	**39,644**	31,631
Unbilled revenues	**85,112**	128,966
Gas in storage, at average cost	**80,087**	37,037
Materials and supplies, at average cost	**10,108**	10,727
Derivative contracts	**21,389**	2,452
Regulatory assets	**50,173**	74,864
Current portion of deferred income tax assets	**5,575**	11,682
Prepaid taxes	**34,383**	35,030
Prepaid and other current assets	**22,025**	16,577
Total current assets	**660,191**	849,511
Equity investments	**73,396**	81,148
Property, plant and equipment, net	**2,571,807**	2,458,899
Deferred charges and other assets:		
Regulatory assets	**1,066,975**	901,312
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**1,064**	176
Other deferred charges	**20,802**	21,777
Total deferred charges and other assets	**2,539,982**	2,374,406
Total assets	**$ 5,845,376**	$ 5,763,964

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,	
	2012	2011
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**54,691**	68,287
Accounts payable to affiliates	**233,137**	275,459
Taxes accrued	**24,391**	14,770
Customer deposits	**41,074**	41,084
Interest accrued	**21,724**	17,495
Regulatory liabilities	**43,325**	69,694
Derivative contracts	**14,668**	8,335
Other tax liabilities	**17,628**	-
Other current liabilities	**26,500**	21,417
Total current liabilities	**477,138**	516,541
Deferred credits and other liabilities:		
Regulatory liabilities	**343,512**	327,699
Asset retirement obligations	**10,862**	10,247
Deferred income tax liabilities	**658,843**	609,191
Postretirement benefits	**142,279**	96,516
Environmental remediation costs	**482,165**	392,687
Derivative contracts	**6,762**	1,603
Other deferred liabilities	**22,199**	13,167
Total deferred credits and other liabilities	**1,666,622**	1,451,110
Capitalization:		
Shareholders' equity	**2,661,116**	2,755,813
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,701,616**	3,796,313
Total liabilities and capitalization	**$ 5,845,376**	$ 5,763,964

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

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

	Years Ended March 31,	
	2012	2011
Operating revenues	$ **1,508,627**	$ 1,885,602
Operating expenses:		
Purchased gas	**620,081**	986,993
Operations and maintenance	**353,458**	371,530
Depreciation and amortization	**84,788**	83,251
Amortization of regulatory assets and rate plan deferrals	**9,473**	5,814
Other taxes	**190,034**	189,770
Total operating expenses	**1,257,834**	1,637,358
Operating income	**250,793**	248,244
Other income and (deductions):		
Interest on long-term debt	**(50,190)**	(50,760)
Other interest, including affiliate interest	**(15,522)**	(2,587)
Equity income in subsidiaries	**17,852**	17,493
Other income, net	**12,191**	23,527
Total other deductions, net	**(35,669)**	(12,327)
Income before income taxes	**215,124**	235,917
Income taxes:		
Current	**33,074**	3,337
Deferred	**60,449**	76,024
Total income tax expense	**93,523**	79,361
Net income	$ **121,601**	$ 156,556

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)

	2012	2011
Operating activities:		
Net income	$ 121,601	$ 156,556
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	84,788	83,251
Amortization of regulatory assets and rate plan deferrals	9,473	5,814
Provision for deferred income taxes	60,449	76,024
Bad debt expense	14,108	24,054
Equity loss (income) in subsidiaries, net	7,368	(3,913)
Regulatory deferrals	40,304	30,636
Amortization of debt discount	1,811	3,180
Net pension and other postretirement expense	(20,385)	15,336
Environmental remediation payments	(19,899)	(18,016)
Changes in operating assets and liabilities:		
Accounts receivable, net	196,179	(33,288)
Materials and supplies and gas in storage	(42,309)	53,209
Accounts payable and accrued expenses	(3,075)	(57,045)
Other liabilities	14,115	6,486
Prepaid and accrued taxes	27,896	4,377
Regulatory assets and liabilities, net	(46,831)	54,538
Other, net	(7,578)	8,082
Net cash provided by operating activities	438,015	409,281
Investing activities:		
Capital expenditures	(170,572)	(162,702)
Derivative margin calls	-	790
Cost of removal	(17,057)	(17,457)
Net cash used in investing activities	(187,629)	(179,369)
Financing activities:		
Dividends paid to Parent	(220,000)	(150,000)
Affiliated money pool borrowing and other	(64,263)	(29,412)
Parent loss tax allocation	3,929	
Net cash used in financing activities	(280,334)	(179,412)
Net decrease in cash and cash equivalents	(29,948)	50,500
Cash and cash equivalents, beginning of year	128,910	78,410
Cash and cash equivalents, end of year	$ 98,962	$ 128,910
Supplemental disclosures:		
Interest paid	$ 47,856	$ 51,828
Income taxes (refunded) paid	20,376	30,401
Significant non-cash items:		
Capital-related accruals included in accounts payable	1,048	943

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands of dollars, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				Accumulated Other Comprehensive Income		
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Equity Investment in Iroquois	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2010	100	$ -	-	$ -	$ 2,605,830	$ 143,686	$ (278)	$ (278)	$ 2,749,238
Net income	-	-	-	-	-	156,556	-		156,556
Comprehensive income:									-
Unrealized gains on marketable securities from equity investment, net of $12 tax expense	-	-	-	-	-	-	19	19	19
Total comprehensive income									156,575
Dividends paid to Parent	-	-	-	-	-	(150,000)	-	-	(150,000)
Balance as of March 31, 2011	100	$ -	-	$ -	$ 2,605,830	$ 150,242	$ (259)	$ (259)	$ 2,755,813
Net income	-	-				121,601			121,601
Issuance of preferred stock	-	-	1	-	-	-			
Comprehensive income:									-
Unrealized losses on marketable securities from equity investment, net of $157 tax benefit	-	-	-	-	-	-	(227)	(227)	(227)
Total comprehensive income									121,374
Parent loss tax allocation	-	-	-	-	3,929	-	-	-	3,929
Dividends paid to Parent	-	-	-	-	-	(220,000)	-	-	(220,000)
Balance as of March 31, 2012	100	$ -	1	$ -	$ 2,609,759	$ 51,843	$ (486)	$ (486)	$ 2,661,116

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,	
			2012	2011
Total shareholders' equity			**$ 2,661,116**	$2,755,813
Long-term debt:	Interest Rate	Maturity Date		
Senior Unsecured Note	5.60%	November 29, 2016	**400,000**	400,000
Gas facilities revenue bonds:				
1993A and 1993B	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996	5.50%	January 1, 2021	**153,500**	153,500
2005A	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
Total gas facilities revenue bonds			**640,500**	640,500
Total long-term debt			**1,040,500**	1,040,500
Total capitalization			**$ 3,701,616**	$3,796,313

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

BROOKLYN UNION GAS COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company," "we," "us," and "our") distributes natural gas at retail to approximately 972,000customers and transports natural gas to approximately 233,000 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"). KeySpan 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 an indirectly-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 the Iroquois Gas Transmission System L.P. ("Iroquois"), a 375-mile pipeline that currently 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%. As 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 using the equity method.

The Company has evaluated subsequent events and transactions through July 4, 2012, the date of the filing, and concluded that there were no events that require disclosure in the notes to the consolidated financial statements.

B. Basis of Presentation

The consolidated financial statements for the years ended March 31, 2012 and March 31, 2011 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the accounting principles for rate-regulated entities, and the accounting requirements and ratemaking practices of the applicable regulatory authorities. All material intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. For the purposes of presentation in the statement of cash flows, it is assumed that all amounts that are settled through the money pool are constructive cash receipts and payments, and therefore are recorded as such in the cash flow statement

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

C. Regulatory Accounting

The New York State Public Service Commission ("NYPSC") provides the final determination of the rates the Company charges its retail customers. In certain cases, the actions of the NYPSC to determine the rates the Company charges its customers result in an accounting treatment different from that used by non-regulated companies. In this case, the Company is required to defer costs (regulatory assets) or to recognize obligations (regulatory liabilities) if it is probable that, these amounts will be recovered or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates. NETCO's transmission assets are regulated by the Federal Energy Regulatory Commission and rates are filed with the Commission.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. The impact could be material to the Company's reported financial condition and results of operations.

D. *Revenue Recognition*

Customers are generally billed on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a cost of gas adjustment factor ("CGAF") included in the utility tariff. The CGAF provision requires an annual reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending subsequent recovery from or refund to firm customers.

The Revenue Decoupling Adjustment Factor ("RDAF") requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without any financial detriment to the Company resulting from reductions in gas usage.

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.

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

The Company's revenue from the sale and delivery of gas for the years ended March 31, 2012 and March 31, 2011 is as follows:

	March 31,	
	2012	2011
Residential	**71%**	67%
Commercial	**14%**	14%
Gas transportation and other services	**15%**	19%

E. *Property, Plant and Equipment*

Property, plant and equipment are stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally 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. Whenever property, plant and equipment are retired, the original cost, less salvage, is charged to accumulated depreciation.

The composite rates and weighted-average life for the years ended March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
Composite rates	**2.4%**	2.5%
Weighted-average life	**41 years**	40 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to its customers. At March 31, 2012 and March 31, 2011, the Company had cumulative costs recovered in excess of costs incurred totaling $158.5 million and $150.3 million, respectively. This amount is reflected as regulatory liabilities in the accompanying consolidated balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the consolidated statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income and deductions for the equity component and other interest expense for the debt component in the accompanying consolidated statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Debt	**$ 618**	$ 254
Equity	**1,161**	1,276
	$ 1,779	$ 1,530
Composite AFUDC rate	**7.4%**	7.5%

F. *Goodwill*

Goodwill represents the excess of the purchase price of a business combination over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the business is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the business in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2012 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, 2012 to March 31, 2017; (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 US 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 include the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 9.0x, which we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as we believe that each methodology provides equally valuable information. Based on the results of the Company's January 31, 2012 analysis, fair value exceeded carrying value by approximately $109 million or 2.7%, and as such, no impairment of goodwill was indicated. Either (1) a decrease in the forecasted cash flows of 10%, (2) an increase in the discount rate of 50 basis points, (3) a decrease in the terminal growth rate of 100 basis points, or (4) a decrease in the EBITDA multiple by 1.0x would not have resulted in the carrying value exceeding the fair value. The failure of the Company to achieve forecasted operating results and cash flows or a decline in the market multiple, discount rate or terminal growth rate may further reduce its estimated fair value below its carrying value, which would likely result in recognition of a goodwill impairment charge.

G. ***Cash and Cash Equivalents***

The Company classifies short-term investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. Cash and short-term investments are carried at cost which approximates fair value.

H. ***Gas in Storage and Materials and Supplies***

Gas in storage is stated at cost, determined on an average weighted cost basis, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to the rate payers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to the rate payers are subject to periodic regulatory approvals and are reported periodically to the NYPSC.

Materials and supplies are stated at the lower of cost or market, with cost being determined on an average weighted cost basis, and are expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete inventory. For the years ended March 31, 2012 and March 31, 2011, these write offs were not material.

I. ***Income and Other Taxes***

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid Holdings Inc. files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return method. As a member, the Company settles its current tax liability or benefit each year with Holdings pursuant to a tax sharing arrangement between Holdings and its members. Benefits allocated by the Parent Company are treated as capital contributions.

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

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 Company's state tax based on capital is in excess of state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

Other taxes in the accompanying consolidated statements of income primarily include excise tax, property tax and payroll tax. Gas distribution revenues include the collection of excise taxes, while other taxes include the related expense. Excise taxes collected and paid for the years ended March 31, 2012 and March 31, 2011 are $65.2 million and $53.3 million, respectively.

The Company collects certain taxes from customers such as sales taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas. Where these taxes, such as sales taxes, are imposed on the customer, the Company accounts for these taxes on a net basis (excluded from revenues) with no impact to our consolidated statements of income. Where these taxes, such as gross receipts taxes, excise tax or other surcharges or fees are imposed on the Company, the Company accounts for these taxes on a gross basis.

J. *Comprehensive Income*

Comprehensive income is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income is reported net income, the other component includes unrealized gains and losses on marketable securities.

K. *Employee Benefits*

The Company follows the provisions of the Financial Accounting Standards Board ("FASB") accounting guidance related to the accounting for defined benefit pension and postretirement plans for recording pension expenses and resulting plan asset and liability balances. The guidance also requires employers to fully recognize all postretirement plans' funded status on the balance sheets as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated enterprises, this offsetting entry is recorded as a regulatory asset or liability when the balance is required to be refunded to or recovered from customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. As required by the guidance, the Company values its pension and postretirement benefits other than pensions ("PBOP") assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

L. *Derivatives*

We use derivative instruments to economically hedge a portion of our exposure to commodity price risk. Whenever hedge positions are in effect, we are exposed to credit risks in the event of non-performance by counterparties to derivative contracts, as well as non-performance by the counterparties of the transactions against which they are hedged.

Commodity Derivative Instruments – Regulated Accounting

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

Certain contracts for the physical purchase of natural gas qualify for normal purchase normal sales exception from the requirements of current accounting guidance for derivative instruments, which we elect. Therefore, no recognition of these contracts is made until the underlying physical commodity is purchased. If we were to determine that a contract which we elected the normal purchase normal sale exception for no longer qualifies, we would recognize the fair value of the contract in accordance with the regulatory accounting described above.

M. Fair Value Measurements

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

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

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; 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. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

N. Recent Accounting Pronouncements

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This update seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. The Company will be required to either present the consolidated statement of income and consolidated statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income on the face of the consolidated financial statements. This update does not change the items that are reported in other comprehensive income or any reclassification of items to net income. Additionally, the update does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance is effective for non-public companies for fiscal years, and interim periods within that year, beginning after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company does not expect the adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing whereby, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Otherwise, the entity is required to perform the two-step impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the amendments in this update, entities will be required to disclose both gross information and net information about both 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. This scope would include items such as derivatives. This guidance is effective for fiscal years, and interim periods within that year, beginning after January 1, 2013, and is to be applied retrospectively. As this guidance relates to disclosure only, the adoption of this guidance will not have an impact on the Company's financial position, results of operations or cash flows.

Fair Value Measurements

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

G. Reclassifications

Certain reclassifications have been made to the consolidated financial statements to conform the prior period’s data to the current period’s presentation. The Company reclassified $41.6 million of regulatory liabilities related to gas costs adjustments from accounts receivable to current regulatory liabilities as of March 31, 2011. These reclassifications had no effect on the Company’s results of operations and cash flows.

Note 2. Rates and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Regulatory assets		
Current:		
Property taxes	**$ 3,700**	$ 3,700
Environmental costs	**5,973**	5,973
Postretirement benefits	**11,832**	32,186
Derivative contracts	**14,668**	8,335
PSC assessment	**-**	5,314
Other	**14,000**	19,356
Total	**50,173**	74,864
Non-current:		
Regulatory tax asset	**4,320**	9,164
Property taxes	**24,081**	53,326
Environmental costs	**702,142**	587,222
Postretirement benefits	**280,495**	204,547
Derivative contracts	**6,762**	1,603
Capital tracker	**46,162**	28,632
Other	**3,013**	16,818
Total	**1,066,975**	901,312
Regulatory liabilities		
Current:		
Statement of policy buyback	**19,960**	25,642
Gas cost adjustment	**1,976**	41,600
Derivative contracts	**21,389**	2,452
Total	**43,325**	69,694
Non-current:		
Statement of policy buyback	**-**	20,509
Environmental costs	**14,859**	14,857
Property taxes	**28,059**	38,531
Net delivery rate adjustment	**34,050**	39,913
Excess earnings	**89,178**	53,773
Removal costs recovered	**158,496**	150,311
Derivative contracts	**1,064**	176
Other	**17,806**	9,629
Total	**343,512**	327,699
Net regulatory assets	**$ 730,311**	$ 578,783

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue is billed. The Company records carrying charges, on the regulatory balances related to property taxes, capital tracker, statement of policy buyback, net delivery rate adjustment, and excess earnings for which cash expenditures have been made and are subject to recovery or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

The following table presents the carrying charges that were recognized in the accompanying consolidated statement of income during the years ended March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ (4,941)**	$ (5,868)
Other income, net	**17,051**	23,123
	$ 12,110	$ 17,255

Rate Matters

In June 2009, the Company made a compliance filing with the New York State Public Service Commission (“NYPSC”) regarding the implementation of the Temporary State Energy & Utility Conservation Assessment (“Temporary State Assessment”). The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In a second compliance filing in June 2010, the Company maintained its Temporary State Assessment surcharge of $44.2 million for the period from July 1, 2010 through June 30, 2011. On June 15, 2011, the Company submitted another compliance filing in which it once again proposed to maintain the surcharge for the July 1, 2011 through June 30, 2012 recovery period. The Company had deferred payable balances related to the Temporary State Assessment in the amount of $0.1 million at March 31, 2012 and deferred receivable balances of $5.3 million at March 31, 2011.

The Company is currently subject to a five year rate plan through December 2012. Base delivery rates are based on an allowed return on equity of 9.8%. A $5 million annual surcharge for the recovery of regulatory assets (“Delivery Rate Surcharge”) was implemented in January 2008. The Delivery Rate Surcharge increases each year by $5 million, resulting in an aggregate recovery of approximately $75 million over the five-year term of the rate plan. The first $25.2 million collected from the Delivery Rate Surcharge was used to offset deferred special franchise taxes with the remainder deferred and used to offset future increases in rates for costs such as site investigation and remediation (“SIR”) or other cost deferrals. An earnings sharing mechanism in the rate plan is triggered if cumulative annual earnings result in a return on equity that exceeds 10.5%. Earnings above this threshold are shared with customers on a tiered basis. During the fiscal year ended March 31, 2012 and March 31, 2011, the Company recorded excess earnings of $36 and $34 million related to the rate year 2011 and 2010 rate years, respectively.

In January 2010, the Company filed the status of its regulatory deferrals so that the NYPSC could determine if the Company should adjust its 2011 revenue levels under the existing rate plan so as to minimize outstanding deferral balances. The Company proposed an increase to 2009 revenues of 1.7% through an existing surcharge, to take effect January 1, 2011, subject to NYPSC approval. The Company is proposing to recover $31.7 million of regulatory assets, which is comprised of an annual amortization of deferral balances on the balance sheet at December 31, 2009 of $28.2 million, and a half year annual amortization of the 2010 forecasted deferral balances of $3.5 million. The discovery phase of the proceeding remains ongoing with the NYPSC and a completion date cannot be predicted at this time.

Other Regulatory Matters

In February 2011, NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New

York customers for the provision of delivery service. If potentially material levels of misallocated or inappropriate service company costs are discovered, at the direction of the NYPSC, the investigation will be expanded to prior years to determine if a material amount of misallocated or inappropriate costs under these service company contracts have been charged to the New York utilities. A report of this review to the NYPSC is anticipated in 2012. At the present time we are not aware of any material misallocation of costs among our affiliates and we do not expect the audit to result in any material adjustment to our financial statements.

In February 2011, the NYPSC instituted a proceeding to review its policies regarding the funding mechanisms supporting SIR expenditures, and directing New York State's utilities to assist in developing a comprehensive record of (1) the current and future scope of utility SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of SIR costs among customers and, potentially, shareholders; and (4) methods for recovering SIR costs appropriately borne by customers in a way that minimizes the impact on the customer. In accordance with the NYPSC's order the Administrative Law Judge issued a Recommended Decision on November 3, 2011. The NYPSC has not yet ruled on these recommendations.

In its September 12, 2007, "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 in Case 06-M-0878, the NYPSC authorized the merger of KeySpan Corporation and National Grid subject to the adoption of various financial and other conditions. One of the conditions was the requirement that the Company issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock, the holder of which would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of such share of stock. 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.

In December 2009, the NYPSC adopted the terms of a Joint Proposal between Staff of the Department of Public Service and the Company that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1, 2010. The RDM applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The revenue decoupling mechanism is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the linkage between sales and revenues. The Company had balances related to the RDM in the amount of $4.9 million and $10.9 million at March 31, 2012 and March 31, 2011, respectively, presented as a component of current regulatory assets. The balances are fully recoverable from the affected customer class.

Note 3. Employee Benefits

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plan and a PBOP plan (together with the Pension Plan (the "Plan")), covering substantially all employees - The KeySpan Retirement Plan, National Grid USA Companies' Executive SERP, Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., KeySpan Benefit Plan for Retired (West) Union Employees, KeySpan Benefit Plan for Retired (West) Management Employees . The Pension Plan provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit. Supplemental nonqualified, 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.

The Plan's assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. 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 Plan 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 expense is included in operations and maintenance expenses in the accompanying consolidated statements of income. The Company is subject to certain deferral accounting requirements mandated by the NYPSC for pension and PBOP costs. Any variation between actual costs and amounts used to establish rates is deferred as a regulatory asset or a regulatory liability and collected from or refunded to customers in subsequent periods.

KeySpan's unfunded obligations at March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Pension	**$ 929,794**	$ 643,947
PBOP	**1,267,919**	1,109,637
	$ 2,197,713	$ 1,753,584

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, 2012 and March 31, 2011 are as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Pension	**$ 15,969**	$ 17,186
PBOP	**19,290**	17,639
	$ 35,259	$ 34,825

During the years ended March 31, 2012 and March 31, 2011, the Company made contributions of approximately $47.7 million and $38.1 million to the Plan.

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. Employer matching contributions of approximately $1 million and $0.8 million were expensed for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 4. Property, Plant and Equipment

At March 31, 2012 and March 31, 2011, property, plant and equipment at cost and accumulated depreciation and amortization are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Plant and machinery	**$ 3,271,571**	$ 3,124,361
Land and buildings	**158,675**	157,752
Assets in construction	**44,237**	34,909
Software and other intangibles	**124,382**	124,404
Total	**3,598,865**	3,441,426
Accumulated depreciation and amortization	**(1,027,058)**	(982,527)
Property, plant and equipment, net	**$ 2,571,807**	$ 2,458,899

Note 5. Derivative Contracts

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

Commodity Derivative Instruments - Regulated Accounting

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

The following are commodity volumes in dekatherms ("dths") associated with the above derivative contracts:

		March 31,	
		2012	2011
		(in thousands)	
Physical Contracts:	Gas purchase	**50,229**	46,415
Financial Contracts:	Gas swaps	**37,946**	14,266
	Gas options	**2,800**	4,750
	Total	**90,975**	**65,431**

The following table presents the Company's derivative assets and liabilities that are included in the accompanying consolidated balance sheets for the above contracts:

	Asset Derivatives March 31, 2012	Asset Derivatives March 31, 2011		Liability Derivatives March 31, 2012	Liability Derivatives March 31, 2011
	(in thousands of dollars)			(in thousands of dollars)	
Current assets:			Current liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	**$ 3,526**	$ 2,113	Gas purchase contracts	**$ 1,904**	$ 2,972
Gas swap contracts	**17,857**	234	Gas swap contracts	**11,661**	5,215
Gas option contracts	**6**	105	Gas option contracts	**1,103**	148
	21,389	2,452		**14,668**	8,335
Deferred charges and other assets:			Deferred credits and other liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	**1,064**	143	Gas purchase contracts	**6,762**	1,441
Gas swap contracts	**-**	30	Gas swap contracts	**-**	141
Gas option contracts	**-**	3	Gas option contracts	**-**	21
	1,064	176		**6,762**	1,603
Total	**$ 22,453**	$ 2,628	Total	**$ 21,430**	$ 9,938

The change in fair value of the regulated contracts is offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of derivative contracts and their offsetting regulatory assets and liabilities had no impact on the accompanying consolidated statements of income.

The following table presents the impact the change in the fair value of the Company's derivative contracts had on the accompanying consolidated balance sheets and consolidated statements of income for the years ended March 31, 2012 and March 31, 2011:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ 4,253**	$ 3,557
Gas swap contracts	**6,305**	17,632
Gas option contracts	**934**	(169)
	11,492	21,020
Regulatory liabilities:		
Gas purchase contracts	**2,334**	775
Gas swap contracts	**17,593**	(258)
Gas option contracts	**(102)**	(108)
	19,825	409
Total increase in net regulatory (liabilities) assets	**$ (8,333)**	$ 20,611
Other income (deductions):		
Gas purchase contracts	**$ -**	$ (1,032)
Gas swap contracts	**-**	313
	$ -	$ (719)

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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. At March 31, 2012 and March 31, 2011, the Company did not post any collateral to its counterparties associated with outstanding derivative contracts.

In addition, certain of the Company's derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below a certain level, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 and March 31, 2011 was $12.8 million and $5.9 million. The Company had no collateral posted for these instruments at March 31, 2012 and March 31, 2011, respectively. If the Company's credit rating were to be downgraded by one notch, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $13.0 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table presents 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, 2012 and March 31, 2011:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 17,870	$ 4,583	$ 22,453
Liabilities:				
Derivative contracts	-	11,661	9,769	21,430
Net assets (liabilities)	$ -	$ 6,209	$ (5,186)	$ 1,023

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 264	$ 2,364	$ 2,628
Liabilities:				
Derivative contracts	-	5,355	4,583	9,938
Net liabilities	$ -	$ (5,091)	$ (2,219)	$ (7,310)

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

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

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions.

Industry-standard valuation techniques, such as Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. Level 3 is also applied in cases when forward curve is internally developed, extrapolated or derived from market observable curve with correlation coefficients less than 0.95, or optionality is present, or non-economical assumptions are made. The internally developed forward curves have a high level of correlation with Platts M2M curves.

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31, 2012	Years Ended March 31, 2011
	(in thousands of dollars)	
Balance at beginning of year	$ (2,219)	$ (3,894)
Transfers out of Level 3	457	-
Total gains or losses:		
included in earnings (or changes in net assets)	-	36
included in regulatory assets and liabilities	(4,866)	457
Purchases	(66)	(1,363)
Settlements	1,508	2,545
Balance at end of year	$ (5,186)	$ (2,219)
The amount of total gains or losses for the period included in net income (or regulatory assets and regulatory liabilities) related to derivatives held at year end	$ -	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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 or transfers into Level 3 during the years ended March 31, 2012 and March 31, 2011, respectively.

Other Fair Value Measurement

Long-term debt is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The Company's consolidated balance sheets reflect the long term debt at amortized cost. The fair value of this debt at March 31, 2012 and March 31, 2011 was $1.2 billion and $1.1 billion, respectively.

All other financial instruments on the consolidated balance sheets such as money pool balances, accounts receivable and accounts payable are stated at costs which approximate fair value.

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 16,782**	$ (1,598)
State	**16,292**	4,935
Total current tax (benefit) expense	**33,074**	3,337
Deferred tax expense (benefit):		
Federal	**57,432**	62,738
State	**3,928**	14,197
	61,360	76,935
Amortized investment tax credits [1]	**(911)**	(911)
Total deferred tax expense (benefit)	**60,449**	76,024
Total income tax expense	**$ 93,523**	$ 79,361

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

Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2012 and March 31, 2011 is as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Computed Tax	**$ 75,293**	$ 82,571
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**13,144**	12,436
Depreciation differences not normalized	**3,301**	3,301
Investment tax credit	**(911)**	(911)
Allowance for equity funds used during construction	**(278)**	(317)
Audit and related reserve movements	**-**	(15,946)
Other items, net	**2,974**	(1,773)
Total	**18,230**	(3,210)
Federal and state income taxes	**$ 93,523**	$ 79,361

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2012 and March 31, 2011 are as follows:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Deferred tax assets:		
Environmental reserve	**$ 210,368**	$ 171,329
Pension, PBOP and other employee benefits	**111,707**	84,760
Future federal benefit on state taxes	**41,161**	40,087
Regulatory liabilities - other	**58,931**	45,828
Allowance for uncollectible accounts	**21,492**	25,028
Regulatory liabilities - property taxes	**13,686**	6,247
Reserves not currently deducted	**7,359**	-
Other items	**14,332**	3,838
Total deferred tax assets [1]	**479,036**	377,117
Deferred tax liabilities:		
Property related differences	**610,927**	540,700
Regulatory assets - environmental	**302,186**	252,047
Regulatory assets - pension and PBOP	**128,529**	96,363
Partnership basis differences	**42,951**	42,932
Regulatory assets - other	**28,079**	20,925
Property taxes	**13,997**	15,113
Total deferred tax liabilities	**1,126,669**	968,080
Net deferred income tax liability	**647,633**	590,963
Investment tax credit	**5,635**	6,546
Net deferred income tax liability and investment tax credit	**653,268**	597,509
Current portion of net deferred income tax asset	**5,575**	11,682
Non-current deferred income tax liability	**$ 658,843**	$ 609,191

[1] There were no valuation allowances for deferred tax assets at March 31, 2012 or March 31, 2011.

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

As of March 31, 2012 and March 31, 2011, the Company's current federal income tax balances payable to its parent are $48.4 million and $58.6 million, respectively.

The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2012 and March 31, 2011, the Company's unrecognized tax benefits totaled $103.4 million and $103.6 million, respectively, of which $16.8 million and $19.1 million, respectively, would impact the effective tax rate, if recognized. The unrecognized tax benefits are included in accounts payable to affiliates in the accompanying consolidated balance sheets.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 103,584**	$ 117,101
Changes based on tax positions related to prior year	**(1,140)**	3,181
Additions based on tax positions related to current year	**923**	13,512
Settlements with tax authorities	**-**	(30,210)
Balance at the end of the year	**$ 103,367**	$ 103,584

As of March 31, 2012 and March 31, 2011, the Company has accrued for interest related to unrecognized tax benefits of $9.5 million and $6.1 million, respectively. During fiscal years ended March 31, 2012 and March 31, 2011, the Company recorded an interest expense of $3.5 million and an interest benefit of $11.7 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in non-operating expenses. No penalties were recognized during the years ended March 31, 2012 and March 31, 2011.

It is reasonably possible that other events will occur during the next 12 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.

In September 2011, the IRS commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and National Grid Holding Inc. and subsidiaries for the fiscal years ended March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2012 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 years ended August 24, 2007 and March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2012 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, 2000 through March 31, 2010. New York State has disallowed the claims during audit, and also denied them on appeal to the New York Tax Tribunal. The Company is in the process of evaluating its options for further appeal.

Note 8. Debt

Notes Payable

In November 2006, the Company issued $400 million of Senior Unsecured Notes at 5.60% due November 29, 2016. Interest is payable on a semi-annual basis each May and November.

Gas Facilities Revenue Bonds

The Company issued tax-exempt bonds through the New York State Energy Research and Development Authority. There are no sinking fund requirements for any of the Company's Gas Facilities Revenue Bonds ("GFRB"). At March 31, 2012 and March 31, 2011, $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 April 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.21% to 2.17% during the year ended March 31, 2012 and 0.46% to 2.43% during the year ended March 31, 2011. The bonds are currently in the auction rate mode and are backed by bond insurance. These bonds can not 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 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.

The aggregate maturities of long-term debt for the five years subsequent to March 31, 2012 are as follows:

(in thousands of dollars) Years Ended March 31,	
2013	$ -
2014	-
2015	-
2016	-
2017	400,000
Thereafter	640,500
Total	$ 1,040,500

Note 9. Commitments and Contingencies

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas commodity, provide gas storage capability, and transport gas commodity on interstate gas pipelines as well as has several types of long-term contracts for the purchase of gas. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, Company has various capital commitments related to the construction of plant, property and equipment.

The table below sets forth the Company's estimated commitments for years subsequent to March 31, 2012 as follows:

(in thousands of dollars) Years Ended March 31,	Gas	Plant, Property and Equipment
2013	$ 255,252	$ 13,014
2014	119,806	64
2015	105,587	-
2016	99,018	-
2017	52,376	-
Thereafter	21,939	-
Total	$ 653,978	$ 13,078

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 to the affiliated entities that benefit from its use by the service company. The gross rental expense for the leasehold was approximately $11.8 million for both the years ended March 31, 2012 and March 31, 2011. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statement of income was approximately $4.7 million and $4.3 million for the years ended March 31, 2012 and March 31, 2011, respectively.

The future minimum lease payments for the years subsequent to March 31, 2012 are as follows:

(in thousands of dollars) Years Ended March 31,		
2013	$	11,834
2014		11,834
2015		11,834
2016		11,834
2017		11,834
Thereafter		93,683
Total	$	152,853

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. Except as described below, 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 condition, or cash flows.

Environmental Matters - Manufactured Gas Plant Sites

Upon acquisition 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 discount rate utilized is 6.5% and the total undiscounted reserve at March 31, 2012 was $590 million. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with ASC 410-30.

We have identified numerous MGP sites and related facilities that were owned or operated by us or our predecessors. These former sites, some of which are no longer owned by us, have been identified to the NYPSC and the New York State DEC for inclusion on appropriate site inventories. ACOs or VCAs have been executed with the DEC to address the investigation and remediation activities associated with certain sites. During the year ended March 31, 2012, the Company received new information concerning the proposed remediation plans for a site in downstate New York which resulted in the Company increasing its environmental reserve by approximately $107 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

Several plaintiffs in a single lawsuit alleged damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Staten Island, New York. The litigation was settled in July 2011. KeySpan continues to conduct remediation activities at this location pursuant to an Order on Consent with the DEC.

The Company presently estimates the remaining cost of our environmental remediation activities will be $482.2 million at March 31, 2012. However, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. Expenditures incurred for the years ended March 31, 2012 and March 31, 2011 were $17.9 million and $17.0 million, respectively.

With respect to remediation costs, the Company's rate plan provides for the recovery and deferral of investigation and remediation cost. A net regulatory asset of $693.3 million and $578.3 million for MGP sites is reflected as of March 31, 2012 and March 31, 2011, respectively.

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. These obligations have remained substantially unchanged from March 31, 2011, except for normal accretion adjustments and costs incurred. Generally, our largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Balance at beginning of year	**$ 10,247**	$ 9,667
Accretion expense	**615**	580
Balance at end of year	**$ 10,862**	$ 10,247

Note 10. Related Party Transactions

Intercompany Money Pool

The Company is engaged in various transactions with KeySpan, NGUSA and certain affiliates. Generally, the subsidiaries of KeySpan do not maintain separate cash balances. Financing for the Company's working capital and gas inventory needs are obtained through participation in the KeySpan money pool for regulated entities. The Company is limited in its participation in the money pool as it is only authorized to borrow funds as needed. The Company's subsidiary, NETCO, does not have this restriction and is allowed to borrow and lend funds into the money pool. Borrowings from the money pool bear interest in accordance with the money pool agreement.

The money pool is funded by operating funds from money pool 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 money pool, if necessary. The Company had a short-term money pool receivable of $39.6 million and $31.6 million at March 31, 2012 and March 31, 2011, respectively. The average interest rate for the money pool was 1.23% and 1.20% for the years ended March 31, 2012 and March 31, 2011, respectively.

Accounts Receivable from/to Affiliates

NGUSA and its affiliates also provide various services to the Company, including executive and administrative, 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 the Company via intercompany billings and generally settled through the money pool on a monthly basis. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or refund from NGHI.

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. In 2011, intercompany and affiliate balances were reported net. In the current year, the company adopted a policy of gross settlement and the presentation has changed accordingly. At March 31, 2012 and March 31, 2011, the Company had accounts receivable from affiliates and accounts payable to affiliates as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2012	2011	**2012**	2011
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ -**	$ -	**$ 122,569**	$ 171,259
KeySpan Corporate Services	**-**	-	**86,513**	84,788
KeySpan Utility Services	**-**	-	**19,722**	20,396
KeySpan Gas East Corp	**12,671**	-	**-**	(9,672)
Other affiliates, net	**1,257**	-	**4,333**	8,688
Total	**$ 13,928**	$ -	**$ 233,137**	$ 275,459

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 typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, all other costs are allocated based on a general allocator.

The Company's service company charges for the years ended March 31, 2012 and March 31, 2011 include operating and capital expenditures as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Operating expenses	**$ 179,227**	$ 187,689
Capital expenditures	**24,771**	25,581
	$ 203,998	$ 213,270

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these consolidated financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $5 million and $4.5 million before taxes, and $3.2 million and $3 million after taxes, for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 11. Dividends

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, 2012 and March 31, 2011, the Company was in compliance with the utility capital structure required by the NYPSC. In June 2011, the Company paid dividends in the amount of $220 million to KeySpan.

KeySpan Gas East Corporation
d/b/a
National Grid

Financial Statements

For the years ended March 31, 2012 and March 31, 2011

KEYSPAN GAS EAST CORPORATION

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Report of Independent Auditors

To the Stockholder and Board of Directors of
KeySpan Gas East Corporation:

In our opinion, the accompanying balance sheets and the related statements of income, shareholder's equity and comprehensive income, capitalization and cash flows present fairly, in all material respects, the financial position of KeySpan Gas East Corporation (the "Company") at March 31, 2012 and March 31, 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 4, 2012

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

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

	March 31, 2012	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,623**	$ 25
Accounts receivable	**191,976**	303,148
Allowance for doubtful accounts	**(22,007)**	(22,988)
Accounts receivable from affiliates	**1,157**	-
Unbilled revenue	**52,334**	68,986
Gas in storage, at average cost	**73,435**	43,278
Materials and supplies, at average cost	**5,780**	6,486
Regulatory assets	**50,161**	55,131
Derivative contracts	**15,769**	12,670
Prepaid and other current assets	**15,515**	29,574
Total current assets	**389,743**	496,310
Property, plant and equipment, net	**2,262,803**	2,184,911
Deferred charges and other assets:		
Goodwill	**1,018,407**	1,018,407
Regulatory assets	**765,683**	694,559
Derivative contracts	**39,010**	37,173
Other deferred charges	**4,925**	4,328
Total deferred charges and other assets	**1,828,025**	1,754,467
Total assets	**$ 4,480,571**	$ 4,435,688

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

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

	March 31, 2012	March 31, 2011
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 37,918**	$ 42,391
Accounts payable to affiliates	**107,646**	167,263
Intercompany money pool	**79,566**	228,148
Customer deposits	**10,148**	9,195
Interest accrued	**25,452**	8,562
Taxes accrued	**35,099**	17,861
Regulatory liabilities	**28,069**	36,104
Current portion of deferred income tax liabilities	**18,819**	16,297
Derivative contracts	**16,984**	14,909
Other current liabilities	**14,814**	8,853
Total current liabilities	**374,515**	549,583
Deferred credits and other liabilities:		
Regulatory liabilities	**365,910**	326,199
Asset retirement obligations	**12,529**	11,820
Deferred income tax liabilities	**562,003**	487,079
Postretirement benefits and other reserves	**242,900**	200,965
Environmental remediation costs	**142,516**	162,026
Derivative contracts	**11,057**	23,392
Other deferred liabilities	**8,221**	3,268
Total deferred credits and other liabilities	**1,345,136**	1,214,749
Capitalization:		
Shareholders' equity	**2,160,920**	2,071,356
Long-term debt	**600,000**	600,000
Total capitalization	**2,760,920**	2,671,356
Total liabilities and capitalization	**$ 4,480,571**	$ 4,435,688

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

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

	Years Ended March 31, 2012	2011
Operating revenues	**$ 997,214**	$ 1,170,039
Operating expenses:		
Purchased Gas	**399,105**	579,308
Operations and maintenance	**208,424**	203,343
Depreciation and amortization	**55,979**	54,119
Amortization of regulatory assets and rate plan deferrals	**21,415**	16,895
Other taxes	**126,797**	120,245
Total operating expenses	**811,720**	973,910
Operating income	**185,494**	196,129
Other income and (deductions):		
Interest on long-term debt	**(34,943)**	(5,600)
Other interest, including affiliate interest	**(22,984)**	(29,398)
Other income, net	**23,603**	24,501
Total other deductions, net	**(34,324)**	(10,497)
Income before income taxes	**151,170**	185,632
Income tax expense:		
Current taxes	**(15,147)**	(26,640)
Deferred taxes	**76,753**	114,770
Total income tax expense	**61,606**	88,130
Net income	**$ 89,564**	$ 97,502

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, 2012	2011
Operating activities:		
Net income	**$ 89,564**	$ 97,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**55,979**	54,119
Amortization of regulatory assets and rate plan deferrals	**21,415**	16,895
Provision for deferred income tax	**76,753**	114,770
Bad debt expense	**10,758**	7,882
Regulatory deferrals	**(8,638)**	(10,755)
Amortization of debt discount	**167**	54
Net pension and other postretirement expenses	**10,940**	11,375
Environmental remediation payments	**(42,441)**	(41,219)
Changes in operating assets and liabilities:		
Accounts receivable, net	**113,297**	(24,751)
Materials and supplies and gas in storage	**(29,451)**	6,020
Accounts payable and accrued expenses	**15,315**	(36,092)
Prepaid and accrued taxes	**17,238**	3,742
Regulatory assets and liabilities, net	**270**	39,647
Other liabilities	**10,914**	2,064
Other, net	**13,127**	(10,849)
Net cash provided by operating activities	**355,207**	230,404
Investing activities:		
Capital expenditures	**(127,157)**	(132,650)
Derivative margin calls	**-**	(100)
Cost of removal	**(13,724)**	(15,050)
Net cash used in investing activities	**(140,881)**	(147,800)
Financing activities:		
Dividends paid to Parent	**-**	(320,000)
Proceeds from long-term debt issuance	**-**	500,000
Repayment of long-term debt	**-**	(125,904)
Affiliates money pool borrowing and other	**(208,728)**	(136,700)
Net cash used in financing activities	**(208,728)**	(82,604)
Net increase in cash and cash equivalents	**5,598**	-
Cash and cash equivalents, beginning of year	**25**	25
Cash and cash equivalents, end of year	**$ 5,623**	$ 25
Supplemental disclosures:		
Interest paid	**$ 20,230**	$ 7,615
Income taxes (refunded) paid	**(13,317)**	29,855
Significant non-cash item:		
Capital-related accruals included in accounts payable	**601**	711

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
BALANCE AS OF MARCH 31, 2010	100	$ -	-	$ -	$ 2,014,878	$ 278,976	$ 2,293,854
Net income						97,502	97,502
Dividend paid to Parent	-	-	-	-	-	(320,000)	(320,000)
BALANCE AS OF MARCH 31, 2011	100	$ -	-	$ -	$ 2,014,878	$ 56,478	$ 2,071,356
Net income						89,564	89,564
Issuance of preferred stock	-	-	1	-	-	-	-
BALANCE AS OF MARCH 31, 2012	100	$ -	1	$ -	$ 2,014,878	$ 146,042	$ 2,160,920

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

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

			March 31,	
			2012	2011
Total shareholders' equity			**$ 2,160,920**	$ 2,071,356
Long-term debt:	Interest Rate	Maturity Date		
Senior unsecured note	5.82%	April 1, 2041	**500,000**	500,000
Senior unsecured note	5.60%	November 29, 2016	**100,000**	100,000
Total long-term debt			**600,000**	600,000
Total capitalization			**$ 2,760,920**	$ 2,671,356

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

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

KeySpan Gas East Corporation d/b/a National Grid (the "Company", "we", "us", and "our") provides gas distribution services to approximately 486,000 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"). KeySpan 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 an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through July 4, 2012, the date of filing, and concluded that there were no events or transactions that require disclosure in the notes to the financial statements.

B. Basis of Presentation

The financial statements for the years ended March 31, 2012 and March 31, 2011 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the accounting principles for rate-regulated entities, and the accounting requirements and ratemaking practices of the applicable regulatory authorities.

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

C. Regulatory Accounting

The New York State Public Service Commission ("NYPSC") provides the final determination of the rates the Company charges its retail customers. In certain cases, the actions of the NYPSC to determine the rates the Company charges its customers result in an accounting treatment different from that used by non-regulated companies. In this case, the Company is required to defer costs (regulatory assets) or to recognize obligations (regulatory liabilities) if it is probable that, these amounts will be recovered or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge (credit) against income for any remaining regulatory assets (liabilities). The impact could be material to the Company's reported financial condition and results of operations. For the purposes of presentation in the statement of cash flows, it is assumed that all amounts that are settled through the money pool are constructive cash receipts and payments, and therefore are recorded as such in the cash flow statement.

D. Revenue Recognition

Customers are generally billed on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a cost of gas adjustment factor ("CGAF") included in the utility tariff. The CGAF provision requires an annual reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending subsequent recovery from or refund to firm 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.

The Revenue Decoupling Adjustment Factor ("RDAF") requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without any financial detriment to the Company resulting from reductions in gas usage.

Annual revenues are principally realized during the heating season (November through April) as a result of the large proportion of heating sales in these months. Accordingly, results of operations are most favorable in the first calendar quarter of the Company's fiscal year, followed by the fourth calendar quarter. Operating losses are generally incurred in the second and third calendar quarters.

The Company's revenue from the sale and delivery of gas for the years ended March 31, 2012 and March 31, 2011 is as follows:

	March 31,	
	2012	2011
Residential	**64%**	62%
Commercial	**19%**	21%
Gas transportation and other services	**17%**	17%

E. Property, Plant and Equipment

Property, plant and equipment are stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally 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. Whenever property, plant and equipment are retired, the original cost, less salvage, is charged to accumulated depreciation.

The composite rates and weighted-average life for the years ended March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
Composite rates	**2.0%**	2.0%
Weighted-average life	**50 years**	50 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to its customers. At March 31, 2012 and March 31, 2011, the Company had cumulative costs recovered in excess of costs incurred totaling $36.8 million and $44.9 million, respectively. This amount is reflected as regulatory liabilities in the accompanying balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income and deductions for the equity component and other interest expense for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2012 and March 31, 2011 are as follows:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Debt	**$ 142**	$ 312
Equity	**1,121**	1,182
	$ 1,263	$ 1,494
Composite AFUDC rate	**8.2%**	8.5%

F. Goodwill

Goodwill represents the excess of the purchase price of a business combination over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the business is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the business in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2012 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, 2012 to March 31, 2017; (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 US 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 include the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 9.0x, which we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as we believe that each methodology provides equally valuable information. Based on the results of the Company's January 31, 2012 analysis, fair value exceeded carrying value by approximately $161 million or 5%, and as such, no impairment of goodwill was indicated. Either (1) a decrease in the forecasted cash flows of 10%, (2) an increase in the discount rate of 50 basis points, (3) a decrease in the terminal growth rate of 100 basis points, or (4) a decrease in the EBITDA multiple by 1.0x would not have resulted in the carrying value exceeding the fair value. The failure of the Company to achieve forecasted operating results and cash flows or a decline in the market multiple, discount rate or terminal growth rate may further reduce its estimated fair value below its carrying value, which would likely result in recognition of a goodwill impairment charge.

G. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. Cash and short-term investments are carried at cost which approximates fair value.

H. Gas in storage and materials and supplies

Gas in storage is stated at cost, determined on an average weighted cost basis, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to the rate payers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to the rate payers are subject to periodic regulatory approvals and are reported periodically to the NYPSC.

Materials and supplies are stated at the lower of cost or market, with cost being determined on an average weighted cost basis, and are expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete inventory. For the years ended March 31, 2012 and March 31, 2011 these write offs were not material.

I. Income and Other Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid Holdings Inc. files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return method. As a member, the Company settles its current tax liability or benefit each year with Holdings pursuant to a tax sharing arrangement between Holdings and its members. Benefits allocated by the Parent Company are treated as capital contributions.

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

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 Company's state tax based on capital is in excess of state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects certain taxes from customers such as sales taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the distribution of gas. Where these taxes, such as sales taxes, are imposed on the customer, the Company accounts for these taxes on a net basis (excluded from revenues) with no impact to our statements of income. Where these taxes, such as gross receipts taxes, excise taxes or other surcharges or fees are imposed on the Company, the Company accounts for these taxes on a gross basis.

Other taxes in the accompanying statements of income primarily include excise tax, property tax and payroll tax. Gas distribution revenues include the collection of excise taxes, while other taxes include the related expense. Excise taxes collected and paid for the years ended March 31, 2012 and March 31, 2011 were $12 million and $12.5 million, respectively.

J. Employee Benefits

The Company follows the provisions of the Financial Accounting Standards Board ("FASB") accounting guidance related to the accounting for defined benefit pension and postretirement plans for recording pension expenses and resulting plan asset and liability balances. The guidance also requires employers to fully recognize all postretirement plans' funded status on the balance sheets as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated enterprises, this offsetting entry is recorded as a regulatory asset or liability when the balance is required to be refunded to or recovered from customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. As required by the guidance, the Company values its pension and postretirement benefits other than pensions ("PBOP") assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

K. Derivatives

We use derivative instruments to economically hedge a portion of our exposure to commodity price risk. Whenever hedge positions are in effect, we are exposed to credit risks in the event of non-performance by counterparties to derivative contracts, as well as non-performance by the counterparties of the transactions against which they are hedged.

Commodity Derivative Instruments – Regulated Accounting

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

Certain contracts for the physical purchase of natural gas qualify for normal purchase normal sales exception from the requirements of current accounting guidance for derivative instruments, which we elect. Therefore, no recognition of these contracts is made until the underlying physical commodity is purchased. If we were to determine that a contract which we elected the normal purchase normal sale exception for no longer qualifies, we would recognize the fair value of the contract and apply the regulatory accounting described above.

L. Fair Value Measurements

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

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

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; 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. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

M. Recent Accounting Pronouncements

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Otherwise, the entity is required to perform the two-step impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the amendments in this update, entities will be required to disclose both gross information and net information about both 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. This scope would include items such as derivatives. This guidance is effective for fiscal years, and interim periods within that year, beginning after January 1, 2013, and is to be applied retrospectively. As this guidance relates to disclosure only, the adoption of this guidance will not have an impact on the Company's financial position, results of operations or cash flows.

Fair Value Measurements

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

N. Reclassifications

Certain reclassifications have been made to the financial statements to confirm prior period’s data to the current period’s presentation. The Company reclassified $7 million of regulatory liabilities related to gas costs adjustments from accounts receivable to current regulatory liabilities as of March 31, 2011. These reclassifications had no effect on the Company’s results of operations and cash flows.

Note 2. Rate and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Environmental costs	**$ 3,101**	$ 2,737
Postretirement benefits	**17,515**	26,173
Derivative contracts	**16,984**	14,909
Cost to achieve	**3,879**	3,879
PSC assessment	**3,280**	6,056
Gas costs adjustment	**2,067**	-
Other	**3,335**	1,377
Total	**50,161**	55,131
Non-current:		
Regulatory deferred tax assets	**9,573**	7,407
Property taxes	**36,640**	26,299
Environmental costs	**522,206**	483,437
Postretirement benefits	**160,661**	133,517
Derivative contracts	**11,057**	23,392
Asset retirement obligation	**11,799**	11,799
Other	**13,747**	8,708
Total	**765,683**	694,559
Regulatory liabilities:		
Current:		
Property taxes	**9,300**	12,400
Derivative contracts	**15,769**	12,670
Gas costs adjustment	**-**	7,034
Transition balancing accounts	**3,000**	4,000
Total	**28,069**	36,104
Non-current:		
Environmental costs	**62,513**	59,509
Postretirement benefits	**40,101**	35,688
Property taxes	**30,531**	35,943
Delivery rate adjustment	**77,362**	44,886
Derivative contracts	**39,010**	37,173
Removal costs recovered	**36,799**	44,901
Excess earnings	**24,309**	23,549
Transition balancing accounts	**36,301**	36,301
Other	**18,984**	8,249
Total	**365,910**	326,199
Total regulatory assets	**$ 421,865**	$ 387,387

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue billed. The Company records carrying charges, on the regulatory balance related to property tax, environmental costs, cost to achieve, delivery rate adjustments, and excess earning for which cash expenditures have been made and are subject to recovery or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

The following table presents the carrying charges that were recognized in the accompanying statement of income during the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ (15,203)**	$ (12,034)
Other income, net	**24,118**	24,206
	$ 8,915	$ 12,172

Rate Matters

In June 2009, the Company made a 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 revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In a second compliance filing in June 2010, the Company increased its Temporary State Assessment surcharge to $26.6 million for the period from July 1, 2010 through June 30, 2011. On June 15, 2011, the Company submitted a compliance filing in which it proposed to maintain the surcharge for the July 1, 2011 through June 30, 2012 recovery period. At March 31, 2012, $3.3 million was deferred pending recovery; $6.1 million was recorded at March 31, 2011.

The Company is currently subject to a five-year rate plan through December 2012. Base delivery rates were increased by $60 million in January 2008 and are based on an allowed return on equity of 9.8%. A $10 million annual surcharge for the recovery of regulatory assets ("Delivery Rate Surcharge") was implemented in January 2009. The Delivery Rate Surcharge increases each year by $10 million, resulting in an aggregate recovery of approximately $100 million over the five-year term of the rate plan. Revenues collected from the Delivery Rate Surcharge will be deferred and used to offset future increases in rates for costs such as site investigation and remediation ("SIR") or other cost deferrals. An earnings sharing mechanism in the rate plan is triggered if cumulative annual earnings result in a return on equity that exceeds 10.5%. Earnings above this threshold are shared with customers on a tiered basis. For rate year ended December 2011 and 2010, the Company recorded excess earnings of $0 million and $0.9 million, respectively.

In January 2010, the Company filed the status of its regulatory deferrals so that the NYPSC could determine if the Company should adjust its 2011 revenue levels under the existing rate plan so as to minimize outstanding deferral balances. The Company proposed an increase to 2009 revenues of 2.7% through an existing surcharge, to take effect January 1, 2011, subject to NYPSC approval. The Company is proposing to recover $33.4 million of regulatory assets, which is comprised of an annual amortization of deferral balances on the balance sheet at December 31, 2009 of $27.2 million, and a half year annual amortization of the 2010 forecasted deferral balances of $6.2 million. The discovery phase of the proceeding remains ongoing at the NYPSC and a completion date cannot be predicted at this time.

Other Regulatory Matters

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. If potentially material levels of misallocated or inappropriate service company costs are discovered, at the direction of the NYPSC, the investigation will be expanded to prior years to determine if a material amount of misallocated or inappropriate costs under these service company contracts have been charged to the New York utilities. A report of this review to the NYPSC is anticipated in Spring 2012. At the present time we are not aware of any material misallocation of costs among our affiliates and we do not expect the audit to result in any material adjustment to our financial statements.

In February 2011, the NYPSC instituted a proceeding to review its policies regarding the funding mechanisms supporting utility SIR expenditures and directing the New York State's utilities to assist in developing a comprehensive record of: (1) the current and future scope of utility SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of SIR costs among customers and potentially shareholders; and (4) methods for recovering SIR costs appropriately borne by customers in a way that minimizes the impact on the customer. In accordance with the NYPSC's order the Administrative Law Judge issued a Recommended Decision on November 3, 2011. The NYPSC has not yet ruled on these recommendations.

In its September 12, 2007, "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 in Case 06-M-0878, the NYPSC authorized the merger of KeySpan Corporation and National Grid subject to the adoption of various financial and other conditions. One of the conditions was the requirement that the Company issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock, the holder of which would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of such share of stock. 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.

In August 2010, the Company filed a petition with the NYPSC seeking multi-year authority to issue, prior to March 31, 2014, up to $1.1 billion in new long-term debt securities (revised to $1.0 billion in February 2011). In March 2011, the NYPSC granted this authority and the Company issued $500 million in long term debt as discussed in Note 8 "Debt".

On December 22, 2009, the NYPSC adopted the terms of a Joint Proposal between Staff of the Department of Public Service and the Company that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1, 2010. The RDM applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The RDM is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the link between sales and revenues. The Company had deferred payable balances related to the RDM in the amount of $0.1 million at March 31, 2012 and $1.9 million at March 31, 2011. These payable balances are fully refundable to the affected customer class.

Note 3. Employee Benefits

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plan") and a PBOP Plan (together with the Pension Plan (the "Plan")) – Retirement Income Plan of KeySpan Corporation, National Grid USA Companies' Executive SERP (Verion III-KeySpan) (ESRP), Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., Retirement Income Restoration Plan (former Lilco Plan), Supplemental Death and Retirement Plan (former Lilco Plan), KeySpan Benefit Plan for Retired (East) Union Employees and KeySpan Benefit Plan for Retired (East) Management Employees, covering substantially all employees. The Pension Plan provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit. Supplemental nonqualified, 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.

The Plan's assets are commingled and cannot be allocated to an individual company. The Plan costs are first directly charged to the Company based on the Company's employees that participate in the Plan. 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 Plan 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 expenses in the accompanying statements of operations. The Company is subject to certain deferral accounting requirements mandated by the NYPSC for pension and PBOP costs. Any variation between actual costs and amounts used to establish rates is deferred as a regulatory asset or a regulatory liability and collected from or refunded to customers in subsequent periods. KeySpan's unfunded obligations at March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Pension	**$ 929,794**	$ 643,947
PBOP	**1,267,919**	1,109,637
	$ 2,197,713	$ 1,753,584

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, 2012 and March 31, 2011 are as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Pension	**$ 11,329**	$ 10,311
PBOP	**15,297**	12,964
	$ 26,626	$ 23,275

During the years ended March 31, 2012 and March 31, 2011, the Company made contributions of approximately $19.1 million and $18.6 million to the Plan.

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. Employer matching contributions of approximately $0.3 million and $0.2 million were expensed for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 4. Property, Plant and Equipment

At March 31, 2012 and March 31, 2011, property, plant and equipment at cost and accumulated depreciation and amortization are as follows:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Plant and machinery	**$ 2,737,187**	$ 2,615,346
Land and buildings	**55,824**	55,922
Assets in construction	**23,561**	32,089
Software and other intangibles	**24,149**	24,149
Total	**2,840,721**	2,727,506
Accumulated depreciation and amortization	**(577,918)**	(542,595)
Property, plant and equipment, net	**$ 2,262,803**	$ 2,184,911

Note 5. Derivative Contracts

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

Commodity Derivative Instruments - Regulated Accounting

We use derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases associated with the Company's gas service territory. Our strategy is to minimize fluctuations in gas sales prices to our regulated firm gas sales customers. The accounting for these derivative instruments is subject to current guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the accompanying balance sheets. 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 following are commodity volumes in dekatherms ("dths") associated with the above derivative contracts:

		March 31, 2012	March 31, 2011
		(in thousands)	
Physical Contracts:	Gas purchase	**44,428**	24,209
Financial Contracts:	Gas swaps	**7,273**	11,367
	Gas options	**2,450**	3,760
Total		**54,151**	39,336

The following table presents the Company's derivative assets and liabilities that are included in the accompanying balance sheets for above contracts:

	Asset Derivatives March 31, 2012	Asset Derivatives March 31, 2011		Liability Derivatives March 31, 2012	Liability Derivatives March 31, 2011
	(in thousands of dollars)			(in thousands of dollars)	
Current assets:			Current liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	**$ 14,327**	$ 12,396	Gas purchase contracts	**$ 9,969**	$ 10,710
Gas swap contracts	**1,437**	174	Gas swap contracts	**6,063**	4,137
Gas option contracts	**5**	100	Gas option contracts	**952**	62
	15,769	12,670		**16,984**	14,909
Deferred charges and other assets:			Deferred credits and other liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	**39,010**	37,118	Gas purchase contracts	**11,057**	23,130
Gas swap contracts	**-**	48	Gas swap contracts	**-**	247
Gas option contracts	**-**	7	Gas option contracts	**-**	15
	39,010	37,173		**11,057**	23,392
Total	**$ 54,779**	$ 49,843	Total	**$ 28,041**	$ 38,301

The change in fair value of the regulated contracts is offset by the change in regulatory assets and liabilities. As a result, the changes in fair value of derivative contracts and their offsetting regulatory assets and liabilities had no impact to the accompanying statements of income.

The following table presents the impact the change in the fair value of the Company's derivative contracts had on the accompanying balance sheets and statements of operations for the years ended:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (12,814)**	$ 13,673
Gas swap contracts	**1,679**	(12,607)
Gas option contracts	**875**	77
	(10,260)	1,143
Regulatory liabilities:		
Gas purchase contracts	**3,823**	(16,403)
Gas swap contracts	**1,215**	213
Gas option contracts	**(102)**	107
	4,936	(16,083)
Total decrease in net regulatory assets (liabilities)	**$ (15,196)**	$ 17,226

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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. At March 31, 2012 and March 31, 2011, the Company did not post any collateral to its counterparties associated with outstanding derivative contracts.

In addition, certain of the Company's derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below a certain level, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 and March 31, 2011 was $7.0 million and $4.2 million, respectively. The Company had no collateral posted for these instruments at March 31, 2012 and March 31, 2011, respectively. If the Company's credit rating were to be downgraded by one notch, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $7.2 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following 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, 2012 and March 31, 2011:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts	$ -	$ 1,443	$ 53,336	$ 54,779
Liabilities:				
Derivative contracts	-	6,063	21,978	28,041
Net (liabilities) assets	$ -	$ (4,620)	$ 31,358	$ 26,738

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts	$ -	$ 222	$ 49,621	$ 49,843
Liabilities:				
Derivative contracts	-	4,384	33,917	38,301
Net (liabilities) assets	$ -	$ (4,162)	$ 15,704	$ 11,542

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

The Company's Level 2 fair value derivative instruments primarily consist of OTC gas swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from the NYMEX and Intercontinental Exchange ("ICE"), except cases in which ICE publishes seasonal averages or there were no transactions within last seven days. During periods prior to March 31, 2011, Level 2 pricing inputs were obtained from NYMEX and Platts M2M (industry standard, non-exchange-based editorial commodity forward curves) when it can be verified by available market data from ICE based on transactions within last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curves that may include liquidity reserve calculated based on bid/ask spread.

Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. Industry-standard valuation techniques, such as Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. Level 3 is also applied in cases when forward curve is internally developed, extrapolated or derived from market observable curve with correlation coefficients less than 0.95, or optionality is present, or non-economical assumptions are made. The internally developed forward curves have a high level of correlation with Platts M2M curves.

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Beginning balance	**$ 15,704**	$ 45,774
Transfers out of Level 3	**38**	-
Total gains or losses included in regulatory assets and liabilities	**31,194**	(29,803)
Purchases	**(5,297)**	(267)
Settlements	**(10,281)**	-
Ending balance	**$ 31,358**	$ 15,704
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to regulatory assets and liabilities at year end	**$ -**	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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, 2012 and March 31, 2011.

Other Fair Value Measurement

Long-term debt is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The Company's balance sheets reflect the long-term debt at amortized cost. The fair value of this debt at March 31, 2012 and March 31, 2011 was $712.7 million and $611.6 million, respectively.

All other financial instruments on the consolidated balance sheets such as money pool balances, accounts receivable and accounts payable are stated at costs which approximate fair value.

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (33,523)**	$ (30,339)
State	**18,376**	3,699
Total current tax expense (benefit)	**(15,147)**	(26,640)
Deferred tax expense (benefit):		
Federal	**81,114**	92,566
State	**(4,361)**	22,204
Total deferred tax expense	**76,753**	114,770
Total income tax expense	**$ 61,606**	$ 88,130

Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2012 and March 31, 2011 is as follows:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Computed tax	**$ 52,910**	$ 64,972
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**9,110**	16,838
Allowance for equity funds used during construction	**(355)**	(376)
Audit and related reserve adjustments	**-**	6,606
Provision to return adjustment	**(216)**	(9)
Other items, net	**157**	99
Total	**8,696**	23,158
Federal and state income taxes	**$ 61,606**	$ 88,130

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Deferred tax assets:		
Environmental reserve	**$ 61,900**	$ 70,386
Pensions, PBOP and other employee benefits	**134,425**	114,019
Regulatory liabilities - other	**83,463**	66,917
Future federal benefit on state taxes	**38,582**	40,650
Other items	**30,656**	23,908
Total deferred tax assets[1]	**349,026**	315,880
Deferred tax liabilities:		
Property related differences	**595,103**	515,173
Regulatory assets - environmental	**212,638**	195,575
Regulatory assets - Pensions and PBOP	**61,485**	57,745
Regulatory assets - other	**35,162**	26,005
Property taxes	**25,460**	24,758
Total deferred tax liabilities	**929,848**	819,256
Net deferred income tax liability and investment tax credit	**580,822**	503,376
Current portion of net deferred income tax asset	**18,819**	(16,297)
Non-current deferred income tax liability	**$ 562,003**	$ 487,079

[1]There were no valuation allowances for deferred tax assets at March 31, 2012 and March 31, 2011.

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

As of March 31, 2012 and March 31, 2011, the Company's current federal income tax balances payable to its Parent are $2.6 million, and $20.9 million, respectively.

The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2012 and March 31, 2011, the Company’s unrecognized tax benefits totaled $92.6 million and $118.3 million, respectively, of which $10.3 million and $28.3 million, respectively, would impact the effective tax rate, if recognized. The unrecognized tax benefits are included in accounts payable to affiliate in the accompanying balance sheets.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 118,334**	$ 133,403
Changes based on tax positions related to the prior years	**(27,376)**	13,277
Additions based on tax positions related to current year	**1,660**	15,175
Settlements with tax authorities	**-**	(43,521)
Balance at the end of the year	**$ 92,618**	$ 118,334

As of March 31, 2012 and March 31, 2011, the Company has accrued for interest related to unrecognized tax benefits of $8.5 million and $6.0 million, respectively. During the years ended March 31, 2012 and March 31, 2011, the Company recorded interest expense of $2.5 million and interest benefits of $1.7 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in non-operating expenses. No penalties were recognized during the years ended March 31, 2012 and March 31, 2011.

It is reasonably possible that other events will occur during the next 12 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.

In November 2010, Keyspan and its subsidiaries reached a settlement agreement with the Internal Revenue Service ("IRS") on outstanding tax matters for calendar tax years 2000 through 2006. The Company was a member of the KeySpan Companies' consolidated US federal income tax return for these years and was obligated to pay $39.7 million to KeySpan for its share of the settlement pursuant to the tax sharing agreement. In connection with the settlement, the Company incurred a $6.6 million charge to tax expense for differences between the amounts settled upon with the IRS compared to the tax positions previously accrued.

In September 2011, the IRS commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and National Grid Holdings Inc. and subsidiaries for the fiscal years ended March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2012 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 calendar years ended December 31, 2000 through December 31, 2006, and short years ended August 24, 2007 and March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2012 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, 2000 through March 31, 2010. New York State has disallowed the claims for December 31, 2000 through December 31, 2006 during audit, and also denied them on appeal to the New York Tax Tribunal. The company is in the process of evaluating its options for further appeal.

Note 8. Debt

Senior Unsecured Notes

In November 29, 2006, the Company issued $100 million of Senior Unsecured Notes at 5.6% due November 29, 2016. Interest is payable on a semi-annual basis each May and November. In addition, $500 million of Senior Unsecured Notes was issued in March 2011 at 5.82% and which is due April 1, 2041. Interest is payable on a semi-annual basis each April and October.

The aggregate maturities of long-term debt subsequent to March 31, 2012 are as follows:

(in thousands of dollars) Years Ended March 31,	
2013	$ -
2014	-
2015	-
2016	-
2017	100,000
Thereafter	500,000
Total	$ 600,000

Note 9. Commitments and Contingencies

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas commodity, provide gas storage capability, and transport gas commodity on interstate gas pipelines as well as has several types of long-term contracts for the purchase of gas. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, Company has various capital commitments related to the construction of plant, property and equipment.

The table below sets forth the Company's estimated commitments for years subsequent to March 31, 2012 as follows:

(in thousands of dollars) Years Ended March 31,	Gas	Property, Plant and Equipment
2013	$ 372,723	$ 4,425
2014	267,480	120
2015	245,275	-
2016	238,285	-
2017	211,721	-
Thereafter	988,020	-
Total	$ 2,323,504	$ 4,545

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. Except as described below, 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 condition or cash flows.

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.

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Bay Shore. KeySpan has been conducting site investigations and remediation at Bay Shore pursuant to an Administrative Order on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). KeySpan intends to contest each of the proceedings vigorously.

Environmental Matters - Manufactured Gas Plant Sites

Upon acquisition 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 discount rate utilized is 6.5% and the total undiscounted reserves at $164 million. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with ASC 410-30.

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 DEC for inclusion on appropriate site inventories. ACOs or Voluntary Cleanup Agreements ("VCA") have been executed with the DEC to address the investigation and remediation activities associated with certain sites.

The Company presently estimates the remaining cost of our environmental remediation activities to be $142.5 million at March 31, 2012. However, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. Expenditures incurred for the years ended March 31, 2012 and March 31, 2011 were $30 million and $47.9 million, respectively.

With respect to remediation costs, the Company's rate plan provides for the recovery of investigation and remediation cost. A net regulatory asset of $462.8 million and $426.7 for MGP sites is reflected as of March 31, 2012 and March 31, 2011, respectively.

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. These obligations have remained substantially unchanged from March 31, 2011, except for normal accretion adjustments and costs incurred. Generally, our largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Balance as of beginning of year	**$ 11,820**	$ 12,220
Accretion expense	**709**	733
Liabilities settled	-	(1,133)
Balance as of end of year	**$ 12,529**	$ 11,820

Note 10. Related Party Transactions

Intercompany Money Pool

The Company is engaged in various transactions with KeySpan, NGUSA and certain affiliates. Generally, the subsidiaries of KeySpan do not maintain separate cash balances. Financing for the Company's working capital and gas inventory needs are obtained through participation in the KeySpan money pool for regulated entities. The Company is limited in its participation in the money pool as it is only authorized to borrow funds as needed. Borrowings from and investment in the money pool bear interest in accordance with the money pool agreement.

The money pool is funded by operating funds from money pool 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 money pool, if necessary. The Company had a short-term money pool payable of $79.6 million and $228.1 million at March 31, 2012 and March 31, 2011, respectively. The average interest rate for the money pool was 1.23% and 1.20% for the years ended March 31, 2012 and March 31, 2011, respectively.

Accounts Receivable from affiliates and Accounts Payable to Affiliates

NGUSA and its affiliates also provide various services to the Company, including executive and administrative, 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 the Company via intercompany billings and generally settled through the money pool on a monthly basis. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or refund from NGHI.

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 money pool. In 2011, intercompany and affiliate balances were reported net. In the current year, the company adopted a policy of gross settlement and the presentation has changed accordingly. At March 31, 2012 and March 31, 2011, the Company had accounts receivable from affiliates and accounts payable to affiliates as follows:

	Accounts Receivable from Affiliates	**Accounts Payable to Affiliates**	
	March 31,	**March 31,**	
	2012	**2012**	2011
	(in thousands of dollars)	*(in thousands of dollars)*	
KeySpan Corporation	**$ -**	**$ 21,590**	$ 81,189
KeySpan Corp Services	**-**	**56,135**	56,244
Brooklyn Union Gas Company	**-**	**12,671**	9,674
KeySpan Utility Services	**-**	**13,496**	14,500
NGUSA Service Company	**-**	**1,721**	4,420
Other affiliates	**1,157**	**2,033**	1,236
Total	**$ 1,157**	**$ 107,646**	$ 167,263

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally charged 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 typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, other costs are allocated based on a general allocator.

The Company's service company charges for the years ended March 31, 2012 and March 31, 2011 include operating and capital expenditures as follows:

	Years Ended March 31, 2012	Years Ended March 31, 2011
	(in thousands of dollars)	
Operating expenses	**$ 152,129**	$ 155,676
Capital expenditures	**17,554**	22,088
Total	**$ 169,683**	$ 177,764

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its 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 this subsidiary, the estimated effect on net income would be approximately \$2.8 million and \$3.3 million before taxes, and \$1.8 million and \$2.1 million after taxes, for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 11. Dividends

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, 2012 and March 31, 2011, the Company was in compliance with the utility capital structure required by the NYPSC.

nationalgrid

Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2012 and March 31, 2011

NIAGARA MOHAWK POWER CORPORATION

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Report of Independent Auditors

To the Shareholder and Board of Directors of
Niagara Mohawk Power Corporation:

In our opinion, the accompanying balance sheets and related statements of income, shareholders' equity and comprehensive income, capitalization and of cash flows present fairly, in all material respects, the financial position of Niagara Mohawk Power Corporation (the "Company") at March 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 29, 2012

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

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

	March 31, 2012	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,213**	$ 10,379
Restricted cash	**18,380**	-
Special deposits	**16,484**	19,096
Accounts receivable	**529,215**	659,759
Allowance for doubtful accounts	**(189,593)**	(216,182)
Accounts receivable from affiliates	**2,489**	-
Intercompany money pool	**97,596**	-
Unbilled revenues	**118,402**	180,038
Gas in storage, at average cost	**25,476**	6,072
Materials and supplies, at average cost	**33,602**	32,819
Derivative contracts	**1,364**	8,847
Regulatory assets	**265,220**	540,152
Current portion of deferred income tax assets	**104,301**	110,572
Prepaid taxes	**53,961**	59,944
Prepaid and other current assets	**60,632**	58,329
Total current assets	**1,139,742**	1,469,825
Equity investments	**5,245**	5,383
Property, plant, and equipment, net	**6,760,766**	6,488,940
Deferred charges and other assets:		
Regulatory assets	**1,150,894**	1,705,735
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**350**	99,209
Other deferred charges	**43,787**	57,845
Total deferred charges and other assets	**2,484,163**	3,151,921
Total assets	**$ 10,389,916**	$ 11,116,069

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

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

	March 31, 2012	March 31, 2011
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ 186,720	$ 216,332
Accounts payable to affiliates	32,707	30,718
Current portion of long-term debt	500,000	-
Taxes accrued	39,848	175,478
Customer deposits	38,476	36,808
Interest accrued	30,938	30,800
Payroll and benefits accruals	46,106	54,663
Regulatory liabilities	84,580	77,806
Intercompany money pool	-	165,804
Derivative contracts	43,581	31,215
Other current liabilities	37,442	37,958
Total current liabilities	1,040,398	857,582
Deferred credits and other liabilities:		
Regulatory liabilities	700,091	1,098,684
Asset retirement obligations	9,937	8,892
Deferred income tax liabilities	1,563,702	1,551,812
Postretirement benefits	363,535	475,680
Environmental remediation costs	461,130	448,752
Derivative contracts	2,672	1,293
Other deferred liabilities	413,989	507,781
Total deferred credits and other liabilities	3,515,056	4,092,894
Capitalization:		
Shareholder's equity	3,934,735	3,765,928
Long-term debt	1,899,727	1,899,665
Long-term debt to affiliates	-	500,000
Total capitalization	5,834,462	6,165,593
Total liabilities and capitalization	$ 10,389,916	$ 11,116,069

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

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

	Years Ended March 31, 2012	2011
Operating revenues:		
Gas distribution	**$ 654,623**	$ 749,111
Electric services	**2,916,767**	3,276,325
Total operating revenues	**3,571,390**	4,025,436
Operating expenses:		
Purchased gas	**277,264**	376,112
Purchased electricity	**838,992**	978,031
Operations and maintenance	**1,203,771**	1,229,020
Depreciation and amortization	**209,468**	231,468
Amortization of stranded costs and rate plan deferrals	**461,160**	660,131
Other taxes	**240,531**	234,713
Total operating expenses	**3,231,186**	3,709,475
Operating income	**340,204**	315,961
Other income and (deductions):		
Interest on long-term debt	**(66,804)**	(68,653)
Other interest, including affiliate interest	**(38,355)**	(51,551)
Other deductions, net	**(4,366)**	(1,794)
Total other deductions, net	**(109,525)**	(121,998)
Income before income taxes	**230,679**	193,963
Income taxes:		
Current	**77,832**	191,742
Deferred	**24,768**	(128,662)
Total income tax expense	**102,600**	63,080
Net income	**$ 128,079**	$ 130,883

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, 2012	2011
Operating activities:		
Net income	**$ 128,079**	$ 130,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**209,468**	231,468
Amortization of stranded costs and rate plan deferrals	**461,160**	660,131
Provision (benefit) for deferred income taxes	**24,768**	(128,662)
Bad debt expense	**36,996**	62,637
Loss from equity investments	**138**	112
Allowance for funds used during construction	**(6,356)**	(5,434)
Net prepayments and other amortizations	**2,497**	2,409
Pension and other postretirement expense	**154,321**	184,466
Pension contributions	**(285,655)**	(304,561)
Net environmental remediation payments	**(11,923)**	(35,220)
Changes in operating assets and liabilities:		
Accounts receivable, net	**138,976**	(92,616)
Materials, supplies, and gas in storage	**(20,187)**	7,337
Regulatory assets and liabilities, net	**138,393**	117,798
Accounts payable and accrued expenses	**(20,768)**	55,853
Other liabilities	**(83,441)**	(59,743)
Prepaid and accrued taxes	**(129,647)**	351,099
Due to affiliates, net	**(500)**	(85,426)
Other, net	**2,601**	(147)
Net cash provided by operating activities	**738,920**	1,092,384
Investing activities:		
Capital expenditures	**(464,365)**	(479,170)
Changes in intercompany money pool	**(97,596)**	98,596
Changes in restricted cash	**(18,380)**	-
Cost of removal	**(43,552)**	(49,088)
Other	**2,119**	23,297
Net cash used in investing activities	**(621,774)**	(406,365)
Financing activities:		
Dividends paid on common and preferred stock	**(1,060)**	(501,060)
Payments on long-term debt	**-**	(350,000)
Parent loss tax allocation	**41,552**	-
Changes in intercompany money pool	**(165,804)**	165,804
Net cash used in financing activities	**(125,312)**	(685,256)
Net increase in cash and cash equivalents	**(8,166)**	763
Cash and cash equivalents, beginning of year	**10,379**	9,616
Cash and cash equivalents, end of year	**$ 2,213**	$ 10,379
Supplemental disclosures:		
Interest paid	**$ 77,180**	$ 93,397
Income taxes paid to (refunded from) Niagara Mohawk Holdings Inc.	**218,390**	(158,457)
Significant non-cash item:		
Capital-related accruals included in accounts payable	**23,410**	6,147

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands of dollars, except per share and number of shares data)

	Common Stock, par value $1 per share	Cumulative Preferred Stock, par value $100 per share			Accumulated Other Comprehensive Income (Loss)			
	Amount	Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Other Postretirement Benefits	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2010	$ 187,365	$ 28,985	$ 2,913,140	$ 1,007,597	$ (722)	$ (1,206)	$ (1,928)	$ 4,135,159
Net income	-	-	-	130,883	-	-	-	130,883
Comprehensive income:								
Unrealized gains on secuities, net of $767 tax expense	-	-	-	-	1,151	-	1,151	1,151
Changes in pension and other postretirement obligations, net of $229 tax expense	-	-	-	-	-	$343	343	343
Reclassification adjustment for gains included in net income, net of $366 tax benefit	-	-	-	-	(548)	-	(548)	(548)
Total comprehensive income	-	-	-	-	-	-	-	131,829
Dividends paid to Niagara Mohawk Holdings, Inc.	-	-	-	(500,000)	-	-	-	(500,000)
Dividends on preferred stock	-	-	-	(1,060)	-	-	-	(1,060)
Balance as of March 31, 2011	187,365	28,985	2,913,140	637,420	(119)	(863)	(982)	3,765,928
Net income	-	-	-	128,079	-	-	-	128,079
Comprehensive income:								
Unrealized gains on secuities, net of $729 tax expense	-	-	-	-	1,093	-	1,093	1,093
Changes in pension and other postretirement obligations, net of $155 tax benefit	-	-	-	-	-	(233)	(233)	(233)
Reclassification adjustment for gains included in net income, net of $416 tax benefit	-	-	-	-	(624)	-	(624)	(624)
Total comprehensive income	-	-	-	-	-	-	-	128,315
Parent loss tax allocation	-	-	41,552	-	-	-	-	41,552
Dividends on preferred stock	-	-	-	(1,060)	-	-	-	(1,060)
Balance as of March 31, 2012	$ 187,365	$ 28,985	$ 2,954,692	$ 764,439	$ 350	$ (1,096)	$ (746)	$ 3,934,735

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars, except per share and number of shares data)

	Shares		March 31, 2012	2011
Stockholder's Equity	Authorized	Issued and outstanding	Amounts	
Common stock, $1 par value	**250,000,000**	187,364,863	**$ 187,365**	$ 187,365
Cumulative preferred stock, $100 par value	**31,000,001**			
3.40%		57,524	**5,753**	5,753
3.60%		137,152	**13,715**	13,715
3.90%		95,171	**9,517**	9,517
Additional paid-in capital			**2,954,692**	2,913,140
Retained earnings			**764,439**	637,420
Accumulated other comprehensive losses			**(746)**	(982)
Total shareholders' equity			**3,934,735**	3,765,928
Long-term debt:	Interest Rate	Maturity Date		
Notes Payable:				
Unsecured Senior Notes	4.88%	August 15, 2019	**750,000**	750,000
Unsecured Senior Notes	3.55%	October 1, 2014	**500,000**	500,000
			1,250,000	1,250,000
State Authority Financing - Tax exempt				
NYSERDA Tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA Tax exempt	Variable	October 1, 2013 - July 1, 2029	**575,065**	575,065
Total			**650,065**	650,065
Intercompany Notes:				
Niagara Mohawk Holdings Inc. Note	5.80%	November 1, 2012	**500,000**	500,000
Unamortized discounts			**(338)**	(400)
Total long-term debt			**2,399,727**	2,399,665
Long-term debt due within one year			**500,000**	-
Total long-term debt, excluding current portion			**1,899,727**	2,399,665
Total capitalization			**$ 5,834,462**	$ 6,165,593

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

NIAGARA MOHAWK POWER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Niagara Mohawk Power Corporation (the "Company," "we," "us," and "our"), 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 electric customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million gas 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 wholly-owned by 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 an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through June 29, 2012, the date of the filing, and concluded that there were no events or transactions that require disclosure in the notes to the financial statements.

B. Basis of Presentation

The financial statements for the years ended March 31, 2012 and March 31, 2011 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the accounting principles for rate-regulated entities, and the accounting requirements and ratemaking practices of the applicable regulatory authorities.

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

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") provide the final determination of the rates the Company charges its customers. In certain cases, the actions of the FERC and NYPSC to determine the rates the Company charges its customers result in an accounting treatment different from that used by non-regulated companies. In these cases, the Company is required to defer costs (regulatory assets) or to recognize obligations (regulatory liabilities) if it is probable that these amounts will be recovered or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

In the event the Company determines that its net regulatory assets are not probable of recovery, it would no longer apply the principles of the current accounting guidance for rate-regulated enterprises and would be required to record an after-tax, non-cash charge (credit) against income for any remaining regulatory assets (liabilities). The impact could be material to the Company's reported financial condition and results of operations.

D. Revenue Recognition

The Company bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand on the electric system. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month end.

As approved by the NYPSC, the Company is allowed to pass through for recovery commodity-related costs. Additionally, a transmission revenue adjustment mechanism is in place that reconciles actual and forecast wholesale transmission revenue for pass back to, or recovery from, retail customers. Furthermore, the Company's revenue decoupling mechanism 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 liability.

The gas distribution business is influenced by seasonal weather conditions and therefore the Company's gas utility 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 variation from normal weather.

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

The Company's revenue from the sale and delivery of electricity and gas for the years ended March 31, 2012 and March 31, 2011 is as follows:

	Electric		Gas	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
Residential	**68%**	65%	**82%**	81%
Commercial	**20%**	22%	**18%**	19%
Industrial	**12%**	13%	**-%**	-%

E. Property, Plant and Equipment

Property, plant and equipment are stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead, and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements, and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally 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. Whenever property, plant and equipment are retired, the original cost, less salvage, is charged to accumulated depreciation.

The composite rates and weighted average life for the years ended March 31, 2012 and March 31, 2011 are as follows:

	Electric		Gas		Common	
	March 31,		**March 31,**		**March 31,**	
	2012	2011	**2012**	2011	**2012**	2011
Composite rates	**2.3%**	2.7%	**2.3%**	2.3%	**4.5%**	4.3%
Weighted average life	**43 years**	37 years	**44 years**	44 years	**22 years**	23 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2012 and March 31, 2011, the Company had cumulative costs recovered in excess of costs incurred totaling $401.5 million and $418.2 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other deductions for the equity component and other interest expense for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2012 and March 31, 2011 are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Debt	**$ 2,447**	$ 627
Equity	**6,356**	5,434
	$ 8,803	$ 6,061
Composite AFUDC	**6.1%**	6.6%

F. Goodwill

Goodwill represents the excess of the purchase price of a business combination over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the business is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the business in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2012 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, 2012 to March 31, 2017; (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 US 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 include the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 9.0, which we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as we believe that each methodology provides equally valuable information. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2012 and March 31, 2011.

G. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. Cash and short-term investments are carried at cost which approximates fair value.

H. Restricted Cash and Special Deposits

Restricted cash primarily consist of New York Independent System Operator ("NYISO") deposits. Special deposits primarily consist of health care claims deposits.

I. Gas in Storage and Materials and Supplies

Gas in storage is stated at cost, determined on an average weighted cost basis, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to the rate payers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to the rate payers are subject to periodic regulatory approvals and are reported periodically to the NYPSC.

Materials and supplies are stated at the lower of cost or market, with cost being determined on an average weighted cost basis, and are expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete inventory. For the years ended March 31, 2012 and March 31, 2011 these write offs were not material.

J. Income and Other Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid Holdings Inc. ("NGHI") files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return method. As a member, the Company settles its current tax liability or benefit each year with NGHI pursuant to a tax sharing arrangement between NGHI and its members. Benefits allocated by the Parent Company are treated as capital contributions.

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

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 Company's state tax based on capital is in excess of state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects certain taxes from customers such as sales taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. Where these taxes, such as sales taxes, are imposed on the customer, the Company accounts for these taxes on a net basis (excluded from revenues) with no impact to our statements of income. Where these taxes, such as gross receipts taxes or other surcharges or fees are imposed on the Company, the Company accounts for these taxes on a gross basis.

K. Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income (loss) is reported net income or loss, the other component includes unrealized gains and losses associated with certain investments held as available for sale and deferred pension and postretirement benefit plans.

L. Employee Benefits

The Company follows the accounting guidance related to the accounting for defined benefit pension and postretirement plans for recording pension expenses and resulting plan asset and liability balances. The guidance also requires employers to fully recognize all postretirement plans' funded status on the balance sheet as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholder's equity. In the case of regulated enterprises, this offsetting entry is recorded as a regulatory asset or liability when the balance is required to be refunded to or recovered from customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. As required by the guidance, the Company values its pension and postretirement benefits other than pensions ("PBOP") assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

M. Derivatives

We use derivative instruments to economically hedge a portion of our exposure to commodity price risk. Whenever hedge positions are in effect, we are exposed to credit risks in the event of non-performance by counterparties to derivative contracts, as well as non-performance by the counterparties of the transactions against which they are hedged.

Commodity Derivative Instruments – Regulated Accounting

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

Certain contracts for the physical purchase of natural gas qualify for the normal purchase normal sales exception from the requirements of current accounting guidance for derivative instruments, which we elect. Therefore, no recognition of these contracts is made until the underlying physical commodity is purchased. If we were to determine that a contract which we elected the normal purchase normal sale exception for no longer qualifies, we would recognize the fair value of the contract in accordance with the regulatory accounting described above.

N. Fair Value Measurements

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

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

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; 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. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

O. Power Purchase Agreements

The Company accounts for its power purchase agreements, which are not deemed to be derivatives or leases, as executory contracts. The Company assesses several factors in determining how to account for its power purchase contracts. These factors include: the term of the contract compared to the economic useful life of the facility generating the electricity; the involvement, if any, that the Company has in operating the facility; the amount of any fixed payments the Company must make, even if the facility does not generate electricity; and the level of control the Company has over the amount of electricity generated by the facility, and who bears the risk in the event the facility is unable to generate. These purchase power agreements are reflected in accounts payable in the accompanying balance sheets.

P. Recent Accounting Pronouncements

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This update seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. The Company will be required to either present the statement of income and statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income on the face of the financial statements. This update does not change the items that are reported in other comprehensive income or any reclassification of items to net income. Additionally, the update does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance is effective for non-public companies for fiscal years, and interim periods within that year, beginning after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company does not expect the adoption of this guidance to have an impact on the Company's financial position, results of operations, or cash flows.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing whereby, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Otherwise, the entity is required to perform the two-step impairment test. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations, or cash flows.

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the amendments in this update, entities will be required to disclose both gross information and net information about both 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. This scope would include items such as derivatives. This guidance is effective for fiscal years, and interim periods within that year, beginning after January 1, 2013, and is to be applied retrospectively. As this guidance relates to disclosure only, the adoption of this guidance will not have an impact on the Company's financial position, results of operations, or cash flows.

Fair Value Measurements

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

Q. Reclassifications

Certain reclassifications have been made to the financial statements to conform prior period's data to the current period's presentation. The Company erroneously classified $16.2 million related to environmental interest as other interest, including affiliate interest for the year ended March 31, 2011. This amount has been reclassified as operations and maintenance expense. These reclassifications had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulatory

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2012 and March 31, 2011:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 218,026**	$ 50,974
Derivative contracts	**43,581**	31,215
Loss on reacquired debt	**2,820**	2,794
Merger rate plan stranded costs	**793**	455,169
Total current regulatory assets	**265,220**	540,152
Non-current:		
Regulatory deferred tax asset - FAS 109	**54,254**	62,415
Deferred environmental restorations costs	**461,130**	551,374
Pension and postretirement benefit plans	**565,180**	603,610
Storm costs	**18,153**	173,067
Derivative contracts	**2,672**	1,293
Transportation marketer credit	**-**	117,505
Loss on reacquired debt	**20,604**	23,449
Other	**28,901**	173,022
Total non-current regulatory assets	**1,150,894**	1,705,735
Regulatory liabilities		
Current:		
Derivative contracts	**1,364**	8,847
Rate adjustment mechanisms	**83,216**	68,959
Total current regulatory liabilities	**84,580**	77,806
Non-current:		
Cost of removal reserve	**401,489**	418,196
Stranded costs and contract termination charges	**2,181**	82,697
Pension and postretirement benefit plans	**107,853**	25,552
Economic development fund	**11,790**	38,744
Unbilled gas revenue	**22,018**	25,248
Environmental insurance proceeds	**27,641**	4,741
Debt interest rate savings	**-**	92,534
Derivative contracts	**350**	99,209
Customer service penalty	**2,084**	24,083
Bonus depreciation adjustment	**78**	27,841
Merger savings	**221**	34,236
Rate subject to refund	**50,000**	12,500
Other	**74,386**	213,103
Total non-current regulatory liabilities	**700,091**	1,098,684
Net regulatory assets	**$ 631,443**	$ 1,069,397

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue is billed. The Company records carrying charges, on the regulatory balances related to rate adjustment mechanisms (for the current regulatory liability), deferred environmental restoration costs, and stranded costs and contract termination charges for which cash expenditures have been made and are subject to recovery or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

The following table presents the carrying charges that were recognized in the accompanying statement of income during the years ended March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Other interest, including affiliate interest *	**$ 6,154**	$ 2,436
Other income, net	**(3,641)**	(3,384)
	$ 2,513	$ (948)

* The other interest, including affiliate interest for the year ended March 31, 2012 includes an amount of $3.7 million related to prior period carrying charges dating back to October 2008.

In January 2011, the NYPSC issued a rate order that provided the Company with an annual revenue increase of $119 million of which $50 million is contingent upon the results of an audit relating to the Company's service company cost allocations, policies and procedures. In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform the audit. Management has evaluated the need for and amount of a reserve based on consideration of the matters set out in the audit and taking into account all known information about the audit related to transaction testing, normalization adjustments, efficiency adjustments and the impact of our new cost allocation methodologies. Based on the identified issues above and the uncertainty of the audit results, the Company believes a reserve of $50 million is appropriate. The Company is subject to a number of contingencies to the recognition of revenue and has reserved a total of $50 million pending resolution of those contingencies.

Electric Rate Case Filing
In January 2010, the Company filed an application with the NYPSC for new electricity base rates, effective January 2011, which would terminate the Merger Rate Plan ("MRP") one year early. The Company filed for an increase in the base transmission and distribution revenue of $361.2 million based on a return on equity of 11.1% and equity ratio of 50.01% for rate year 2011. While the Company filed for a three-year rate case commencing January 1, 2011 through December 31, 2013, NYPSC Staff responded to a one-year rate case. In January 2011, the NYPSC granted the request for an increase in revenue of approximately $112 million, including recovery of $40 million in competitive transition charges, with a 9.1% return on equity. The NYPSC gave the Company the option of receiving a 9.3% return on equity, which would result in a revenue requirement increase totaling approximately $119 million, if it agreed not to file another general rate case prior to January 1, 2012. In correspondence dated January 31, 2011, the Company advised the NYPSC that it accepted the option and filed tariffs to reflect a 9.3% return on equity. Of the increase granted, $50 million in revenue was established as temporary rates and is subject to the results of the NYPSC's audit of service company costs allocated to the Company. The NYPSC also established a fixed level of $29.8 million per year for the Company's costs associated with the site investigation and remediation ("SIR") of former manufactured gas plants ("MGPs") and other environmental sites. While the Company had previously recovered all prudently incurred SIR costs, for any annual spend above the fixed level, 80% will now be placed into a deferral account for recovery in a future rate case and the other 20% will be the responsibility of the Company. For any annual spend below the fixed level, a credit will be applied to the deferral account.

The NYPSC adopted the capital expenditures stipulation entered into between the Company, Department of Public Service ("DPS") Staff, and Multiple Intervenors in the rate case, which addresses, among other things, the Company's capital budget and investments for fiscal years 2011 and 2012. The amount of capital reflected in the Company's rates for calendar year 2011 is subject to refund to customers, through a regulatory liability, if the Company fails to invest at the levels agreed in the stipulation. Based on calendar year 2011 actual results, the Company has determined that the combined plant in service and depreciation levels approved in the rate case were exceeded, which eliminates a need for a refund to customers. In addition, the NYPSC approved the revenue decoupling stipulation entered into between the Company, DPS Staff, the New York Power Authority, and Natural Resources Defense Council /Pace Energy Project which allows for the implementation of a revenue decoupling mechanism whereby the Company implements a surcharge or credit as a result of the reconciliation between allowed revenue and billed revenue.

Gas Rate Case Filing
In May 2009, the NYPSC approved a joint proposal that provides for a two-year rate plan, with an annual increase of $39.4 million with incremental adjustments in the second year to reflect changes in certain expenses based on an allowed return on equity of 10.2% and an equity ratio of 43.7%. The joint proposal also includes a revenue decoupling mechanism, negative revenue adjustments for failure to meet certain service quality performance metrics and a commodity-related bad

debt recovery mechanism that adjusts for fluctuations in commodity prices. The new rates went into effect on May 20, 2009. In April 2010, the Company filed to increase rates by approximately $13.9 million effective May 20, 2010 based on increases in certain costs. The NYPSC ordered the new rates to go into effect on a temporary basis and in August 2010, the NYPSC approved the rates on a permanent basis effective with the date of such order.

Electric and Gas Rate Case Filing
On April 27, 2012, Niagara Mohawk filed to adjust its base electric and gas rates, which, if adopted, would be effective from April 1, 2013 through March 31, 2014. The Company's filing seeks to increase electric delivery base revenues by approximately $130.7 million and gas delivery base revenues by approximately $39.8 million.

Transmission Rate Case Filing
In February 2008, the Company filed with the FERC a formula rate (the "Transmission Service Charge" or "TSC") for customers that take transmission service under the NYISO tariff. The rate took effect on October 1, 2008 subject to refund. The FERC directed hearing and settlement judge proceedings to resolve the remaining contested issues in the proceeding. On April 6, 2009, the Company filed a settlement agreement which was accepted by the FERC by its order issued on June 22, 2009, and which resolved all issues in the proceeding. The settlement provided for an authorized return on equity of 11.5%. The effective date for the settlement was January 30, 2009 with a phase-in of the settlement rate over the period January 30 through June 30, 2009. In July 2009, the Company refunded to customers a total of $7.1 million, inclusive of FERC required interest, for amounts collected in excess of the settlement rates for the period of October 2008 through June 2009. Under the NYISO tariff, the Company is required to submit an "Annual Update" to FERC in June of each year, updating the Company's TSC rate under the FERC-approved formula to become effective as of July 1st of that year. Certain parties have raised issues with the Company's Annual Update filings. In February 2010, the FERC accepted a proposed Stipulation and Agreement modifying the calculation of the Long-Term Debt Cost of Capital Rate submitted in the 2009 Annual Update. In January 2011, the FERC accepted in an unpublished letter order the Company's negotiated settlement of the limited issues raised by the parties on the 2010 Annual Update filing, including removal from the formula rate a component reflecting the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment") under Section 18-a of the New York Public Service Law to prevent duplicate charging of that 18-a assessment to entities who are directly assessed or are otherwise exempt from such assessment. On December 9, 2011 the Company submitted TSC rate adjustments to the FERC resolving issues raised in response to the Company's 2011 Annual Update. On March 30, 2012, the Company filed revisions to the TSC formula seeking FERC approval to increase depreciation rates to track those approved by the NYPSC in January 2011 for state jurisdictional rates. The change would increase TSC-related revenues by approximately $250,000 annually. On May 29, 2012, the FERC accepted the proposed changes for the TSC rates effective as of July 1, 2012. The revenues resulting from the TSC formula rate are charged to wholesale transmission customers and credited back to retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Other Regulatory Matters

In February 2011, the NYPSC instituted a statewide proceeding to review its policies regarding the funding mechanisms supporting SIR expenditures and directing the New York State's utilities to assist in developing a comprehensive record of: (1) the current and future scope of utility SIR programs; (2) the current cost controls in place by utilities and opportunities to improve such cost controls; (3) the appropriate allocation of costs among customers and, potentially, shareholders; and (4) methods for recovering SIR costs appropriately borne by customers in a way that minimizes the impact. In accordance with the NYPSC's order the Administrative Law Judge issued a Recommended Decision on November 3, 2011. The NYPSC has not yet ruled on these recommendations.

In November 2010, the FERC commenced an audit of the Company for the period from January 1, 2009 through December 31, 2010 to evaluate the Company's compliance with the FERC's: (1) Uniform System of Accounts for public utilities; (2) Form No. 1 Annual report requirements of major electric utilities; and (3) Form No. 3–Q, Quarterly financial report of electric utilities. A draft audit report was received by the Company in April 2012 to which the Company responded in May 2012. A final audit report was issued by the FERC on May 31, 2012. The Company will submit a plan on July 2, 2012 to address the findings in the report. None of the findings had any material impact on the financial statements of the Company.

In its September 12, 2007, "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 in Case 06-M-0878, the NYPSC authorized the merger of KeySpan Corporation and National Grid subject to the adoption of various financial and other conditions. One of the conditions was the requirement that the Company issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock, the holder of which would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership or similar proceeding without the consent of the holder of such share of stock. 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 Company received federal income tax refunds covering the tax years of 1991 through 1995 in the amount of $25.6 million, inclusive of $13.3 million of interest, from the Internal Revenue Service (“IRS”) in March 2003 and August 2004. The Company made a filing with the NYPSC and proposed to credit $7.2 million to its customers and recorded the resulting regulatory liability and earnings impact in March 2009. The Company subsequently entered into a settlement with the parties in connection with certain adjustments which resulted in an additional $18.7 million credit to its customers, including approximately $7.3 million in carrying charges (through December 2009) due to the delay in filing the refund notice and $11.4 million in full settlement of all other outstanding issues. In March 2010, the Company made a supplemental filing to provide procedures put in place by the Company to ensure that all future income tax refunds would be timely noticed. In April 2010, the NYPSC issued an order adopting the submitted joint proposal. The Company will continue to accrue carrying charges for gas customers until such time as the deferred amounts are passed back to gas customers.

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

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

In September 2008, the NYPSC issued its order on the Company’s December 2007 Petition for Special Ratemaking. The NYPSC stated that the Company’s multi-year capital program should satisfy the materiality requirement to qualify for deferral. However, the NYPSC concluded that the Company’s petition was premature because it was based on a forecast of capital investments. The NYPSC instructed the Company to supplement its petition using actual information once known. In April 2009, the Company filed a supplemental petition containing the actual expenditures for 2008 pursuant to the NYPSC’s order. In May 2010, the Company filed a request for recovery of incremental investment in 2009 in another Petition for Special Ratemaking to the NYPSC. In May 2011, the Company filed a request for recovery of incremental investment in 2010 in another Petition for Special Ratemaking to the NYPSC. On November 14, 2011, the Company filed a joint proposal to settle all these proceedings. On December 16, 2011, the NYPSC adopted the joint proposal, which authorized the Company to include the following in the 15-month deferral recovery surcharge discussed below: (1) $19 million of incremental capital investment; and (2) incremental Hurricane Irene storm costs of $22.7 million plus the amount of any adjustment made by the NYPSC to the deferral balances included in the original $236.2 million filing, up to $35 million. There have been no deferrals for calendar year 2011.

Temporary State Assessment Pursuant to PSL Section 18-a
In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Assessment. The NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In subsequent compliance filings in June 2010 and 2011, the Company noted that it intends to maintain its gas and electric Temporary State Assessment surcharges for the July 1, 2010 through June 30, 2011 and July 1, 2011 through June 30, 2012 recovery periods. There was no 18-a regulatory assessment recorded at March 31, 2012 and $11.7 million was recorded at March 31, 2011.

Compliance Filing to Eliminate Competitive Transition Charges from Electric Rates and Petition to Recover Certain Deferral Balances
On July 29, 2011, the Company made a compliance filing with the NYPSC to remove Competitive Transition Charges (“CTCs”) from electric rates and recover certain deferral account balances. In the Electric Rate Case Order, the NYPSC directed the Company to file tariff revisions, to become effective January 1, 2012, to remove the CTCs from rates and

establish a mechanism to recover certain deferral account balances. The Company has proposed eliminating $544.9 million of CTCs from rates partially offset by the proposed recovery of $236.2 million of outstanding deferral account balances over a 15-month period. On December 16, 2011, the NYPSC approved the Company's compliance filing with modifications. The NYPSC authorized the Company to recover $247.6 million in outstanding deferral account balances over a 15-month period, but conditioned recovery on Staff's ability to audit and made subsequent adjustments to some of the balances that Staff had not completed auditing. Any proposed adjustment will be addressed in the Company's next rate case. Included in the $247.6 million was $25.2 million of Hurricane Irene storm costs that the NYPSC allowed the Company to recover, subject to Staff audit and disposition in the next rate case. In addition, the NYPSC extended the amortization period beyond 15-months for the Company's NYPSC 214 customer classes. The balance of the deferrals not recovered from these classes during the 15-month period will be recovered from these classes over a subsequent period to be determined in the Company's next rate case. This resulted in the netting of $1.3 billion of regulatory assets and $1.1 billion of regulatory liabilities; $45.4 million was subsequently amortized, resulting in a final balance of $190.8 million.

Note 3. Employee Benefits

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several postretirement benefits other than pension plans (the "PBOP Plans", together with the Pension Plans, the "Plans"). In general, we calculate 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. The Company participates in the following Plans: The Niagara Mohawk Pension Plan, National Grid USA Companies' Executive SERP (Version II-Nimo) (ESRP), Niagara Mohawk Nonqualified Pension Plan, Niagara Mohawk Nonunion Retiree Medical and Life Insurance Plan, and Niagara Mohawk Union Retiree Medical and Life Insurance Plan.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees and 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 and the amount recovered in rates. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under IRS regulations. The Company expects to contribute approximately $50 million to the qualified pension plans during fiscal year 2013.

PBOP Plans

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 and amounts recovered in rates. The Company expects to contribute approximately $177 million to the PBOP Plans during fiscal year 2013.

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2012 and March 31, 2011, we recognized an expense in the accompanying statements of income of $7.5 million and $6.9 million, respectively, for matching contributions.

Net Periodic Costs

The following table summarizes the Company's Pension and PBOP costs during the years ended March 31, 2012 and March 31, 2011:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Service cost, benefits earned during the year	**$ 23,863**	$ 23,718	**$ 16,063**	$ 16,371
Interest cost	**68,434**	69,312	**77,584**	81,691
Expected return on plan assets	**(102,165)**	(96,050)	**(54,152)**	(41,177)
Amortization of unrecognized prior service cost	**4,805**	4,764	**12,681**	12,964
Amortization of unrecognized net loss	**67,791**	63,323	**38,288**	44,212
Net periodic benefit costs before settlement	**62,728**	65,067	**90,464**	114,061
Settlement loss	**-**	625	-	-
Curtailment	**-**	-	(495)	-
Special termination benefits *	**-**	267	-	-
Net periodic benefit cost	**$ 62,728**	$ 65,959	**$ 89,969**	$ 114,061

* Special termination benefits consist of costs related to Voluntary Early Retirement Offer ("VERO").

The following table summarizes other pre-tax changes in plan assets and benefit obligations recognized primarily in Company's regulatory assets for the years ended March 31, 2012 and March 31, 2011:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Net actuarial loss (gain)	**$ 109,723**	$ (42,392)	**$ 22,239**	$ (87,821)
Prior service cost	**-**	1,047	**294**	(6,935)
Amortization of gain	**(67,791)**	(63,947)	**(38,288)**	(44,212)
Amortization of prior service cost	**(4,805)**	(4,764)	**(12,186)**	(12,965)
Total	**$ 37,127**	$ (110,056)	**$ (27,941)**	$ (151,933)

The following table summarizes the Company's amounts in regulatory assets on the accompanying balance sheets that have not yet been recognized as components of net actuarial loss at March 31, 2012 and March 31, 2011:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Net actuarial loss	**$ 343,262**	$ 301,330	**$ 140,873**	$ 156,133
Prior service cost	**33,348**	38,153	**30,602**	43,283
Total	**$ 376,610**	$ 339,483	**$ 171,475**	$ 199,416

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 following table represents the Plans estimated net actuarial loss and prior service cost that will be amortized from regulatory assets during the fiscal year 2013.

	Expected Amortization	
	Pension Plans	PBOP Plans
	March 31,	**March 31,**
	2013	2013
	(in thousands of dollars)	
Net actuarial loss	**$ 77,886**	**$ 42,079**
Prior service cost	**4,805**	**12,681**
Total	**$ 82,691**	**$ 54,760**

Changes in Benefit Obligations and Assets

The benefit obligation, assets and funded status of the Plans cannot be presented separately for the Company as the Company participates in the Plan with an affiliated National Grid Service Company. The following table summarizes the change in the Plan's benefit obligation and funded status:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ (1,324,774)**	$ (1,305,713)	**$ (1,455,172)**	$ (1,475,981)
Service cost	**(28,393)**	(28,643)	**(18,508)**	(18,906)
Interest cost on projected benefit obligation	**(75,174)**	(75,883)	**(80,610)**	(85,581)
Net actuarial gain (loss)	**(143,742)**	(23,257)	**(170,112)**	53,847
Benefits paid	**136,718**	108,421	**77,718**	69,071
Actual Medicare Part D Subsidy received	**-**	-	**(5,307)**	(4,890)
Settlements (lump sum)	**-**	2,543	**-**	-
Plan amendments	**-**	(1,147)	**(305)**	7,277
Reduction in Workforce Impact	**-**	-	**2,920**	-
Healthcare reform amendment	**-**	-	**164,711**	-
Special termination benefits (VERO)	**-**	(1,095)	**-**	(9)
Benefit obligation at end of year	**(1,435,365)**	(1,324,774)	**(1,484,665)**	(1,455,172)
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,568,591**	1,321,649	**681,067**	531,377
Actual return on plan assets	**135,482**	174,903	**35,055**	80,696
Company contributions	**110,445**	183,003	**192,788**	138,065
Benefits paid	**(136,718)**	(108,421)	**(77,718)**	(69,071)
Settlements	**-**	(2,543)	**-**	-
Fair value of plan assets at end of year	**1,677,800**	1,568,591	**831,192**	681,067
Funded status	**$ 242,435**	$ 243,817	**$ (653,473)**	$ (774,105)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.3 billion and $1.2 billion, respectively, for the years ended March 31, 2012 and March 31, 2011.
The amounts recognized in the balance sheets are as follows:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Other current liabilities	**$ (2,590)**	$ (460)	**$ (2,000)**	$ (15,000)
Postretirement benefits	**262,278**	261,458	**(613,239)**	(725,812)
	$ 259,688	$ 260,998	**$ (615,239)**	$ (740,812)

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. The Plan costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf.

NGUSA allocated $17.3 million and $17.2 million related to Pension Plans and $38.7 million and $33.3 million related to the PBOP Plans liability at March 31, 2012 and March 31, 2011 respectively, to the Company. As such, these liabilities are included in postretirement benefits in the accompanying balance sheets.

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments and receive the subsidies from the U.S. Federal Government subsequent to March 31, 2012:

For the Years Ended March 31,	Pension Benefits	Postretirement Benefits	Subsidies
	(in thousands of dollars)		
2013	$ 120,658	$ 78,338	$ 4,707
2014	120,518	77,055	-
2015	124,868	79,868	-
2016	127,343	82,296	-
2017	129,033	84,834	-
Thereafter	588,940	454,882	-
Total	$ 1,211,360	$ 857,273	$ 4,707

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

The weighted-average assumptions used to determine the benefit obligations for the years ended March 31, 2012 and March 31, 2011 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
Discount rate	**5.10%**	5.90%	**5.10%**	5.90%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected long-term rate of return on assets	**6.75%**	7.75%	**7.25%-7.50%**	7.75%

The weighted-average assumptions used to determine the net periodic cost for the years ended March 31, 2012 and March 31, 2011 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
Discount rate	**5.90%**	6.10%	**5.90%**	6.10%
Expected return on plan assets	**7.75%**	8.00%	**7.75%**	6.75%-8.00%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a

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

The assumed health care cost trend rates used to develop the benefit obligations are as follows:

	PBOP Plans	
	March 31,	
	2012	2011
Health Care Cost Trend Rate		
Initial		
Pre 65	**8.00%**	8.50%
Post 65	**7.50%**	8.00%
Prescription	**8.25%**	8.75%
Ultimate	**5.00%**	5.00%
Year that Trend reaches Ultimate Rate		
Pre 65	**2018**	2018
Post 65	**2017**	2017
Prescription	**2019**	2019

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

One-Percentage-Point	Increase	/ Decrease
	(in thousands of dollars)	
Total of service cost plus interest cost	$ 16,577	$ (13,981)
Postretirement benefit obligation	205,815	(180,674)

Plan Assets

The Company manages 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 plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity, with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP plan, 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 benefit plans as of March 31, 2012 and March 31, 2011 are as follows:

	Pension Plans		PBOPs	
	March 31,		**March 31,**	
	2012*	2011	**2012**	2011
U.S. equities	**17%**	20%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	10%	**20%**	20%
Fixed income	**50%**	40%	**25%**	25%
Private equity	**4%**	5%	**-%**	-%
Real estate	**4%**	5%	**-%**	-%
Infrastructure	**2%**	3%	**-%**	-%
	100%	100%	**100%**	100%

* During 2011, a decision was made to increase the allocation to fixed income in order to reduce the risk of the portfolio.

Fair Value Measurements

We determine the fair value of plan assets using unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available. We use unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. We classify assets within this fair value hierarchy based on the lowest level.

The following tables depict by level, within the fair value hierarchy, the plan assets as of March 31, 2012 and March 31, 2011:

	March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,070	$ 61,466	$ -	$ 62,536
Accounts receivable	25,462	7,137	-	32,599
Accounts payable	(59,444)	-	-	(59,444)
Equity	242,790	317,709	68,991	629,490
Global tactical asset allocation	-	60,299	13,157	73,456
Fixed income securities	-	790,150	14,075	804,225
Preferred securities	1,961	-	-	1,961
Private equity	-	-	71,292	71,292
Real estate	-	-	61,685	61,685
Total	**$ 211,839**	**$ 1,236,761**	**$ 229,200**	**$ 1,677,800**
PBOP Assets:				
Cash and cash equivalents	$ 127	$ 32,731	$ -	$ 32,858
Accounts receivable	2,684	658	-	3,342
Accounts payable	(3,449)	-	-	(3,449)
Equity	177,871	370,592	22,616	571,079
Global tactical asset allocation	23,707	31,259	7,294	62,260
Fixed income securities	-	165,102	-	165,102
Total	**$ 200,940**	**$ 600,342**	**$ 29,910**	**$ 831,192**

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 500	$ 30,767	$ -	$ 31,267
Accounts receivable	23,462	-	-	23,462
Accounts payable	(19,307)	-	-	(19,307)
Equity	322,075	396,228	22,453	740,756
Fixed income securities	-	597,316	24,723	622,039
Futures	90	-	-	90
Global tactical asset allocation	-	12,264	72,360	84,624
Preferred securities	1,256	-	-	1,256
Private equity	-	-	54,942	54,942
Real estate	-	-	29,462	29,462
Total	**$ 328,076**	**$ 1,036,575**	**$ 203,940**	**$ 1,568,591**
			$ -	
PBOP Assets:				
Cash and cash equivalents	$ 103	$ 19,025	$ -	$ 19,128
Accounts receivable	23,638	-	-	23,638
Accounts payable	(26,743)	-	-	(26,743)
Equity	156,322	308,735	8,165	473,222
Fixed income securities	-	162,548	-	162,548
Global tactical asset allocation	-	-	28,907	28,907
Preferred securities	367	-	-	367
Total	**$ 153,687**	**$ 490,308**	**$ 37,072**	**$ 681,067**

Following is a description of the valuation methodologies used at March 31, 2012 and March 31, 2011 for pension and other postretirement benefit assets measured at fair value. The pension and other postretirement benefit assets can be invested in any of the following categories.

Cash and cash equivalents
Cash and non-base currencies are classified as Level 1 as they can be priced daily. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2 as they can be valued using other significant observable inputs.

Accounts receivable and accounts payable
Accounts receivable and accounts payable are classified in the same category as the investments in which they relate to.

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, therefore they would be 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 ask prices, and these measurements would be classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs would be 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 net asset value ("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 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. These assets are invested through commingled funds, which are classified as Level 2. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments in which they relate to.

Fixed income securities

Fixed income securities (which include corporate debt securities, municipal fixed income securities, US 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. Like the equity securities, fair values generated from active trading on exchanges are classified as Level 1 investments. 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 use NAV are classified as Level 3 investments.

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 net asset value.

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 at 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 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. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. As a result, The Company classifies these investments as Level 3 investments.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a summary of changes in the fair value of the Pension Plan's Level 3 investments:

	Pension Plan Assets		PBOP Plan Assets	
	March 31,		March 31,	
	2012	2011	**2012**	2011
	(in thousands of dollars)			
Balance at beginning of year	**$ 203,940**	$ 128,817	**$ 37,072**	$ 34,205
Transfers out of Level 3	**(73,792)**	(20,912)	**(23,060)**	(11,501)
Transfers in to Level 3	**4,165**	23,150	**3,232**	11,624
Actual gain or loss on plan assets				
included in earnings (or changes in net assets)	**2,405**	1,166	**-**	65
included in regulatory assets and liabilities	**9,527**	19,289	**(193)**	4,854
Purchases	**227,387**	167,659	**32,548**	857
Sales	**(144,432)**	(115,229)	**(19,689)**	(3,032)
Balance at end of year	**$ 229,200**	$ 203,940	**$ 29,910**	$ 37,072

Other Benefits

The Company has accrued $3.8 million for the year ended March 31, 2012 regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported. Management corrected a misstatement of $3.6 million related to the understatement of the allocation of claims incurred but not yet reported. Management has concluded that this error did not have a material impact on the financial statements presented for the years ended March 31, 2012 or March 31, 2011, and therefore the corrections were recorded within the financial statements for the period ended March 31, 2012.

Note 4. Property, Plant and Equipment

At March 31, 2012 and March 31, 2011, property, plant and equipment, at cost, and accumulated depreciation and amortization are as follows:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Plant and machinery	**$ 8,775,110**	$ 8,421,031
Land and buildings	**514,540**	495,396
Assets in construction	**262,061**	257,091
Software and other intangibles	**77,179**	86,574
Total	**9,628,890**	9,260,092
Accumulated depreciation and amortization	**(2,868,124)**	(2,771,152)
Property, plant and equipment, net	**$ 6,760,766**	$ 6,488,940

Note 5. Derivatives Contracts

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

The majority of the derivative instruments utilized by the Company are subject to the current accounting guidance for rate-regulated enterprises since various rate agreements associated with its gas and electric distribution subsidiaries allow for the pass-through of the commodity cost of natural gas, electricity, and the costs related to hedging activities.

Commodity Derivative Instruments – Regulated Accounting

The Company is exposed to certain risks relating to its ongoing business operations, primarily commodity price risk. Financial and physical forward contracts on gas and electricity are entered into to manage this price risk and reduce the cash flow variability associated with the Company's forecasted purchases and sales of natural gas and electricity associated with the gas and electric operations. Our strategy is to minimize fluctuations in gas and electric sales prices to our regulated customers. The accounting for these derivative instruments follows the accounting guidance for rate-regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the accompanying balance sheets. As these derivative contracts are eligible for rate-regulated accounting treatment, changes in fair value have no income statement impact. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our customers consistent with regulatory requirements.

The following are commodity volumes in dekatherms ("dths") and megawatt hours ("Mwhs") associated with the above derivative contracts:

		Electric		Gas	
		March 31,		March 31,	
		2012	2011	**2012**	2011
		(in thousands)		*(in thousands)*	
Physicals:	Gas purchase (dths)	**n/a**	n/a	**7,363**	10,725
Financials:	Gas swaps (dths)	**n/a**	n/a	**3,705**	8,710
	Gas options (dths)	**n/a**	n/a	**2,680**	4,160
	Electric swaps (Mwhs)	**5,380**	2,559	**n/a**	n/a
	Electric options (Mwhs)	**n/a**	30,248	**n/a**	n/a
Total:		**5,380**	32,807	**13,748**	23,595

The following table presents the Company's derivative assets and liabilities that are included in the accompanying balance sheets for the above contracts:

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2012	2011		**2012**	2011
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Gas swap contracts	**$ -**	$ 220	Gas swap contracts	**$ 5,034**	$ 2,522
Gas option contracts	**6**	92	Gas option contracts	**987**	97
Gas purchase contracts	**250**	1,151	Gas purchase contracts	**138**	942
Electric swap contracts	**1,108**	2,801	Electric swap contracts	**37,422**	27,654
Electric option contracts	**-**	4,583	Electric option contracts	**-**	-
	1,364	8,847		**43,581**	31,215
Deferred assets:			Deferred liabilities:		
Gas swap contracts	**-**	33	Gas swap contracts	**-**	238
Gas option contracts	**-**	6	Gas option contracts	**-**	9
Electric swap contracts	**350**	3,344	Electric swap contracts	**2,672**	1,046
Electric option contracts	**-**	95,826	Electric option contracts	**-**	-
	350	99,209		**2,672**	1,293
Total	**$ 1,714**	$ 108,056	Total	**$ 46,253**	$ 32,508

The Company had no non-regulated derivative contracts as of March 31, 2012 and March 31, 2011. The change in fair value of the regulated contracts is offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of derivative contracts and their offsetting regulatory assets and liabilities had no impact on the accompanying statements of income.

The following table presents the impact the change in the fair value of the Company's derivative contracts had on the accompanying balance sheets and statements of income for the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Regulatory assets:		
Gas swap contracts	**$ 2,274**	$ (13,939)
Gas option contracts	**881**	106
Gas purchase contracts	**(804)**	443
Electric future contracts	**-**	(909)
Electric swap contracts	**11,394**	(43,836)
	13,745	(58,135)
Regulatory liabilities:		
Gas swap contracts	**(253)**	247
Gas option contracts	**(92)**	98
Gas purchase contracts	**(901)**	(11)
Electric swap contracts	**(4,687)**	6,145
Electric cption contracts	**(100,409)**	22,443
	(106,342)	28,922
Total decrease in net regulatory liabilities (assets)	**$ 120,087**	$ (87,057)

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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. As of March 31, 2012 and March 31, 2011, the Company has paid $0 million and $0.1 million, respectively, to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions in the accompanying balance sheets.

In addition, certain of the Company's derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below a certain level, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 and March 31, 2011 was $46.1 million and $27.9 million, respectively. The Company had posted collateral of $18.7 million and $0 million for these instruments at March 31, 2012 and March 31, 2011, respectively. If the Company's credit rating were to be downgraded by one level, 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 $26.8 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following 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, 2012 and March 31, 2011:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 844	$ 870	$ 1,714
Available for sale securities	18,262	7,606	-	25,868
Total assets	18,262	8,450	870	27,582
Liabilities:				
Derivative contracts	-	45,131	1,122	46,253
Net assets (liabilities)	$ 18,262	$ (36,681)	$ (252)	$ (18,671)

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 7,080	$ 100,976	$ 108,056
Available for sale securities	17,860	6,912	-	24,772
Total assets	17,860	13,992	100,976	132,828
Liabilities:				
Derivative contracts	-	32,138	370	32,508
Net assets (liabilities)	$ 17,860	$ (18,146)	$ 100,606	$ 100,320

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

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

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

Platts M2M curves.

Available for Sale Securities

Available for sale securities are included in other deferred charges in the accompanying balance sheets and primarily include equities and 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).

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Balance, at beginning of year	**$ 100,606**	$ 78,565
Transfers out of Level 3	**81**	-
Total gains or losses included in regulatory assets and liabilities	**(61,724)**	22,339
Purchases	**(38)**	(298)
Settlements	**(39,177)**	-
Balance, at end of year	**$ (252)**	$ 100,606
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to regulatory assets and liabilities at year end	**$ -**	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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 or transfers into Level 3 during the years ended March 31, 2012 and March 31, 2011.

Other Fair Value Measurement

Long-term debt is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The Company's balance sheets reflect the long-term debt at amortized cost. The fair value of this debt at March 31, 2012 and March 31, 2011 is $2 billion.

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

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Years Ended March 31, 2012	2011
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ 61,369**	$ 175,448
State	**16,463**	16,294
Total current tax expense	**77,832**	191,742
Deferred tax expense (benefit):		
Federal	**11,283**	(154,516)
State	**15,611**	27,980
	26,894	(126,536)
Amortized investment tax credits, net [1]	**(2,126)**	(2,126)
Total deferred tax expense (benefit)	**24,768**	(128,662)
Total income tax expense	**$ 102,600**	$ 63,080

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

Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2012 and March 31, 2011 is as follows:

	Years Ended March 31, 2012	2011
	(in thousands of dollars)	
Computed tax	**$ 80,732**	$ 67,887
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**20,848**	28,778
Temporary differences flowed through	**1,701**	3,454
Allowance for equity funds used during construction	**(2,225)**	(1,902)
Investment tax credit	**(2,126)**	(2,126)
Employee stock ownership plan dividends	**(1,641)**	(1,436)
Other items, net	**5,311**	(31,575)
Total	**21,868**	(4,807)
Federal and state income taxes	**$ 102,600**	$ 63,080

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2012 and March 31, 2011 are as follows:

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 180,080**	$ 263,821
Environmental reserve	**194,136**	188,925
Allowance for uncollectible accounts	**79,819**	91,012
Regulatory liabilities - other	**-**	374,051
Unbilled revenue	**19,116**	12,348
Future federal benefit on state taxes	**46,217**	43,939
Other items	**25,563**	3,642
Total deferred tax assets (1)	**544,931**	977,738
Deferred tax liabilities:		
Property related differences	**1,558,938**	1,378,701
Regulatory assets - environmental	**188,823**	223,907
Regulatory assets - pension and PBOP	**229,976**	474,406
Regulatory assets - storm costs	**3,853**	71,143
Regulatory assets - merger rate plan stranded costs	**-**	154,647
Other items	**-**	91,306
Total deferred tax liabilities	**1,981,590**	2,394,110
Net deferred income tax liability	**1,436,659**	1,416,372
Deferred investment tax credit	**22,742**	24,868
Net deferred income tax liability and investment tax credit	**1,459,401**	1,441,240
Current portion of net deferred income tax asset	**104,301**	110,572
Non-current deferred income tax liability	**$ 1,563,702**	$ 1,551,812

(1) Due to the issuance of Revenue Procedure 2011-43, the Company has written-off the prior year valuation allowance related to state NOL's that are no longer believed to be realizable.

During fiscal 2012, as a result of a regulatory ruling, $1.3 billion of regulatory assets and $1.1 billion of regulatory liabilities were netted which has been reflected in the corresponding deferred tax assets and liabilities.

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

The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2012 and March 31, 2011, the Company's unrecognized tax benefits totaled $159.5 million and $222.3 million, respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

The following table reconciles the changes in the Company's unrecognized tax benefits for the years ended March 31, 2012 and March 31, 2011:

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Balance at the beginning of the year	**222,276**	$ 185,350
Additions based on tax positions related to the prior years	**(62,324)**	20,777
Additions based on tax positions related to the current year	**(426)**	16,149
Balance at the end of the year	**159,526**	$ 222,276

As of March 31, 2012 and March 31, 2011, the Company has accrued for interest related to unrecognized tax benefits of $14.5 million and $15.7 million, respectively. During years ended March 31, 2012 and March 31 2011, the Company recorded interest income of $1.2 million and interest expense of $10.9 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in other deductions in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2012 and March 31, 2011.

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, 2011, the NGHI consolidated group reached an agreement with the IRS that contained a settlement of the majority of the income tax issues related to the years ended March 31, 2005 through March 31, 2007 as well as an acknowledgment that certain discrete items remained disputed.

The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. During the calendar year, the IRS began a new audit examination cycle covering fiscal years ended March 31, 2008 and March 31, 2009. The years ended March 31, 2010 through March 31, 2012 remain subject to examination by the IRS.

New York State income tax returns have been examined and all issues have been agreed with the New York State Department of Revenue through March 31, 2005. During the year ended March 31, 2010, the State of New York began a new audit cycle covering the years ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2012 remain subject to examination.

Note 8. Debt

Short-term debt

The Company has regulatory approval from the FERC to issue up to $1 billion of short-term debt. As of March 31, 2012 and March 31, 2011, the Company has no short-term debt outstanding to external third parties.

Intercompany Notes

The Company has several intercompany long-term notes outstanding with Niagara Mohawk Holdings, Inc., the parent of the Company, in the amount of $500 million at March 31, 2012 and March 31, 2011. These notes are due November 1, 2012 and carry an interest rate of 5.80%.

Senior Notes

In August 2009, the Company issued $750 million of unsecured long-term debt at 4.881% with a maturity date of August 15, 2019. Additionally, in September 2009 the Company issued $500 million of long-term debt at 3.553% with a maturity date of October 1, 2014.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $650 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 $575 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 0.46% to 0.83% for the year ended March 31, 2012. The bonds are currently in the auction rate mode and are backed by bond insurance. The recent turmoil in the auction rate markets has led to widespread auction failures. 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 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 at this time.

The Company also has $75 million of 5.15% fixed rate pollution control revenue bonds issued through the 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.

The aggregate maturities of long-term debt subsequent to March 31, 2012 are as follows:

(in thousands of dollars)		
Years Ended March 31,		
2013	$	500,000
2014		45,600
2015		500,000
2016		100,000
2017		-
Thereafter		1,254,465
Total	$	2,400,065

The Company is obligated to meet its non-financial covenants and during the years ended March 31, 2012 and March 31, 2011, the Company was in compliance with all of such covenants.

Note 9. Commitments and Contingencies

Purchase Commitments

The Company’s electric subsidiaries have several types of long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. The Company’s gas distribution subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges. The Company and its gas distribution subsidiaries are liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from utility customers as gas costs.

In addition, Company has various capital commitments related to the construction of property, plant, and equipment.

The Company's commitments under these long-term contracts for years subsequent to March 31, 2012 are summarized in the table below:

(in thousands of dollars)

Years Ended March 31,	Power	Capital Expenditures
2013	$ 211,006	$ 123,435
2014	179,944	62,109
2015	163,336	21,838
2016	151,123	-
2017	105,489	-
Thereafter	988,014	-
Total	$ 1,798,912	$ 207,382

The Company's subsidiaries can purchase additional energy to meet load requirements from other independent power producers ("IPPs"), other utilities, energy merchants or the ISO-NE at market prices.

Operating Lease Commitments

The Company's commitments under operating lease contracts subsequent to March 31, 2012 are as follows:

(in thousands of dollars)

Years ended March 31,	
2013	$ 3,989
2014	3,248
2015	1,880
2016	1,816
2017	1,805
Thereafter	15,384
Total	$ 28,122

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its distribution facilities. These obligations have remained substantially unchanged since March 31, 2011, except for normal accretion adjustments and costs incurred. Generally, the Company's largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the electricity and gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within the Company's gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2012 and March 31, 2011:

	March 31,	
	2012	2011
	(in thousands of dollars)	
Balance as of beginning of year	**$ 8,892**	$ 10,601
Accretion expense	**486**	583
Liabilities settled	**-**	(2,292)
Liabilities incurred	**559**	-
Balance as of end of year	**$ 9,937**	$ 8,892

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 condition, or cash flows.

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 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.

The Company believes that obligations imposed on the Company because of the environmental laws will not have a material result on its operations or financial condition because the Company has a fixed level of $35.4 million annual recovery in base rates, consisting of $29.8 million in electric base rates and $5.7 million in gas base rates. For any annual spend above the $29.8 million fixed level in electric base rates, 80% is deferred for future recovery and 20% is the responsibility of the Company. Any annual spend above the $5.7 million in gas base rates is 100% deferred for future recovery. As a result, the Company has recorded a regulatory asset representing the investigation, remediation, and monitoring obligations it expects to recover from ratepayers.

The Company is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. The Company cannot predict the success of such claims. As of March 31, 2012 and March 31, 2011, the Company had reserves related to its environmental obligations of $461.1 million and $448.8 million, respectively, included as environmental remediation costs in the accompanying balance sheets, which represents management's best estimate of the future costs to investigate and remediate the sites as necessary. These environmental reserves are recorded on an undiscounted basis. However, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The high end of the range of potential liabilities at March 31, 2012, was estimated at $597.8 million.

Nuclear Contingencies

As of March 31, 2012 and March 31, 2011, the Company had a liability of $167.6 million and $167.5 million, respectively, in other deferred liabilities 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 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 D.C. Circuit. In January 2010 the US 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 US Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the US government will have on the ability to dispose of the spent nuclear fuel and waste.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. In 2005, the Company was subject to a sales and use tax audit conducted by the State of New York for the audit period June 2001 through November 2005, which was settled in August 2011. In January 2012, the Company was notified by the State of New York that the audit for the period December 2005 through February 2012 will commence during the quarter ended September 30, 2012. The Company accrued $8.0 million and $8.6 million at March 31, 2012 and March 31, 2011, respectively, as other current liabilities in the accompanying balance sheets.

Note 10. Related Party Transactions

Money Pool

NGUSA and certain affiliates, including the Company, participate in money pools to more effectively utilize cash resources and to reduce short-term borrowings. The money pool in which the Company participates is administered by the NGUSA service company as the agent for the participants. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowings from and investments in the money pool bear interest in accordance with the money pool agreement. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice. At March 31, 2012 and March 31, 2011, the Company had short-term money pool investments of $97.6 million and short-term money pool borrowings of $165.8 million, respectively. The average interest rates for the money pool were 0.17% and 0.27% for the years ended March 31, 2012 and March 31, 2011, respectively.

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

NGUSA and its affiliates also provide various services to the Company, including executive and administrative, 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 appropriately. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or refund from NGHI.

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. At March 31, 2011, intercompany and affiliate balances were reported net. In the current year, the Company adopted a policy of gross settlement and the presentation has changed accordingly. At March 31, 2012 and March 31, 2011, the Company had a net outstanding accounts receivable from affiliates/accounts payable to affiliates as follows:

	Accounts receivable from Affiliates	Accounts payable to Affiliates	
	March 31,	March 31,	
	2012	2012	2011
	(in thousands of dollars)	(in thousands of dollars)	
Opinac NA	$ -	$ 16,999	$ 16,999
NGUSA (Parent)	-	11,246	8,030
Narragansett Gas Company	322	2,456	(7,119)
KeySpan Corporate Services	-	1,053	7,863
Massachusetts Electric Company	-	-	3,130
Brooklyn Union Gas Company	632	-	283
KeySpan Electric Services	516	-	-
KeySpan Generation LLC	308	-	-
KeySpan Gas East Corp.	276	-	-
Boston Gas Co.	91	-	-
Colonial Gas Co.	86	-	-
Granite State Electric Co.	68	-	-
Other	190	953	1,532
Total	$ 2,489	$ 32,707	$ 30,718

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 typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, all other costs are allocated based on a general allocator.

The Company's service company charges for the years ended March 31, 2012 and March 31, 2011 include operating and capital expenditures as follows:

	Years Ended March 31, 2012	Years Ended March 31, 2011
	(in thousands of dollars)	
Operating expenses	**$ 357,490**	$ 313,269
Capital expenses	**157,064**	200,318
	$ 514,554	$ 513,587

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $13 million and $9.3 million before taxes, and $8.5 million and $6 million after taxes, for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 11. Cumulative Preferred Stock

The Company has certain issues of non-participating preferred stock which provide for redemption at the option of the Company. A summary of cumulative preferred stock at March 31, 2012 and March 31, 2011 is as follows:

Series	Shares Outstanding March 31, 2012	Shares Outstanding March 31, 2011	Amount March 31, 2012	Amount March 31, 2011	Call 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	

Note 12. Dividend Restrictions

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 MRP, 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.

EXHIBIT 1

National Grid plc

Financial information
submission for the New York Public Service Commission

Year ended	March 31, 2012
Exchange rate (balance sheet)	$1.60:£1.00
Exchange rate (income statement)	$1.60:£1.00
Exchange rate (opening)	$1.61:£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, 2012	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	**7,640**	3,367	**11,007**
Other intangible assets	-	364	379	117	14	-	-	**873**	(873)	**-**
Property, plant & equipment	-	19,945	18,626	13,539	1,873	(3)	(72)	**53,908**	2,651	**56,559**
Investments in subsidiaries	13,048	-	-	-	171,938	32,112	(217,098)	**-**	-	**-**
Investments	-	571	-	-	381	6	(11)	**947**	5	**952**
Non-current regulatory assets	-	-	-	-	-	-	-	**-**	4,482	**4,482**
Other non-current assets	998	392	1,377	539	-	2	-	**3,310**	-	**3,310**
Intercompany receivables	15,809	5	9,035	86	62,676	24,659	(112,270)	**-**	-	**-**
Inventories	-	486	40	45	30	-	-	**601**	2	**603**
Receivables and other current assets	339	2,288	600	366	242	6	(181)	**3,660**	(37)	**3,623**
Regulatory assets	-	-	-	-	-	-	-	**-**	708	**708**
Financial and other investments	1,328	861	691	371	526	48	-	**3,825**	(2,163)	**1,662**
Cash and cash equivalents	42	60	2	-	422	3	3	**531**	2,220	**2,751**
Assets of businesses held for sale	-	423	-	-	-	-	-	**422**	-	**422**
Total assets	31,563	33,031	30,749	15,063	238,102	56,834	(329,625)	**75,717**	10,361	**86,078**
Borrowings (including bank overdrafts)	(1,435)	(716)	(1,337)	(465)	(10)	(18)	(6)	**(3,986)**	678	**(3,308)**
Current liabilities	(384)	(2,183)	(1,134)	(1,113)	(298)	(16)	123	**(5,005)**	(14)	**(5,020)**
Current tax liabilities	-	(328)	(34)	3	(246)	(8)	-	**(613)**	250	**(363)**
Intercompany payables	(13,485)	(449)	(358)	(1,276)	(86,820)	(10,151)	112,540	**-**	-	**-**
Non-current borrowings	(4,989)	(8,020)	(11,495)	(7,025)	(1,444)	(5)	134	**(32,845)**	883	**(31,962)**
Other non-current liabilities	(741)	(2,758)	(2,529)	(1,187)	(258)	14	37	**(7,421)**	(657)	**(8,077)**
Deferred tax liabilities	-	(1,774)	(2,918)	(1,193)	(101)	(2)	8	**(5,979)**	(3,137)	**(9,116)**
Pensions and other post-retirement benefits	-	(3,871)	-	(819)	(250)	-	-	**(4,940)**	(14)	**(4,954)**
Liabilities of businesses held for sale	-	(138)	-	-	-	-	-	**(139)**	-	**(139)**
Total liabilities	(21,033)	(20,237)	(19,805)	(13,077)	(89,426)	(10,185)	112,836	**(60,927)**	(2,011)	**(62,939)**
Shareholders' equity	(10,530)	(12,785)	(10,943)	(1,987)	(148,676)	(46,651)	216,791	**(14,779)**	(8,315)	**(23,093)**
Minority interests	-	(9)	(2)	-	-	2	(2)	**(11)**	(35)	**(46)**
Total liabilities and equity	(31,563)	(33,031)	(30,749)	(15,063)	(238,102)	(56,834)	329,625	**(75,717)**	(10,361)	**(86,078)**

Consolidating schedules as at March 31, 2012	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	-	12,504	4,570	4,493	494	30	11	**22,111**	336	**22,447**
Other operating income	-	17	38	2	24	8	(90)	**-**	-	**-**
Operating costs	2	(10,670)	(2,462)	(3,112)	(2,297)	(72)	2,166	**(16,454)**	(903)	**(17,357)**
Operating profit	2	1,851	2,147	1,383	(1,779)	(34)	2,088	**5,657**	(567)	**5,090**
Net finance costs	(213)	(498)	(649)	(348)	(37)	232	(66)	**(1,578)**	371	**(1,207)**
Dividend income	334	-	-	-	4,848	1,301	(6,482)	**-**	-	**-**
Share of post-tax results of joint ventures	-	16	-	-	-	(2)	(3)	**11**	-	**11**
Profit before taxation	123	1,369	1,498	1,034	3,032	1,498	(4,463)	**4,091**	(197)	**3,894**
Taxation	43	(558)	(166)	(161)	(174)	(102)	286	**(833)**	168	**(665)**
Profit for the year	166	811	1,332	873	2,858	1,396	(4,177)	**3,258**	(29)	**3,229**
Minority interests	-	(2)	(2)	-	-	-	-	**(3)**	(2)	**(5)**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	**-**	11	**11**
Net income from continuing operations	166	809	1,330	873	2,858	1,396	(4,177)	**3,255**	(19)	**3,235**
Net income from discontinued operations	-	-	-	-	-	-	-	**-**	-	**-**
Net income attributable to equity shareholders	166	809	1,330	873	2,858	1,396	(4,177)	**3,255**	(19)	**3,235**
Condensed cash flow statement										
Net cash inflow from operating activities	120	2,315	2,567	1,571	459	(309)	-	**6,759**	(3)	**6,755**
Net cash inflow from investing activities	894	(876)	(1,878)	(2,153)	16,316	(7,786)	(6,706)	**(3,790)**	(1,841)	**(5,631)**
Net cash inflow from financing activities	(1,292)	(1,457)	(810)	588	(16,399)	8,060	6,706	**(3,037)**	-	**(3,037)**
Net increase in cash and cash equivalents	(278)	(18)	(121)	6	376	(35)	-	**(69)**	(1,844)	**(1,913)**
Exchange movements	(2)	-	(0)	0	0	(0)	-	**(3)**	(11)	**(14)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Net cash and cash equivalents at start of year	321	77	79	(13)	39	47	-	**550**	4,129	**4,679**
Net cash and cash equivalents at end of year (i)	42	59	(43)	(6)	414	11	-	**478**	2,274	**2,752**

(i) Net of bank overdrafts

Consolidating schedules
as at March 31, 2012

	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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	(2)	1,279	338	1,008	725	19	16	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	3	6,761	1,543	2,317	1,844	85	70	40	34
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	17,055	3,963	2	-	-	-	-	-	-
Non-current regulatory assets	-	1,151	156	607	293	7	4	1	3
Other non-current assets	32	47	8	14	12	1	1	-	-
Intercompany receivables	(996)	676	11	6	10	2	23	-	-
Inventories	-	59	4	18	27	1	-	5	-
Receivables and other current assets	119	692	52	387	260	12	5	-	1
Current regulatory assets	-	265	15	80	62	5	6	-	-
Financial and other investments	2	35	-	69	57	3	-	-	-
Cash and cash equivalents	1	3	24	3	3	-	-	1	1
	-	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	16,214	14,931	2,153	4,509	3,293	135	125	47	39
Borrowings (including bank overdrafts)	(78)	(500)	-	-	(1)	-	-	(3)	(2)
Current liabilities	(38)	(513)	(77)	(357)	(240)	(12)	(15)	(1)	(2)
Current tax liabilities	33	(2)	(1)	(5)	(6)	-	(1)	(4)	-
Intercompany notes payables	(210)	(661)	(49)	(87)	(204)	(2)	(1)	(7)	(4)
Non-current borrowings	(767)	(1,900)	(410)	(818)	(603)	(15)	(52)	(9)	(5)
Other non-current liabilities	(77)	(1,588)	(143)	(509)	(387)	(12)	(3)	-	(9)
Deferred tax liabilities	(25)	(1,564)	(352)	(512)	(275)	(14)	(12)	(11)	(10)
Pensions and other post-retirement benefits	-	(364)	(14)	(214)	(168)	(8)	(4)	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	(1,162)	(7,092)	(1,046)	(2,502)	(1,884)	(63)	(88)	(35)	(32)
Shareholders' equity	(15,051)	(7,839)	(1,107)	(2,007)	(1,409)	(72)	(37)	(12)	(7)
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(16,213)	(14,931)	(2,153)	(4,509)	(3,293)	(135)	(125)	(47)	(39)
	1	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2012

	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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement									
Revenue	-	3,571	363	2,045	1,196	85	23	24	18
Other operating income/ (expense)	643	152	7	(6)	-	-	-	-	-
Operating costs	(99)	(3,231)	(239)	(1,855)	(1,081)	(83)	(19)	(18)	(17)
Operating profit	544	492	131	184	115	2	4	6	1
Net finance costs	(68)	(112)	(8)	(45)	(37)	(1)	(1)	(1)	(1)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	476	380	123	139	78	1	3	5	-
Taxation	67	(111)	(49)	(55)	(27)	-	(1)	(1)	-
Profit for the year	543	269	74	84	51	1	2	4	-
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-	-
Net income from continuing operations	543	269	74	84	51	1	2	4	-
Net income from discontinued operations	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	543	269	74	84	51	1	2	4	-
Condensed cash flow statement									
Net cash inflow from operating activities	518	894	97	134	97	1	9	12	5
Net cash inflow from investing activities	658	(802)	(75)	(179)	(278)	(1)	(9)	-	(1)
Net cash inflow from financing activities	(1,176)	(100)	(10)	40	172	-	-	(11)	(3)
Net increase (decrease) in cash and cash equivalents	-	(8)	12	(5)	(9)	-	-	1	1
Exchange movements	-	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	1	11	12	8	12	-	-	-	-
Net cash and cash equivalents at end of year	1	3	24	3	3	-	-	1	1

Consolidating schedules
as at March 31, 2012

	NE Trans Corp. *US GAAP company*	Wayfinder *US GAAP company*	NG-USA Service 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*** =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet								
Goodwill	-	-	-	-	3,767	7,150	2	(19)
Other intangible assets	-	-	-	-	4	4	-	-
Property, plant & equipment	-	-	362	-	8,618	21,677	79	(85)
Investments in subsidiaries	-	-	-	-	-	-	-	-
Investments	-	3	189	4	164	21,380	(21,209)	-
Non-current regulatory assets	-	-	2	-	2,258	4,482	(21)	(7)
Other non-current assets	-	3	483	17	388	1,006	(83)	(1)
Intercompany receivables	-	31	260	305	1,285	1,613	(1,476)	(2)
Inventories	-	-	-	1	344	459	1	(1)
Receivables and other current assets	-	-	27	-	1,139	2,694	(170)	(12)
Current regulatory assets	-	-	-	-	275	708	-	(5)
Financial and other investments	-	-	3	-	-	169	(58)	(3)
Cash and cash equivalents	1	-	4	2	754	797	(3)	-
	-	-	-	-	-		-	-
Assets of businesses held for sale	-	-	-	-	78	78	27	-
Total assets	1	37	1,330	329	19,074	62,218	(22,911)	(135)
Borrowings (including bank overdrafts)	-	-	-	(6)	(10)	(600)	405	-
Current liabilities	-	(1)	(320)	(1)	(1,059)	(2,636)	100	12
Current tax liabilities	-	-	(14)	-	(178)	(178)	30	-
Intercompany notes payables	-	(50)	(366)	(4)	(26)	(1,671)	1,669	2
Non-current borrowings	-	-	-	(14)	(3,619)	(8,212)	(386)	15
Other non-current liabilities	-	(2)	(600)	(259)	(2,188)	(5,777)	512	12
Deferred tax liabilities	-	(1)	(6)	-	(1,206)	(3,988)	195	14
Pensions and other post-retirement benefits	-	-	-	-	(2,175)	(2,947)	(736)	8
Liabilities of businesses held for sale	-	-	-	-	(149)	(149)	(51)	-
Total liabilities	-	(54)	(1,306)	(284)	(10,610)	(26,159)	1,738	63
Shareholders' equity	(1)	17	(24)	(45)	(8,464)	(36,058)	21,181	72
Minority interests	-	-	-	-	-	-	(9)	-
Total liabilities and equity	(1)	(37)	(1,330)	(329)	(19,074)	(62,217)	22,910	135
	-	-	-	-	-	1	(1)	-

Consolidating schedules as at March 31, 2012	NE Trans Corp. *US GAAP company*	Wayfinder *US GAAP company*	NG-USA Service 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* =
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement								
Revenue	-	1	-	3	5,138	12,467	(93)	(85)
Other operating income/ (expense)	-	-	1	24	170	991	(811)	-
Operating costs	-	(1)	-	(4)	(4,628)	(11,275)	53	83
Operating profit	-	-	1	23	680	2,183	(851)	(2)
Net finance costs	-	-	-	(17)	(219)	(510)	55	1
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-
Profit before taxation	-	-	1	6	461	1,673	(796)	(1)
Taxation	-	1	-	-	(208)	(384)	9	-
Profit for the year	-	1	1	6	253	1,289	(787)	(1)
Minority interests	-	-	-	-	-	-	(2)	-
Common dividends	-	-	-	-	-	-	(283)	-
Net income from continuing operations	-	1	1	6	253	1,289	(1,072)	(1)
Net income from discontinued operations	-	-	-	-	39	39	9	-
Net income attributable to equity shareholders	-	1	1	6	292	1,328	(1,063)	(1)
						-		
Condensed cash flow statement								
Net cash inflow from operating activities	-	-	(1)	(6)	1,098	2,858	(858)	(1)
Net cash inflow from investing activities	-	-	20	13	(1,731)	(2,385)	628	1
Net cash inflow from financing activities	-	-	(18)	(6)	562	(550)	(350)	-
Net increase (decrease) in cash and cash equivalents	-	-	1	1	(71)	(77)	(580)	-
Exchange movements	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	(37)	(37)	(3)	-
Net cash and cash equivalents at start of year	1	-	3	1	862	911	580	-
Net cash and cash equivalents at end of year	1	-	4	2	754	797	(3)	-

Consolidating schedules
as at March 31, 2012

	NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+ ADJUSTMENTS =	US GAAP UNAUDITED CONSOLIDATED + NGUSA PeopleSoft	National Grid USA *IFRS adjustments*	NGUSA *IFRS* = *consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet							
Goodwill	7,133	19	7,152	484	7,636	-	7,636
Other intangible assets	4	9	13	351	364	-	364
Property, plant & equipment	21,671	45	21,716	(1,771)	19,945	-	19,945
Investments in subsidiaries		-	-	-	-		-
Investments	171	-	171	-	171	400	571
Non-current regulatory assets	4,454	(2,533)	1,921	(1,921)	-	-	-
Other non-current assets	922	(342)	580	(36)	544	(152)	392
Intercompany receivables	135	(118)	17	(12)	5	-	5
Inventories	459	12	471	15	486	-	486
Receivables and other current assets	2,512	(300)	2,212	76	2,288	-	2,288
Current regulatory assets	703	(349)	354	(354)	-	-	-
Financial and other investments	108	105	213	648	861	-	861
Cash and cash equivalents	794	(41)	753	(693)	60	-	60
		-			-		-
Assets of businesses held for sale	105	(105)	-	423	423	-	423
Total assets	39,171	(3,598)	35,573	(2,790)	32,783	248	33,031
							-
Borrowings (including bank overdrafts)	(195)	(28)	(223)	(493)	(716)	-	(716)
Current liabilities	(2,524)	37	(2,487)	304	(2,183)	-	(2,183)
Current tax liabilities	(148)	6	(142)	(282)	(424)	96	(328)
Intercompany notes payables	-	(136)	(136)	(313)	(449)	-	(449)
Non-current borrowings	(8,583)	430	(8,153)	110	(8,043)	23	(8,020)
Other non-current liabilities	(5,253)	3,123	(2,130)	(509)	(2,639)	(119)	(2,758)
Deferred tax liabilities	(3,779)	(30)	(3,809)	2,035	(1,774)	-	(1,774)
Pensions and other post-retirement benefits	(3,675)	63	(3,612)	(11)	(3,623)	(248)	(3,871)
Liabilities of businesses held for sale	(200)	200	-	(138)	(138)	-	(138)
Total liabilities	(24,357)	3,665	(20,692)	703	(19,989)	(248)	(20,237)
Shareholders' equity	(14,805)	(67)	(14,872)	2,087	(12,785)	-	(12,785)
Minority interests	(9)	-	(9)	-	(9)	-	(9)
Total liabilities and equity	(39,171)	3,598	(35,573)	2,790	(32,783)	(248)	(33,031)
	-	-	-	-	-	-	-

Consolidating schedules as at March 31, 2012	NGUSA + consolidated Adjustments *US GAAP* ***Audited***	+ ADJUSTMENTS =	US GAAP UNAUDITED CONSOLIDATED + NGUSA PeopleSoft	National Grid USA *IFRS adjustments*	NGUSA *IFRS* = *consolidated* HYPERION	Group presentation and other adjustments	NGUSA *IFRS*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement							-
Revenue	12,289	(1,970)	10,319	2,185	12,504		12,504
Other operating income/ (expense)	180	1,969	2,149	(2,132)	17		17
Operating costs	(11,139)	(65)	(11,204)	534	(10,670)		(10,670)
Operating profit	1,330	(66)	1,264	587	1,851	-	1,851
Net finance costs	(454)	106	(348)	(150)	(498)		(498)
Share of post-tax results of joint ventures		26	26	(10)	16		16
Dividend income (expense)		-		-	-		-
Profit before taxation	876	66	942	427	1,369	-	1,369
Taxation	(375)	(20)	(395)	(163)	(558)		(558)
Profit for the year	501	46	547	264	811	-	811
Minority interests	(2)	(137)	(139)	137	(2)		(2)
Common dividends	(283)	136	(147)	(136)	(283)		(283)
Net income from continuing operations	216	45	261	265	526	-	526
Net income from discontinued operations	48	(48)	-	-	-		-
Net income attributable to equity shareholders	264	(3)	261	265	526	-	526
Condensed cash flow statement							
Net cash inflow from operating activities	1,999	838	2,837	(521)	2,316	-	2,316
Net cash inflow from investing activities	(1,756)	590	(1,166)	301	(865)	(11)	(876)
Net cash inflow from financing activities	(900)	(132)	(1,032)	(425)	(1,457)	-	(1,457)
Net increase (decrease) in cash and cash equivalents	(657)	1,296	639	(645)	(6)	(11)	(17)
Exchange movements	-	-	-	-	-	-	-
Reclassified to businesses held for sale	(40)	40	-	-	-	-	-
Net cash and cash equivalents at start of year	1,491	(1,377)	114	(592)	(478)	555	77
Net cash and cash equivalents at end of year	794	(41)	753	(1,237)	(484)	544	60

Consolidating schedules

as at March 31, 2012

	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	Essex Gas Company US GAAP company	**Subtotal KeySpan Stand Alone Audited F/S US GAAP company**	KeySpan New England, LLC US GAAP company
	$'m	$'m	$'m	$'m	$'m	$'m	**$'m**	$'m
Condensed balance sheet								
Goodwill	1,451	1,018	396	55	-	-	**2,923**	-
Other intangible assets	-	-	-	-	-	-	**-**	-
Property, plant & equipment	2,572	2,263	1,882	445	735	-	**8,148**	-
Investments in subsidiaries	-	-	-	-	-	-	**-**	-
Investments	73	-	-	-	-	-	**73**	1,589
Non-current regulatory assets	1,067	766	158	269	-	-	**2,324**	-
Other non-current assets	22	44	15	21	21	-	**133**	29
Intercompany receivables	54	1	63	24	431	-	**573**	6
								-
Inventories	90	79	92	18	39	-	**329**	-
Receivables and other current assets	367	254	215	90	12	-	**971**	0
Current regulatory assets	50	50	149	25	-	-	**280**	-
Financial and other investments	-	-	1	-	-	-	**1**	-
Cash and cash equivalents	99	6	1	-	-	-	**105**	-
Assets of businesses held for sale	-	-	-	-	-	-	**-**	-
Total assets	5,845	4,481	2,971	946	1,238	-	**15,859**	1,624
Borrowings (including bank overdrafts)	-	-	(10)	-	-	-	**(10)**	-
Current liabilities	(202)	(133)	(96)	(99)	(42)	-	**(588)**	(2)
Current tax liabilities	(42)	(54)	(8)	(0)	(41)	-	**(149)**	(5)
Intercompany notes payables	(233)	(187)	(125)	(36)	(91)	-	**(673)**	(38)
Non-current borrowings	(1,041)	(600)	(643)	(125)	(399)	-	**(2,808)**	-
Other non-current liabilities	(866)	(540)	(522)	(89)	(74)	-	**(2,238)**	(34)
Deferred tax liabilities	(659)	(562)	(317)	(182)	(77)	-	**(1,796)**	8
Pensions and other post-retirement benefits	(142)	(243)	(115)	(72)	-	-	**(573)**	-
Liabilities of businesses held for sale	-	-	-	-	-	-	**-**	-
Total liabilities	(3,184)	(2,320)	(1,836)	(603)	(724)	-	**(8,835)**	(71)
Shareholders' equity	(2,661)	(2,161)	(1,135)	(343)	(513)	-	**(7,024)**	(1,553)
Minority interests	-	-	-	-	-	-	**-**	-
Total liabilities and equity	(5,845)	(4,481)	(2,971)	(946)	(1,238)	-	**(15,859)**	(1,624)

Consolidating schedules

as at March 31, 2012

	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	Essex Gas Company US GAAP company	**Subtotal KeySpan Stand Alone Audited F/S US GAAP company**	KeySpan New England, LLC US GAAP company
	$'m	$'m	$'m	$'m	$'m	$'m	**$'m**	$'m
Condensed income statement								
Revenue	1,509	997	1,115	271	482	-	**4,503**	-
Other operating income/ (expense)	30	24	2	1	4	-	**62**	96
Operating costs	(1,258)	(812)	(989)	(234)	(462)	-	**(3,869)**	1
Operating profit	281	209	128	37	24	-	**695**	97
Net finance costs	(66)	(58)	(33)	(11)	(19)	-	**(192)**	(21)
Share of post-tax results of joint ventures	-	-	-	-	-	-	**-**	-
Dividend income (expense)	-	-	-	-	-	-	**-**	-
Profit before taxation	215	151	96	26	5	-	**503**	77
Taxation	(94)	(62)	(38)	(11)	(2)	-	**(210)**	0
Profit for the year	122	90	57	15	3	-	**293**	77
Minority interests							**-**	-
Common dividends							**-**	
Net income from continuing operations	122	90	57	15	3	-	**293**	77
Net income from discontinued operations							**-**	
Net income attributable to equity shareholders	122	90	57	15	3	-	**293**	77

	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	Essex Gas Company US GAAP company	**Subtotal KeySpan Stand Alone Audited F/S US GAAP company**	KeySpan New England, LLC US GAAP company
Condensed cash flow statement								
Net cash inflow from operating activities	438	355	285	59	113	-	**1,250**	75
Net cash inflow from investing activities	(188)	(141)	(250)	(61)	(116)	-	**(756)**	371
Net cash inflow from financing activities	(280)	(208)	(34)	2	3	-	**(518)**	(446)
Net increase (decrease) in cash and cash equivalents	(30)	6	1	-	-	-	**(24)**	-
Exchange movements							**-**	
Reclassified to businesses held for sale	-	-	-	-	-	-	**-**	-
Net cash and cash equivalents at start of year	129	-	-	-	-	-	**129**	-
Net cash and cash equivalents at end of year	99	6	1	-	-	-	**105**	-

Consolidating schedules

as at March 31, 2012

	PCC Land Company, Inc. US GAAP company $'m	KeySpan C.I. I, LTD US GAAP company $'m	KeySpan UK Limited US GAAP company $'m	KeySpan C.I. II, LTD US GAAP company $'m	KeySpan International Corp US GAAP company $'m	KeySpan North East Ventures US GAAP company $'m	Nicodama Beheer V.B.V. US GAAP company $'m	KeySpan Energy Devlp Co (NS) US GAAP company $'m	KeySpan Luxembourg S.A.R.L. US GAAP company $'m
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	2	0	-	-	2	-	(4)	-	4
Non-current regulatory assets	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	(0)	(0)	-	-
Intercompany receivables	-	0	0	0	-	0	0	-	0
	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	0	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	(0)	-
Cash and cash equivalents	-	-	-	-	-	0	0	1	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	2	0	0	0	2	0	(4)	1	4
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	-	(0)	-	-	(0)	0	0	(1)	(0)
Current tax liabilities	0	-	-	-	(0)	(0)	-	0	-
Intercompany notes payables	(1)	1	0	1	(2)	8	8	(4)	(13)
Non-current borrowings	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	(0)
Deferred tax liabilities	-	-	-	-	-	0	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	(0)	1	0	1	(3)	7	8	(5)	(13)
Shareholders' equity	(2)	(1)	(0)	(1)	1	(7)	(4)	4	8
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(2)	(0)	(0)	(0)	(2)	(0)	4	(1)	(4)

Consolidating schedules

as at March 31, 2012

	PCC Land Company, Inc. US GAAP company $'m	KeySpan C.I. I, LTD US GAAP company $'m	KeySpan UK Limited US GAAP company $'m	KeySpan C.I. II, LTD US GAAP company $'m	KeySpan International Corp US GAAP company $'m	KeySpan North East Ventures US GAAP company $'m	Nicodama Beheer V.B.V. US GAAP company $'m	KeySpan Energy Devlp Co (NS) US GAAP company $'m	KeySpan Luxembourg S.A.R.L. US GAAP company $'m
Condensed income statement									
Revenue	-	-	-	-	-	-	-	-	-
Other operating income/ (expense)	-	0	0	0	0	1	0	(0)	0
Operating costs	(0)	0	-	-	-	0	(0)	0	(0)
Operating profit	(0)	0	0	0	0	1	0	0	(0)
Net finance costs	(0)	(0)	-	-	(0)	0	(0)	(0)	(0)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	(0)	0	0	0	0	1	0	0	(0)
Taxation	0	-	-	-	(0)	(0)	-	-	-
Profit for the year	(0)	0	0	0	0	0	0	0	(0)
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends									
Net income from continuing operations	(0)	0	0	0	0	0	0	0	(0)
Net income from discontinued operations									
Net income attributable to equity shareholders	(0)	0	0	0	0	0	0	0	(0)

	PCC Land Company, Inc.	KeySpan C.I. I, LTD	KeySpan UK Limited	KeySpan C.I. II, LTD	KeySpan International Corp	KeySpan North East Ventures	Nicodama Beheer V.B.V.	KeySpan Energy Devlp Co (NS)	KeySpan Luxembourg S.A.R.L.
Condensed cash flow statement									
Net cash inflow from operating activities	-	9	-	-	(5)	-	8	(4)	(13)
Net cash inflow from investing activities	-	-	-	-	-	1	-	-	-
Net cash inflow from financing activities	-	(9)	-	-	5	(1)	(8)	4	13
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	-	-	-	-	-	-	-	1	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	1	-

Consolidating schedules

as at March 31, 2012

	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 Spagnoli Rd Energy Cntr LLC US GAAP company*	*KS Islander East Pipeline, LLC US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	22	-	-	-	75	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	(8)	(2)	-	0	40	1	129	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	0	(0)	0	0	5	0	2
Intercompany receivables	0	-	6	0	(0)	0	4	3	0
	-	-	-	-	-	-	-	-	-
Inventories	-	-	0	-	-	-	-	-	-
Receivables and other current assets	-	-	1	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	0	-	-	2	0	-	8	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	(8)	(2)	28	2	40	1	221	3	2
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	(0)	-	-	0	(33)	-	-
Current tax liabilities	-	0	(2)	0	2	-	(7)	(1)	(0)
Intercompany notes payables	7	(5)	19	(2)	(8)	(0)	448	(1)	7
Non-current borrowings	-	-	-	-	(17)	-	-	-	-
Other non-current liabilities	-	-	(3)	-	-	-	(0)	-	-
Deferred tax liabilities	-	-	(2)	-	0	-	(23)	(1)	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	7	(5)	12	(2)	(24)	(0)	384	(2)	7
Shareholders' equity	2	7	(40)	(0)	(16)	(1)	(606)	(1)	(9)
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	8	2	(28)	(2)	(40)	(1)	(221)	(3)	(2)

Consolidating schedules

as at March 31, 2012

	KeySpan CI Midstream Limited US GAAP company $'m	KeySpan Midstream, Inc. US GAAP company $'m	KeySpan LNG LP Regulated Entity US GAAP company $'m	KeySpan LNG GP, LLC US GAAP company $'m	KeySpan LNG LP, LLC US GAAP company $'m	Seneca-Upshur Petroleum, Inc US GAAP company $'m	KEDC Holdings Corp US GAAP company $'m	KS Spagnoli Rd Energy Cntr LLC US GAAP company $'m	KS Islander East Pipeline, LLC US GAAP company $'m
Condensed income statement									
Revenue	-	-	8	-	-	4	-	-	-
Other operating income/ (expense)	(0)	(0)	0	0	2	(0)	108	0	0
Operating costs	(0)	-	(6)	-	(0)	(5)	(11)	0	-
Operating profit	(0)	(0)	3	0	2	(1)	97	0	0
Net finance costs	(0)	(0)	-	(0)	(1)	(0)	(0)	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	(0)	(0)	3	0	1	(1)	97	0	0
Taxation	(0)	0	(1)	(0)	0	(0)	(39)	(0)	0
Profit for the year	(0)	(0)	2	0	1	(1)	58	0	0
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends									
Net income from continuing operations	(0)	(0)	2	0	1	(1)	58	0	0
Net income from discontinued operations									
Net income attributable to equity shareholders	(0)	(0)	2	0	1	(1)	58	0	0

	KeySpan CI Midstream Limited	KeySpan Midstream, Inc.	KeySpan LNG LP Regulated Entity	KeySpan LNG GP, LLC	KeySpan LNG LP, LLC	Seneca-Upshur Petroleum, Inc	KEDC Holdings Corp	KS Spagnoli Rd Energy Cntr LLC	KS Islander East Pipeline, LLC
Condensed cash flow statement			0						
Net cash inflow from operating activities	9	-	2	5	(3)	(6)	119	-	-
Net cash inflow from investing activities	-	-	-	-	(2)	138	359	-	-
Net cash inflow from financing activities	(9)	-	(2)	(4)	5	(138)	(470)	-	-
Net increase (decrease) in cash and cash equivalents	-	-	-	1	-	(6)	8	-	-
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	-	-	-	2	-	-	8	-	-

Consolidating schedules

as at March 31, 2012

	KeySpan Millennium PipelineLLC US GAAP company $'m	*KeySpan IGTS Corp. US GAAP company $'m*	*Broken Bridge Corp. US GAAP company $'m*	*Honeoye Storage Corporation US GAAP company $'m*	*KS Engineering Associates, Inc US GAAP company $'m*	*Paulus, Sokolowski&Sartor, LLC US GAAP company $'m*	*KeySpan Energy Management, LLC US GAAP company $'m*	*Metro Energy L.L.C. US GAAP company $'m*	*KeySpan Energy Solutions, LLC US GAAP company $'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	0	-	-	-	0	9	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	87	4	-	-	-	-	21	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-
Other non-current assets	(16)	(2)	0	-	-	-	3	0	-
Intercompany receivables	7	0	-	-	-	-	5	17	-
	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	2	4	-
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	0	-	-	-	-	(0)	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	77	2	0	-	-	-	30	30	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	-	(0)	(0)	-	-	-	(1)	(3)	-
Current tax liabilities	(1)	(0)	(0)	-	-	-	(2)	(1)	-
Intercompany notes payables	14	3	0	-	-	-	26	(5)	-
Non-current borrowings	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	(0)	-	-
Deferred tax liabilities	8	0	0	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	21	3	(0)	-	-	-	23	(9)	-
Shareholders' equity	(98)	(5)	(0)	-	-	-	(53)	(21)	-
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(77)	(2)	(0)	-	-	-	(30)	(30)	-

Consolidating schedules

as at March 31, 2012

	KeySpan Millennium PipelineLLC US GAAP company $'m	KeySpan IGTS Corp. US GAAP company $'m	Broken Bridge Corp. US GAAP company $'m	Honeoye Storage Corporation US GAAP company $'m	KS Engineering Associates, Inc US GAAP company $'m	Paulus, Sokolowski&Sartor, LLC US GAAP company $'m	KeySpan Energy Management, LLC US GAAP company $'m	Metro Energy L.L.C. US GAAP company $'m	KeySpan Energy Solutions, LLC US GAAP company $'m
Condensed income statement									
Revenue	-	-	-	-	-	-	12	4	-
Other operating income/ (expense)	8	1	-	-	-	-	1	-	-
Operating costs	(0)	0	(0)	-	-	-	(12)	(3)	-
Operating profit	8	1	(0)	-	-	-	2	1	-
Net finance costs	-	-	(0)	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	8	1	(0)	-	-	-	2	1	-
Taxation	(5)	(1)	0	-	-	-	-	-	-
Profit for the year	3	1	(0)	-	-	-	2	1	-
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends									
Net income from continuing operations	3	1	(0)	-	-	-	2	1	-
Net income from discontinued operations									
Net income attributable to equity shareholders	3	1	(0)	-	-	-	2	1	-
Condensed cash flow statement									
Net cash inflow from operating activities	6	1	-	-	-	-	4	-	(4)
Net cash inflow from investing activities	1	-	-	-	-	-	(1)	-	4
Net cash inflow from financing activities	(7)	(2)	-	-	-	-	(3)	-	-
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, 2012

	KeySpan Home Energy Srvcs, LLC US GAAP company $'m	*Fritze LLC US GAAP company $'m*	*KeySpan Plumbing Solutions Inc US GAAP company $'m*	*KS Plumb Heating Solutions,LLC US GAAP company $'m*	*KeySpan Energy Supply, LLC US GAAP company $'m*	*KeySpan Services, Inc. US GAAP company $'m*	*KeySpan Communications Corp US GAAP company $'m*	*KSI Contracting, LLC US GAAP company $'m*	*KSI Mechanical, LLC US GAAP company $'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	0	2	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	87	-	-	-	-	(16)	-	-	-
Non-current regulatory assets	-	-	-	-	-	(0)	-	-	-
Other non-current assets	14	(0)	1	0	0	10	-	-	-
Intercompany receivables	25	3	0	-	-	111	-	-	3
	-	-	-	-	-	-		-	-
Inventories	0	-	-	-	-	-	-	-	-
Receivables and other current assets	0	-	-	-	-	-	-	-	-
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	(0)	(0)	0	-	-	0	-	-	(0)
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	126	3	1	0	0	107	-	-	3
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	(7)	(0)	(1)	-	0	(1)	-	-	-
Current tax liabilities	(0)	2	(0)	0	(1)	16	-	-	-
Intercompany notes payables	(13)	(3)	0	(1)	2	(58)	-	-	(3)
Non-current borrowings	(4)	(1)	-	-	-	(157)	-	-	-
Other non-current liabilities	(1)	-	-	-	-	(5)	-	-	-
Deferred tax liabilities	-	-	-	-	(0)	1	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	(25)	(3)	(1)	(1)	2	(204)	-	-	(3)
Shareholders' equity	(102)	(0)	(0)	1	(2)	97	-	-	0
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(126)	(3)	(1)	(0)	(0)	(107)	-	-	(3)
					(0)				(0)

Consolidating schedules

as at March 31, 2012

	KeySpan Home Energy Srvcs, LLC US GAAP company $'m	*Fritze LLC US GAAP company $'m*	*KeySpan Plumbing Solutions Inc US GAAP company $'m*	*KS Plumb Heating Solutions,LLC US GAAP company $'m*	*KeySpan Energy Supply, LLC US GAAP company $'m*	*KeySpan Services, Inc. US GAAP company $'m*	*KeySpan Communications Corp US GAAP company $'m*	*KSI Contracting, LLC US GAAP company $'m*	*KSI Mechanical, LLC US GAAP company $'m*
Condensed income statement									
Revenue	1	-	-	-	-	(0)	-	-	-
Other operating income/ (expense)	2	-	-	-	-	1	-	-	-
Operating costs	(5)	-	(0)	-	(0)	(2)	-	-	-
Operating profit	(2)	-	(0)	-	(0)	(2)	-	-	-
Net finance costs	1	(0)	-	-	(0)	(8)	-	-	(2)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	(1)	(0)	(0)	-	(0)	(9)	-	-	(2)
Taxation	-	-	-	-	0	3	-	-	-
Profit for the year	(1)	(0)	(0)	-	0	(6)	-	-	(2)
Minority interests	-	-	-	-	-	-		-	-
Common dividends									
Net income from continuing operations	(1)	(0)	(0)	-	0	(6)	-	-	(2)
Net income from discontinued operations									
Net income attributable to equity shareholders	(1)	(0)	(0)	-	0	(6)	-	-	(2)

Condensed cash flow statement									
Net cash inflow from operating activities	2	-	-	-	-	(17)	-	-	(2)
Net cash inflow from investing activities	(2)	-	-	-	-	4	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	12	-	-	2
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, 2012

	KSI Electrical, LLC US GAAP company $'m	*KeySpan-Ravenswood Srvcs, LLC US GAAP company $'m*	*KeySpan Technologies Inc US GAAP company $'m*	*KeySpan My Home Key, Inc. US GAAP company $'m*	*KeySpan Gas Portfolio Co US GAAP company $'m*	*KeySpan Money Pools US GAAP company $'m*	*KeySpan Corporate Services LLC US GAAP company $'m*	*KeySpan Engineering Srvcs, LLC US GAAP company $'m*	*KeySpan Electric Services LLC US GAAP company $'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	318	1	21
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	7	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	(0)	-	-	-	293	68	221
Intercompany receivables	-	-	-	0	106	3	407	87	8
	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	0	-	24
Receivables and other current assets	-	-	-	-	1	-	5	0	110
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	1	-	-
Cash and cash equivalents	-	-	-	-	-	(0)	-	-	0
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	-	-	(0)	0	107	3	1,030	156	384
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	(2)	(0)	(107)	-	(111)	(15)	(55)
Current tax liabilities	-	(0)	0	(0)	-	-	(26)	(6)	(6)
Intercompany notes payables	(2)	1	(5)	1	(0)	(3)	(494)	(186)	(503)
Non-current borrowings	-	-	-	-	-	-	(348)	-	(39)
Other non-current liabilities	-	-	-	-	-	-	(33)	(3)	(2)
Deferred tax liabilities	-	0	0	0	-	-	(55)	5	(42)
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	(2)	0	(7)	1	(107)	(3)	(1,068)	(204)	(647)
Shareholders' equity	2	(0)	7	(1)	-	0	37	48	263
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	-	0	0	(0)	(107)	(3)	(1,030)	(156)	(384)

Consolidating schedules

as at March 31, 2012

	KSI Electrical, 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 Money Pools US GAAP company*	*KeySpan Corporate 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*
Condensed income statement									
Revenue	-	-	-	-	-	-	14	(1)	728
Other operating income/ (expense)	-	-	-	0	-	21	13	0	(107)
Operating costs	-	-	(0)	(0)	-	0	1	0	(722)
Operating profit	-	-	(0)	0	-	21	28	(0)	(101)
Net finance costs	-	-	(0)	-	-	(21)	(20)	-	(9)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	-	-	(0)	0	-	0	8	(0)	(109)
Taxation	-	-	0	(0)	-	-	(3)	0	45
Profit for the year	-	-	(0)	0	-	0	5	0	(64)
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends									
Net income from continuing operations	-	-	(0)	0	-	0	5	0	(64)
Net income from discontinued operations									
Net income attributable to equity shareholders	-	-	(0)	0	-	0	5	0	(64)

Condensed cash flow statement									
Net cash inflow from operating activities	-	-	-	-	-	-	99	4	(73)
Net cash inflow from investing activities	-	-	-	-	-	-	(7)	-	110
Net cash inflow from financing activities	-	-	-	-	-	-	(92)	(4)	(37)
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, 2012

	KeySpan Ravenswood Inc. US GAAP company	*KS Energy Trading Services LLC US GAAP company*	*Ravenswood VIE US GAAP company*	*KeySpan Corporation/ Holdco Cor US GAAP company*	*KeySpan Exploration&Production US GAAP company*	*KS Insurance Company-Captive 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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	***$'m***	*$'m*
Condensed balance sheet									
Goodwill	-	-	-	885	-	-	3,810	6,732	(2,963)
Other intangible assets	-	-	-	-	-	-	-	-	4
Property, plant & equipment	-	1	-	12	-	-	8,868	17,016	(8,146)
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	-	4	-	6,862	-	-	12,046	12,120	(11,955)
Non-current regulatory assets	-	-	-	-	-	-	2,389	4,713	(2,390)
Other non-current assets	-	8	-	63	(0)	(0)	876	1,009	(611)
Intercompany receivables	-	1	-	3,329	-	-	4,836	5,408	(4,123)
	-	-	-	-	-	-			
Inventories	-	-	-	-	-	-	364	693	(338)
Receivables and other current assets	-	19	-	0	0	-	1,146	2,117	(945)
Current regulatory assets	-	-	-	-	-	-	285	565	(285)
Financial and other investments	-	-	-	642	-	-	643	644	(644)
Cash and cash equivalents	-	-	-	(2)	0	-	116	221	533
Assets of businesses held for sale	-	-	-	-	-	-	-	-	78
Total assets	-	33	-	11,791	0	(0)	35,379	51,239	(31,786)
Borrowings (including bank overdrafts)	-	-	-	-	-	-	**(10)**	(20)	10
Current liabilities	-	(18)	-	(81)	(0)	-	(1,045)	(1,632)	558
Current tax liabilities	-	(2)	-	(77)	0	-	(253)	(402)	220
Intercompany notes payables	-	47	-	(145)	(3)	0	(2,050)	(2,723)	2,697
Non-current borrowings	-	(5)	-	(1,019)	-	-	(4,409)	(7,217)	3,598
Other non-current liabilities	-	(0)	-	(2,061)	-	-	(4,530)	(6,769)	4,433
Deferred tax liabilities	-	(7)	-	51	0	-	(1,850)	(3,646)	2,440
Pensions and other post-retirement benefits	-	-	-	-	-	-	(573)	(1,146)	(1,029)
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	(149)
Total liabilities	-	14	-	(3,332)	(2)	0	(14,720)	(23,555)	12,778
Shareholders' equity	(0)	(47)	-	(8,459)	2	-	(20,659)	(27,683)	19,008
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(0)	(33)	-	(11,791)	(0)	0	(35,379)	(51,239)	31,786

Consolidating schedules

as at March 31, 2012

	KeySpan Ravenswood Inc. US GAAP company	*KS Energy Trading Services LLC US GAAP company*	*Ravenswood VIE US GAAP company*	*KeySpan Corporation/ Holdco Cor US GAAP company*	*KeySpan Exploration&Production US GAAP company*	*KS Insurance Company-Captive 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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	***$'m***	*$'m*
Condensed income statement									
Revenue	-	6	-	1	-	-	5,421	9,924	(4,652)
Other operating income/ (expense)	-	(3)	-	368	-	-	747	809	(639)
Operating costs	-	(3)	-	22	0	-	(4,738)	(8,607)	3,860
Operating profit	-	1	-	391	0	-	1,430	2,126	(1,431)
Net finance costs	-	(0)	-	(91)	(0)	-	(368)	(560)	336
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-	-
Profit before taxation	-	0	-	300	0	-	1,062	1,565	(1,095)
Taxation	-	(0)	-	(12)	(0)	-	(226)	(436)	224
Profit for the year	-	0	-	288	0	-	836	1,129	(872)
Minority interests	-	-	-	-	-	-	-	-	-
Common dividends							-	-	-
Net income from continuing operations	-	0	-	288	0	-	836	1,129	(872)
Net income from discontinued operations								-	39
Net income attributable to equity shareholders	-	0	-	288	0	-	836	1,129	(833)

Condensed cash flow statement

	KeySpan Ravenswood Inc.	*KS Energy Trading Services LLC*	*Ravenswood VIE*	*KeySpan Corporation/ Holdco Cor*	*KeySpan Exploration&Production*	*KS Insurance Company-Captive*	***Total of Other (Unaudited) KeySpan Companies***	***Total of All KeySpan Companies***	*KeySpan Adjustments & Eliminations*
Net cash inflow from operating activities	-	(1)	-	349	-	(22)	1,974	3,223	(2,132)
Net cash inflow from investing activities	-	3	-	224	-	29	509	(247)	(1,346)
Net cash inflow from financing activities	-	(2)	-	(605)	-	(8)	(2,538)	(3,055)	3,480
Net increase (decrease) in cash and cash equivalents	-	-	-	(32)	-	(1)	(55)	(79)	2
Exchange movements							-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	(37)
Net cash and cash equivalents at start of year	-	-	-	30	-	1	171	300	568
Net cash and cash equivalents at end of year	-	-	-	(2)	-	-	116	221	533

Consolidating schedules

as at March 31, 2012

	Discontinued KeySpan Operations US GAAP company	***KeySpan Consolidated US GAAP company***	*KS Insurance Company-Captive 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	(2)	3,767	-	15,154	15,154	(8,464)	(2,923)	3,767
Other intangible assets	-	4	-	8	8	110	-	118
Property, plant & equipment	(252)	8,618	-	34,972	34,972	(18,815)	(8,148)	8,010
Investments in subsidiaries	-	-	-	-	-	-	-	-
Investments	(1)	164	-	24,420	24,420	(24,174)	(73)	173
Non-current regulatory assets	(65)	2,258	-	9,294	9,294	(4,929)	(2,324)	2,041
Other non-current assets	(10)	388	-	2,528	2,528	(2,081)	(133)	314
Intercompany receivables	(0)	1,285	31	12,272	12,272	(11,566)	(573)	133
	-		-				-	
Inventories	(10)	344	-	1,416	1,416	(818)	(329)	269
Receivables and other current assets	(33)	1,139	29	4,599	4,599	(2,170)	(971)	1,458
Current regulatory assets	(5)	275	-	1,120	1,120	(672)	(280)	168
Financial and other investments	-	-	-	1,287	1,287	(1,286)	(1)	-
Cash and cash equivalents	-	754	1	1,741	1,741	(767)	(105)	868
Assets of businesses held for sale	-	78	-	156	156	222	-	378
Total assets	(378)	19,074	60	108,967	108,967	(75,411)	(15,859)	17,697
Borrowings (including bank overdrafts)	-	(10)	-	**(40)**	(40)	20	10	(10)
Current liabilities	15	(1,059)	-	(4,207)	(4,207)	2,419	588	(1,200)
Current tax liabilities	4	(178)	-	(862)	(862)	590	149	(123)
Intercompany notes payables	0	(26)	-	(4,153)	(4,153)	3,480	673	-
Non-current borrowings	-	(3,619)	-	(16,056)	(16,056)	10,169	2,808	(3,079)
Other non-current liabilities	148	(2,188)	(52)	(13,489)	(13,489)	9,332	2,238	(1,919)
Deferred tax liabilities	-	(1,206)	-	(6,112)	(6,112)	3,173	1,796	(1,143)
Pensions and other post-retirement benefits	0	(2,175)	-	(5,497)	(5,497)	3,029	573	(1,895)
Liabilities of businesses held for sale	-	(149)	-	(298)	(298)	298	-	
Total liabilities	167	(10,610)	(52)	(50,713)	(50,713)	32,509	8,835	(9,369)
Shareholders' equity	211	(8,464)	(8)	(58,044)	(58,044)	42,691	7,024	(8,328)
Minority interests	-		-	-	-	-	-	
Total liabilities and equity	378	(19,074)	(60)	(108,757)	(108,757)	75,200	15,859	(17,697)

Consolidating schedules

as at March 31, 2012

	Discontinued KeySpan Operations US GAAP company	***KeySpan Consolidated US GAAP company***	*KS Insurance Company- Captive 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	(134)	5,138	-	21,119	21,119	(11,051)	(4,503)	5,565
Other operating income/ (expense)	(0)	170	-	1,835	1,835	(1,750)	(62)	23
Operating costs	120	(4,628)	0	(18,732)	(18,732)	9,856	3,869	(5,007)
Operating profit	(15)	680	0	4,221	4,221	(2,945)	(695)	581
Net finance costs	5	(219)	-	(1,175)	(1,175)	924	192	(59)
Share of post-tax results of joint ventures	-		-	-	-	-	-	
Dividend income (expense)	-		-	-	-	-	-	
Profit before taxation	(10)	461	0	3,046	3,046	(2,020)	(503)	522
Taxation	4	(208)	-	(867)	(867)	539	210	(118)
Profit for the year	(6)	253	0	2,179	2,179	(1,482)	(293)	404
Minority interests	-		-	-	-	(2)	-	(2)
Common dividends	-			-	-	-	-	
Net income from continuing operations	(6)	253	0	2,179	2,179	(1,484)	(293)	402
Net income from discontinued operations	-	39			-	(66)	-	(66)
Net income attributable to equity shareholders	(6)	292	0	2,179	2,179	(1,550)	(293)	336
Condensed cash flow statement								
Net cash inflow from operating activities	6	1,098	(13)	6,130	6,129	(3,565)	(1,250)	1,315
Net cash inflow from investing activities	(138)	(1,731)	13	(2,431)	(2,431)	1,047	756	(628)
Net cash inflow from financing activities	138	562	-	(3,952)	(3,952)	2,969	518	(465)
Net increase (decrease) in cash and cash equivalents	-	(71)	-	(253)	(254)	451	24	222
Exchange movements	-			-	-	-	-	
Reclassified to businesses held for sale	-	(37)	-	(74)	(74)	84	-	10
Net cash and cash equivalents at start of year	(6)	862	1	2,067	2,067	(1,302)	(129)	636
Net cash and cash equivalents at end of year	-	754	1	1,740	1,739	(767)	(105)	868

Consolidating schedules as at March 31, 2012	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	366	-	-	6	6	-	-	-	379	117	-	-	-	117
Property, plant & equipment	18,635	-	-	-	26	-	-	(35)	18,626	13,539	-	-	-	13,539
Investments in subsidiaries	27	-	-	-	-	160	(187)	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	1,387	-	-	-	-	-	-	(10)	1,377	539	-	-	-	539
Intercompany receivables	9,252	678	307	162	27	6,525	(7,916)	-	9,035	86	-	-	-	86
Inventories	40	-	-	-	-	-	-	-	40	45	-	-	-	45
Receivables and other current assets	587	-	-	2	6	-	-	5	600	366	-	-	-	366
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	691	-	-	-	-	-	-	-	691	371	-	-	-	371
Cash and cash equivalents	-	2	-	-	-	-	-	-	2	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	30,986	680	307	170	66	6,685	(8,104)	(40)	**30,749**	15,063	-	-	-	**15,063**
Borrowings (including bank overdrafts)	(1,331)	-	(6)	-	-	-	-	-	(1,337)	(465)	-	-	-	(465)
Current liabilities	(1,091)	-	-	(11)	(29)	-	-	(3)	(1,134)	(1,113)	-	-	-	(1,113)
Current tax liabilities	(34)	-	-	-	-	-	-	-	(34)	3	-	-	-	3
Intercompany payables	(1,681)	(2)	-	(24)	(2)	(6,565)	7,916	(2)	(358)	(1,276)	-	-	-	(1,276)
Non-current borrowings	(10,506)	(689)	(299)	-	-	-	-	-	(11,495)	(7,025)	-	-	-	(7,025)
Other non-current liabilities	(2,513)	-	-	-	(22)	-	-	6	(2,529)	(1,187)	-	-	-	(1,187)
Deferred tax liabilities	(2,918)	-	-	-	(2)	-	-	2	(2,918)	(1,193)	-	-	-	(1,193)
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	(819)	-	-	-	(819)
Liabilities of businesses held for sale								-	**-**				-	**-**
Total liabilities	(20,073)	(691)	(306)	(35)	(54)	(6,565)	7,916	3	**(19,805)**	(13,077)	-	-	-	**(13,077)**
Shareholders' equity	(10,912)	11	(2)	(134)	(11)	(120)	190	35	(10,943)	(1,987)	-	-	-	(1,987)
Minority interests	-	-	-	-	-	-	(3)	2	(2)	-	-	-	-	-
Total liabilities and equity	(30,986)	(680)	(307)	(170)	(66)	(6,685)	8,104	40	**(30,749)**	(15,063)	-	-	-	**(15,063)**

Consolidating schedules as at March 31, 2012	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	4,610	-	-	144	75	-	(248)	(11)	4,570	4,493	-	-	-	4,493
Other operating income	40	-	-	-	-	-	-	(2)	38	2	-	-	-	2
Operating costs	(2,516)	-	-	(133)	(70)	-	248	10	(2,462)	(3,114)	-	-	2	(3,112)
Operating profit	2,134	-	-	11	5	-	-	(3)	**2,147**	1,381	-	-	2	**1,383**
Net finance costs	(649)	2	-	2	-	(2)	2	(3)	(649)	(348)	-	-	-	(348)
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1,485	2	-	13	5	(2)	2	(6)	**1,498**	1,033	-	-	2	**1,034**
Taxation	(163)	-	-	(3)	(2)	-	-	2	(166)	(161)	-	-	-	(161)
Profit for the year	1,322	2	-	10	3	(2)	2	(5)	**1,332**	871	-	-	2	**873**
Minority interests	-	-	-	-	-	-	-	(2)	(2)	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	1,322	2	-	10	3	(2)	2	(6)	**1,330**	871	-	-	2	**873**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	1,322	2	-	10	3	(2)	2	(6)	**1,330**	871	-	-	2	**873**

Condensed cash flow statement	National Grid Gas plc	British Transco Finance BV	British Transco Finance Inc	NG Metering Limited	Xoserve Limited	Other NGG subsidiary companies	Consol-idation adjustments	Rounding and other differences	National Grid Gas plc consolidated	National Grid Elec. Trans. plc	NGET subsidiary companies	Consol-idation adjustments	Rounding and other differences	National Grid Elec. Trans. plc consolidated
Net cash inflow from operating activities	2,551	-	-	3	19	(86)	-	80	2,567	1,571	-	-	-	1,571
Net cash inflow from investing activities	(1,873)	-	-	(3)	(8)	-	-	6	(1,878)	(2,153)	-	-	-	(2,153)
Net cash inflow from financing activities	(799)	-	-	2	(10)	86	-	(90)	(810)	588	-	-	-	588
Net increase in cash and cash equivalents	(121)	-	-	2	2	-	-	(3)	**(121)**	6	-	-	-	**6**
Exchange movements	(0)	(0)	-	0	0	-	-	(0)	(0)	0	-	-	-	0
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	79	2	-	(2)	(2)	-	-	2	79	(13)	-	-	-	(13)
Net cash and cash equivalents at end of year	(43)	2	-	-	-	-	-	(2)	**(43)**	(6)	-	-	-	**(6)**

Consolidating schedules as at March 31, 2012	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*	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet															
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	10	3	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	3	1,400	142	149	178	-	-	-	-	-	-
Investments in subsidiaries	-	27,729	1,080	11,386	82	-	-	-	-	16,562	11,208	7,577	8,660	-	1,315
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	381
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	1,160	5,224	1,800	819	1,865	-	721	6	152	741	3,159	1,227	5,355	-	214
Inventories	-	-	-	-	-	18	13	-	-	-	-	-	-	-	-
Receivables and other current assets	-	5	-	-	2	38	8	2	-	21	155	-	2	10	-
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	38	-	-	-	-	-	-	-	-	-	-	-	406	-
Cash and cash equivalents	-	-	-	-	-	(8)	5	-	-	-	-	-	-	45	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	1,160	32,997	2,879	12,205	1,961	1,451	889	157	330	17,324	14,523	8,804	14,017	461	1,910
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	(6)	(8)	-	(37)	(54)	(54)	(3)	(6)	-	(5)	-	(22)	(80)	-
Current tax liabilities	-	(120)	-	-	-	-	(5)	-	-	(24)	-	-	(86)	-	-
Intercompany payables	(194)	(25,234)	(1,379)	(9,414)	(840)	(405)	(1,141)	(126)	(27)	(5,944)	(10,848)	(2)	(5,811)	-	(2,796)
Non-current borrowings	-	-	-	-	-	(445)	-	-	-	-	-	-	(1,000)	-	-
Other non-current liabilities	-	-	16	-	(14)	(14)	(235)	-	-	-	-	-	-	(10)	-
Deferred tax liabilities	(2)	2	58	-	6	(182)	38	-	(29)	-	2	-	29	-	-
Pensions and other post-retirement benefits	-	-	(250)	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(195)	(25,358)	(1,563)	(9,414)	(885)	(1,101)	(1,396)	(130)	(62)	(5,968)	(10,852)	(2)	(6,891)	(90)	(2,796)
Shareholders' equity	(965)	(7,638)	(1,316)	(2,791)	(1,077)	(350)	507	(27)	(267)	(11,356)	(3,671)	(8,803)	(7,126)	(371)	886
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(1,160)	(32,997)	(2,879)	(12,205)	(1,961)	(1,451)	(889)	(157)	(330)	(17,324)	(14,523)	(8,804)	(14,017)	(461)	(1,910)

Consolidating schedules as at March 31, 2012	LG Telecoms *IFRS company* *$'m*	National Grid Five *IFRS company* *$'m*	National Grid Eight *IFRS company* *$'m*	National Grid Eleven *IFRS company* *$'m*	National Grid Holdings Ltd *IFRS company* *$'m*	National Grid Twelve *IFRS company* *$'m*	NGC Jersey Investments *IFRS company* *$'m*	National Grid Finance Holdings Ltd *IFRS company* *$'m*	**Other major subsidiaries** ***IFRS total*** *$'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	**-**
Other intangible assets	-	-	2	-	-	-	-	-	**14**
Property, plant & equipment	-	-	2	-	-	-	-	-	**1,873**
Investments in subsidiaries	-	5,419	18,682	-	13,533	2,723	23,744	22,238	**171,938**
Investments	-	-	-	-	-	-	-	-	**381**
Non-current regulatory assets	-	-	-	-	-	-	-	-	**-**
Other non-current assets	-	-	-	-	-	-	-	-	**-**
Intercompany receivables	1,094	507	9,188	-	8,990	6,722	9,671	4,060	**62,676**
Inventories	-	-	-	-	-	-	-	-	**30**
Receivables and other current assets	-	-	-	-	-	-	-	-	**242**
Regulatory assets	-	-	-	-	-	-	-	-	**-**
Financial and other investments	-	-	72	-	-	-	10	-	**526**
Cash and cash equivalents	-	-	378	-	2	-	2	-	**422**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	**-**
Total assets	1,094	5,927	28,323	-	22,524	9,444	33,427	26,297	**238,102**
Borrowings (including bank overdrafts)	-	-	-	-	-	-	(10)	-	**(10)**
Current liabilities	-	-	-	-	(21)	-	-	-	**(298)**
Current tax liabilities	-	-	(10)	-	-	-	(2)	-	**(246)**
Intercompany payables	(931)	(432)	(8)	-	(12,936)	(4,562)	(245)	(3,546)	**(86,820)**
Non-current borrowings	-	-	-	-	-	-	-	-	**(1,444)**
Other non-current liabilities	-	-	-	-	-	-	-	-	**(258)**
Deferred tax liabilities	-	-	-	-	-	-	(22)	-	**(101)**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	**(250)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	**-**
Total liabilities	(931)	(432)	(18)	-	(12,957)	(4,562)	(278)	(3,546)	**(89,426)**
Shareholders' equity	(163)	(5,495)	(28,305)	-	(9,567)	(4,882)	(33,149)	(22,751)	**(148,676)**
Minority interests	-	-	-	-	-	-	-	-	**-**
Total liabilities and equity	(1,094)	(5,927)	(28,323)	-	(22,524)	(9,444)	(33,427)	(26,297)	**(238,102)**

Consolidating schedules as at March 31, 2012	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*	National Grid Holdings Inc *IFRS company*	NG Insurance (IOM) Ltd *IFRS company*	National Grid Intl. Ltd *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement															
Revenue	-	-	-	-	-	331	48	8	46	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	24	-	-	-	-	-	-	-	-
Operating costs	-	(11)	35	-	(40)	(195)	(56)	(2)	(18)	-	-	-	(3)	40	10
Operating profit	-	(11)	35	-	(40)	136	16	6	29	-	-	-	(3)	40	10
Net finance costs	32	(256)	173	2	11	(18)	(24)	(2)	3	(43)	(70)	10	(70)	19	(37)
Dividend income	-	879	559	559	-	-	-	-	-	-	-	-	136	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	32	612	767	561	(29)	118	(8)	5	32	(43)	(70)	10	62	59	(27)
Taxation	(2)	88	(43)	42	(3)	(18)	29	-	(5)	3	14	(2)	(253)	-	8
Profit for the year	30	700	724	603	(32)	101	21	5	27	(40)	(56)	8	(190)	59	(19)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	30	700	724	603	(32)	101	21	5	27	(40)	(56)	8	(190)	59	(19)
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	30	700	724	603	(32)	101	21	5	27	(40)	(56)	8	(190)	59	(19)
Condensed cash flow statement															
Net cash inflow from operating activities	-	512	(5)	37	(51)	182	(45)	6	16	(3)	29	(2)	(3)	2	(11)
Net cash inflow from investing activities	-	921	1,111	559	153	(86)	(104)	(3)	(26)	(388)	(388)	-	5,784	22	1,560
Net cash inflow from financing activities	-	(1,434)	(1,108)	(596)	(102)	(99)	152	(3)	10	392	360	2	(5,780)	(8)	(1,549)
Net increase in cash and cash equivalents	-	(2)	(2)	-	-	(3)	3	-	-	-	-	-	-	16	-
Exchange movements	-	(0)	(0)	-	-	0	0	-	-	-	-	-	-	(0)	(0)
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	(3)	-	-	-	-	-	-	-	27	2
Net cash and cash equivalents at end of year	-	(2)	(2)	-	-	(6)	3	-	-	-	-	-	-	43	2

Consolidating schedules as at March 31, 2012	LG Telecoms *IFRS company* *$'m*	National Grid Five *IFRS company* *$'m*	National Grid Eight *IFRS company* *$'m*	National Grid Eleven *IFRS company* *$'m*	National Grid Holdings Ltd *IFRS company* *$'m*	National Grid Twelve *IFRS company* *$'m*	NGC Jersey Investments *IFRS company* *$'m*	National Grid Finance Holdings Ltd *IFRS company* *$'m*	**Other major subsidiaries** ***IFRS total*** *$'m*
Condensed income statement									
Revenue	-	-	-	-	-	-	-	-	**494**
Other operating income	-	-	-	-	-	-	-	-	**24**
Operating costs	-	-	-	-	250	(2,265)	-	-	**(2,297)**
Operating profit	-	-	-	-	250	(2,265)	-	-	**(1,779)**
Net finance costs	13	3	113	6	(77)	11	134	32	**(37)**
Dividend income	-	-	-	-	1,561	1,153	-	-	**4,848**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	**-**
Profit before taxation	13	3	113	6	1,734	(1,101)	134	32	**3,032**
Taxation	(3)	-	(16)	(2)	18	2	(32)	(2)	**(174)**
Profit for the year	10	3	98	5	1,752	(1,100)	102	30	**2,858**
Minority interests	-	-	-	-	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	**-**
Net income from continuing operations	10	3	98	5	1,752	(1,100)	102	30	**2,858**
Net income from discontinued operations	-	-	-	-	-	-	-	-	**-**
Net income attributable to equity shareholders	10	3	98	5	1,752	(1,100)	102	30	**2,858**
Condensed cash flow statement									
Net cash inflow from operating activities	(5)	2	(13)	(3)	(11)	(2)	(192)	6	**459**
Net cash inflow from investing activities	-	-	4,513	-	1,561	1,153	(10)	-	**16,316**
Net cash inflow from financing activities	3	(2)	(4,126)	3	(1,550)	(1,151)	192	(6)	**(16,399)**
Net increase in cash and cash equivalents	(2)	-	374	-	-	-	(10)	-	**376**
Exchange movements	(0)	-	0	-	-	-	(0)	-	**0**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	**-**
Net cash and cash equivalents at start of year	-	-	3	-	-	-	11	-	**39**
Net cash and cash equivalents at end of year	(2)	-	378	-	-	-	2	-	**414**

National Grid plc
IFRS to US GAAP reconciliation
as at March 31, 2012

	$'m	$'m
Profit for the year attributable to equity shareholders under IFRS		3,255
Adjustments to conform with US GAAP		
Purchase accounting	(128)	
US regulatory accounting	(77)	
Pensions and other post-retirement benefits	(403)	
Financial instruments	352	
Deferred taxation	192	
Other	45	
		(19)
Net income under US GAAP		3,235
Total shareholders equity under IFRS		14,779
Adjustments to conform with US GAAP		
Purchase accounting - property, plant & equipment	3,311	
Purchase accounting - goodwill	3,358	
US regulatory accounting	3,271	
Pensions and other post-retirement benefits	446	
Financial instruments	998	
Current tax and interest on tax provisions	294	
Deferred taxation	(3,137)	
Other	(227)	
		8,315
Shareholders' equity under US GAAP		23,093

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

Consolidated Financial Statements
For the years ended March 31, 2013 and March 31, 2012

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, which comprise the consolidated balance sheets as of March 31, 2013 and March 31, 2012, 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 Consolidated 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 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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, 2013 and March 31, 2012, 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 22, 2013

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 17,215**	$ 98,962
Accounts receivable	**373,380**	248,065
Allowance for doubtful accounts	**(41,518)**	(49,260)
Accounts receivable from affiliates	**45,674**	13,928
Other receivable	**25,122**	-
Intercompany money pool	**77,021**	60,618
Unbilled revenues	**104,525**	85,112
Materials, supplies and gas in storage	**66,192**	90,195
Derivative contracts	**4,674**	21,389
Regulatory assets	**64,492**	51,126
Current portion of deferred income tax assets	**1,665**	12,199
Prepaid taxes	**36,449**	34,383
Prepaid and other current assets	**20,585**	22,025
Total current assets	**795,476**	688,742
Equity investments	**75,480**	73,396
Property, plant and equipment, net	**2,717,226**	2,571,807
Deferred charges and other assets:		
Regulatory assets	**1,123,049**	1,129,331
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**466**	1,064
Other deferred charges	**17,218**	20,802
Total deferred charges and other assets	**2,591,874**	2,602,338
Total assets	**$ 6,180,056**	$ 5,936,283

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, 2013	March 31, 2012 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 94,861**	$ 54,691
Accounts payable to affiliates	**267,273**	229,435
Taxes accrued	**11,130**	9,552
Customer deposits	**34,716**	41,074
Interest accrued	**20,054**	18,476
Regulatory liabilities	**29,466**	43,325
Intercompany money pool	**106,639**	20,974
Derivative contracts	**6,429**	14,668
Other tax liabilities	**19,163**	17,628
Other current liabilities	**18,698**	26,500
Total current liabilities	**608,429**	476,323
Deferred credits and other liabilities:		
Regulatory liabilities	**398,410**	389,663
Asset retirement obligations	**11,514**	10,862
Deferred income tax liabilities	**749,941**	682,150
Postretirement benefits	**141,919**	142,279
Environmental remediation costs	**506,513**	482,165
Derivative contracts	**4,785**	6,762
Other deferred liabilities	**56,595**	54,567
Total deferred credits and other liabilities	**1,869,677**	1,768,448
Capitalization:		
Shareholders' equity	**2,661,450**	2,651,012
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,701,950**	3,691,512
Total liabilities and capitalization	**$ 6,180,056**	$ 5,936,283

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

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

	Years Ended March 31,	
	2013	2012 (Revised)
Operating revenues	**$ 1,432,308**	$ 1,510,676
Operating expenses:		
Purchased gas	**535,220**	620,081
Operations and maintenance	**351,460**	359,369
Depreciation and amortization	**84,058**	84,788
Amortization of regulatory assets and rate plan deferrals	**18,126**	9,473
Other taxes	**195,147**	190,034
Total operating expenses	**1,184,011**	1,263,745
Operating income	**248,297**	246,931
Other income and (deductions):		
Interest on long-term debt	**(50,215)**	(50,190)
Other interest, including affiliate interest	**3,261**	(15,522)
Equity income in unconsolidated subsidiaries	**19,416**	17,852
Other income, net	**(20,928)**	12,280
Total other deductions, net	**(48,466)**	(35,580)
Income before income taxes	**199,831**	211,351
Income taxes:		
Current	**2,705**	30,111
Deferred	**80,769**	61,635
Total income tax expense	**83,474**	91,746
Net income	**$ 116,357**	$ 119,605

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,	
	2013	2012 (Revised)
Net income	**$ 116,357**	$ 119,605
Other comprehensive income:		
Unrealized gains (losses) on marketable securities from equity investment, net of $52 and ($157) tax expense (benefit)	**76**	(227)
Other comprehensive income	**76**	(227)
Comprehensive income	**$ 116,433**	$ 119,378

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, 2013	2012 (Revised)
Operating activities:		
Net income	$ **116,357**	$ 119,605
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**84,058**	84,788
Amortization of regulatory assets and rate plan deferrals	**18,126**	9,473
Provision for deferred income taxes	**80,769**	61,635
Bad debt expense	**12,645**	14,108
Equity (income) loss in unconsolidated subsidiaries, net	**(1,956)**	7,368
Regulatory deferrals	**5,437**	40,304
Amortization of debt issuance cost	**2,492**	1,811
Pension and other postretirement expense	**20,871**	27,350
Pension and other postretirement contributions	**(50,783)**	(47,735)
Environmental remediation payments	**(45,273)**	(19,899)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(180,188)**	196,179
Materials, supplies and gas in storage	**24,821**	(42,309)
Accounts payable and accrued expenses	**32,199**	(264)
Other liabilities	**(3,780)**	5,843
Prepaid and accrued taxes	**1,047**	39,400
Regulatory assets and liabilities, net	**39,322**	(41,345)
Derivative contracts	**7,097**	(8,333)
Other, net	**(5,702)**	(7,578)
Net cash provided by operating activities	**157,559**	440,401
Investing activities:		
Capital expenditures	**(189,740)**	(170,572)
Cost of removal	**(22,560)**	(17,057)
Affiliated money pool borrowing and other	**(8,756)**	(14,720)
Issurance proceeds applied to capital expenditures	**3,635**	-
Net cash used in investing activities	**(217,421)**	(202,349)
Financing activities:		
Dividends to Keyspan Corporation	**(110,000)**	(220,000)
Affiliated money pool borrowing and other	**84,110**	(51,929)
Parent loss tax allocation	**3,356**	3,929
Share based compensation allocation	**649**	-
Net cash used in financing activities	**(21,885)**	(268,000)
Net decrease in cash and cash equivalents	**(81,747)**	(29,948)
Cash and cash equivalents, beginning of year	**98,962**	128,910
Cash and cash equivalents, end of year	$ **17,215**	$ 98,962
Supplemental disclosures:		
Interest paid	$ **48,387**	$ 47,856
Income taxes paid to Parent	**8,690**	15,823
State income taxes paid	**3,040**	4,553
Significant non-cash items:		
Capital-related accruals included in accounts payable	**548**	1,048

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,	
			2013	2012 (Revised)
Total shareholders' equity			**$ 2,661,450**	$ 2,651,012
Long-term debt:	Interest Rate	Maturity Date		
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
Total gas facilities revenue bonds			**640,500**	640,500
Total long-term debt			**1,040,500**	1,040,500
Total capitalization			**$ 3,701,950**	$ 3,691,512

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, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				Accumulated Other Comprehensive Income		
	Authorized, Issued and Outstanding Shares	Amount	Authorized, Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Equity Investment in Iroquois	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2011 - revised	100	$ -	-	$ -	$ 2,605,830	$ 142,134	$ (259)	$ (259)	$ 2,747,705
Net income						119,605			119,605
Issuance of preferred stock			1	-					-
Comprehensive income:									
Unrealized gains on marketable securities as equity investment, net of $157 tax benefit							(227)	(227)	(227)
Parent loss tax allocation					3,929				3,929
Dividends to Parent	-	-	-	-		(220,000)			(220,000)
Balance as of March 31, 2012 - revised	100	$ -	1	$ -	$ 2,609,759	$ 41,739	$ (486)	$ (486)	$ 2,651,012
Net income						116,357			116,357
Comprehensive income:									-
Unrealized gains on marketable securities as equity investment, net of $52 tax expense							76	76	76
Parent loss tax allocation					3,356				3,356
Share based compensation allocation					649				649
Dividends to Parent	-	-	-	-		(110,000)			(110,000)
Balance as of March 31, 2013	100	$ -	1	$ -	$ 2,613,764	$ 48,096	$ (410)	$ (410)	$ 2,661,450

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

BROOKLYN UNION GAS COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company," "we," and "our") distributes natural gas to approximately 955,000 retail customers and transports natural gas to approximately 260,000 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"). KeySpan 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 an indirectly-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 currently 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 using the equity method.

The Company has evaluated subsequent events and transactions through August 22, 2013, 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 consolidated financial statements as of and for the year ended March 31, 2013.

B. Financial Statement Revisions

During 2013, management determined that the Company's previously issued financial statements for the year ended March 31, 2012 included errors related to the recording of certain accounting transactions. The Company corrected these errors by revising the prior period financial statements, the impacts of which are described below. Management has concluded that the errors did not have a material impact on any previously issued financial statements but would have been material if the corrections were recorded in the current year statement of income. Therefore, the previously reported amounts were revised within the financial statements for the year ended March 31, 2012.

The first error related to an understatement of the allocation from the Company's parent of claims incurred but not yet reported for injuries and damages. A cumulative adjustment of $13.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $9.8 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011), and $3.9 million was recorded as a reduction of net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The second error related to the incorrect calculation and recording of certain regulatory assets and liabilities in previous years. A cumulative adjustment of $2.1 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $0.4 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011) and $1.7 million was recorded as an increase in net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The third correction reclassifies $47.2 million of regulatory liabilities previously classified within long term regulatory assets, to long term regulatory liabilities. These reclassifications had no effect on the Company's results of operations or cash flows.

The fourth correction reclassifies $20.9 million of regulated intercompany moneypool liability balances from current assets to current liabilities in order to separately present regulated and unregulated intercompany moneypool balances. These reclassifications had no effect on the Company's results of operations but did result in a reclassification of the $20.9 million between financing activities and investing activities on the statement of cash flows.

In addition, certain misclassifications related to the presentation of current and deferred income taxes and uncertain tax positions have been reflected in the revisions below. The Company misclassified the current portion of deferred tax assets by $7.0 million and regulatory assets by $13.6 million. These misclassifications in assets were offset by misclassifications in accrued taxes of $14.8 million, accounts payable to affiliates of $3.7 million, accrued interest related to uncertain tax positions of $3.2 million, non-current deferred tax liabilities of $31.7 million, and other deferred liabilities of $9.2 million. The adjustments for these balance sheet presentation errors in the prior fiscal year had an immaterial impact on the statement of income.

The following table shows the amounts previously reported as revised:

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Balance Sheet			
Current assets			
Intercompany money pool receivable	$ 39,644	$ 20,974	$ 60,618
Regulatory assets	50,173	953	51,126
Current portion of deferred income tax assets	5,575	6,624	12,199
Total Current assets	**95,392**	**28,551**	**123,943**
Deferred charges and other assets			
Regulatory assets	1,066,975	62,356	1,129,331
Total Deferred charges and other assets	**1,066,975**	**62,356**	**1,129,331**
Current liabilities			
Accounts payable to affiliates	233,137	(3,702)	229,435
Taxes accrued	24,391	(14,839)	9,552
Interest accrued	21,724	(3,248)	18,476
Intercompany money pool	-	20,974	20,974
Total Current liabilities	**279,252**	**(815)**	**278,437**
Deferred credits and other liabilities			
Regulatory liabilities	343,512	46,151	389,663
Deferred income tax liabilities	658,843	23,307	682,150
Other deferred liabilities	22,199	32,368	54,567
Total Deferred credits and other liabilities	**1,024,554**	**101,826**	**1,126,380**
Capitalization:			
Retained Earnings			
March 31, 2012	51,843	(10,104)	41,739
March 31, 2011	150,242	(8,108)	142,134

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Statement of Income			
Operating revenues	$ 1,508,627	$ 2,049	$ 1,510,676
Operating expense:			
Operations and maintenance	353,458	5,911	359,369
Operating income	250,793	(3,862)	246,931
Other income and (deductions):			
Other income, net	12,191	89	12,280
Income before income taxes	215,124	(3,773)	211,351
Income taxes			
Current	33,074	(2,963)	30,111
Deferred	60,449	1,186	61,635
Net income	121,601	(1,996)	119,605
Statement of Cash Flows			
Net income	$ 121,601	$ (1,996)	$ 119,605
Provision for deferred income taxes	60,449	1,186	61,635
Accounts payable and accrued expenses	(3,075)	2,811	(264)
Prepaid and accrued taxes	27,896	11,504	39,400
Other liabilities	14,115	(8,272)	5,843
Regulatory assets and liabilities, net	(46,831)	5,486	(41,345)
Derivative contracts	-	(8,333)	(8,333)
Net cash provided by operating activities	438,015	2,386	440,401
Affiliated money pool and intercompany borrowing	-	(14,720)	(14,720)
Net cash used in investing activities	(187,629)	(14,720)	(202,349)
Affiliated money pool and intercompany borrowing	(64,263)	12,334	(51,929)
Net cash used in financing activities	(280,334)	12,334	(268,000)

C. Basis of Presentation

The consolidated financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities. All material intercompany balances and transactions have been eliminated in consolidation.

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

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

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 10, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are recorded as such.

D. Regulatory Accounting

The New York State Public Service Commission ("NYPSC") provides the final determination of the rates the Company charges its retail customers. In certain cases, the actions of the NYPSC to determine the rates the Company charges its customers result in an 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates. Iroquois's transmission assets are regulated by the Federal Energy Regulatory Commission and its rates are filed with the Commission.

E. Revenue Recognition

The Company bills its customers on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a cost of gas adjustment factor ("CGAF") included in the utility tariff. The CGAF provision requires an annual reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending subsequent recovery from or refund to firm customers.

Revenues are subject to a Revenue Decoupling Adjustment Factor ("RDAF") which requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without financial detriment to the Company resulting from reductions in gas usage.

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.

The Company's revenue from the sale and delivery of gas for the years ended March 31, 2013 and March 31, 2012 is as follows:

	March 31, 2013	March 31, 2012
Residential	**73%**	71%
Commercial	**13%**	14%
Gas transportation and other services	**14%**	15%

F. Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally computed over the estimated useful life of the assets using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. Whenever 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 average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31, 2013	March 31, 2012
Composite rates - depreciation	**1.8%**	1.8%
Composite rates - cost of removal	**0.8%**	0.8%
Total composite rates	**2.6%**	2.6%
Average service life	**54 years**	54 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $178.9 million and $158.5 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying consolidated balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the consolidated statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income (deductions), net for the equity component and other interest for the debt component in the accompanying consolidated statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in its rate base and corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Debt	**$ 613**	$ 618
Equity	**1,334**	1,161
	$ 1,947	$ 1,779
Composite AFUDC rate	**6.4%**	7.4%

G. Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 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, 2013 to March 31, 2018; (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 US 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 ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2013 or March 31, 2012.

H. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have original maturities of three months or less at the date of purchase as cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

I. Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is calculated by applying a reserve factor to outstanding receivables. The reserve factor is based upon historical write-off experience and assessment of customer collectability.

J. Materials, Supplies, and Gas in Storage

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, the balance of materials and supplies was $16.9 million and $10.1 million, respectively. 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, 2013 and March 31, 2012.

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 through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the NYPSC. At March 31, 2013 and March 31, 2012, gas in storage was $49.3 and $80.1 million, respectively.

K. Income and Other 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. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and 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 included subsidiaries. Benefits allocated by NGNA are treated as capital contributions.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected in the accompanying consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

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 state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects from customers various taxes that are levied by state and local governments on the sale or distribution of gas. The Company presents taxes that are imposed on customers (such as sales taxes) on a net basis (i.e., excluded from revenues) and presents excise taxes on a gross basis.

Gas distribution revenues include the collection of excise taxes and the related expense is included in other taxes in the accompanying consolidated statements of income. Excise taxes collected and paid for the years ended March 31, 2013 and March 31, 2012 were $45.5 million and $65.2 million, respectively.

L. Employee Benefits

The Company follows the accounting guidance for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the balance sheets as a net liability or asset and requires. In the case of regulated entities, the offset to such net liability or asset is recorded as a regulatory asset or liability when the balance will be recovered from or refunded to customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP assets are measured at fair value, using the year-end market value of those assets.

M. Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities, equity or other indices. Derivatives enable their users to manage their exposure to these market or credit risks. The Company uses derivative instruments to manage our operational market risks from commodities and economically hedge a portion of the Company's exposure to commodity price risk. When economic hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts (hedging transactions), as well as non-performance by the counterparties of the underlying transactions.

Commodity Derivative Instruments – Regulated Accounting

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

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sales 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.

Balance Sheet Offsetting

Accounting guidance related to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. 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 instrument on a gross basis, with related cash collateral recorded as special deposits in the accompanying consolidated balance sheets. There were no special deposits as of March 31, 2013 or March 31, 2012.

N. Fair Value Measurements

The Company measures commodity 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.

O. New and Recent Accounting Guidance

<u>Accounting Guidance Adopted in Fiscal Year 2013</u>

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance that amended existing fair value measurement guidance. The amendment was issued with a goal of achieving common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value, requires new disclosures about fair value measurements, and changes specific applications of the fair value measurement guidance. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to: fair value measurement of a portfolio of financial instruments; fair value measurement of premiums and discounts; and additional disclosures about fair value measurements. This guidance became effective for financial statements issued for annual periods (for non-public entities such as the Company) beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013, which only impacted its fair value disclosures. There were no changes to the Company's approach to measuring fair value as a result of adopting this new guidance.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance in its fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This new guidance seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. As a result of this guidance entities are required to either present the statement of income and statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. This guidance does not change the items that are reported in other comprehensive income or any reclassification of items to net income. In addition, the new guidance does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance became effective for non-public companies for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company adopted this guidance for the fiscal year ended March 31, 2013, with no impact on its financial position, results of operations, or cash flows.

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the new guidance, reporting entities will be 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. In January 2013, the FASB issued additional guidance to clarify that the specific instruments and activities that should be considered in these disclosures, will be limited to recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, and is to be applied retrospectively. The Company will begin including the new required disclosures in its fiscal year 2014 quarterly financial statements as applicable and does not expect any impact on its financial position, results of operations, or cash flows.

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued accounting guidance that requires an entity to report information about significant reclassifications out of accumulated other comprehensive income. The new guidance requires presentation either in a single footnote or parenthetically on the financial statements, of the effect of significant amounts reclassified out of accumulated other comprehensive income based on the corresponding line items in the statement of net income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity would cross-reference other disclosures that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company is evaluating the impact, if any, on its financial position, results of operations, and cash flows.

Note 2. Rates and Regulation

Regulatory Assets and Liabilities

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2013 and March 31, 2012:

	March 31, 2013	March 31, 2012 (Revised)
	(in thousands of dollars)	
Regulatory assets		
Current:		
Property taxes	**$ 3,700**	$ 3,700
Environmental response costs	**30,973**	5,973
Postretirement benefits	**11,832**	11,832
Derivative contracts	**6,429**	14,668
Revenue decoupling mechanism	**3,803**	5,869
Other	**7,755**	9,084
Total	**64,492**	51,126
Non-current:		
Regulatory tax asset	**14,248**	17,957
Property taxes	**7,047**	10,389
Environmental response costs	**676,575**	658,627
Postretirement benefits	**297,171**	279,451
Derivative contracts	**4,785**	6,762
Capital tracker	**58,762**	46,162
Revenue decoupling mechanism	**2,417**	-
Carrying charges	**17,204**	61,668
Other	**44,840**	48,315
Total	**1,123,049**	1,129,331
Regulatory liabilities		
Current:		
PSC assessment	**4,380**	-
Statement of policy buyback	**-**	19,960
Gas cost adjustment	**20,057**	1,976
Derivative contracts	**4,674**	21,389
Other	**355**	-
Total	**29,466**	43,325
Non-current:		
Environmental response costs	**59**	14,859
PSC assessment	**4,952**	-
Property taxes	**24**	22,617
Delivery rate surcharge	**44,974**	32,289
Excess earnings	**88,082**	88,082
Cost of removal	**178,926**	158,496
Derivative contracts	**466**	1,064
Energy efficiency	**37,262**	31,381
Carrying charges	**23,680**	34,859
Other	**19,985**	6,016
Total	**398,410**	389,663
Net regulatory assets	**759,665**	747,469

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and postretirement benefits 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.

Delivery rate surcharge and environmental response costs: A $5 million annual surcharge for the recovery of regulatory assets ("Delivery Rate Surcharge") was implemented in January 2008. The Delivery Rate Surcharge increased by $5 million for each of the first five years of the Company's rate plan, resulting in the aggregate recovery of approximately $75 million. The first $25.2 million collected from the Delivery Rate Surcharge was used to offset deferred special franchise taxes with the remainder deferred and used to offset future increases in rates for the costs such as Site Investigation and Remediation ("SIR") or other costs deferrals. The Delivery Rate Surcharge expired on December 31, 2012. In January 2010, the Company submitted a filing on the status of its regulatory deferrals so that the NYPSC could determine if the Company should adjust its revenue levels under its rate plan so as to minimize outstanding deferral balances. Environmental response costs represent deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former Manufactured Gas Plant ("MGP") sites and related facilities. By rate orders, the NYPSC has provided for the recovery of site investigation and remediation costs in delivery rates at a level of $6.0 million per year. In addition, on November 28, 2012, the NYPSC issued an order authorizing the Company to recover $122.5 million of SIR deferral balances through the implementation of an SIR surcharge that supersedes the expired Delivery Rate Surcharge. The SIR surcharge is designed to collect $25.0 million per year beginning January 1, 2013, to amortize the SIR balance approved for recovery by the NYPSC. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Cost of removal: The Company's rate plans allow for the collection through rates an implied cost of removal for its plant assets. This regulatory liability represents costs collected from customers for costs associated with removing and disposing of replaced or retired assets. For a vast majority of its gas distribution assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

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 allowance and deferred the revenue requirement equivalent of any other unspent Capex 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 mechanism requires the Company to reconcile its annual actual combined net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. The differences in rate year 2013 are carried forward to rate year 2014 and netted against the 2014 result. If the cumulative two year actual net utility plant and depreciation expense revenue requirement is below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

Excess earnings: The base rates in the Company's rate plan (2008-12) provides for a 9.8% return on common equity capital ("ROE"). At the end of each rate year (calendar year), the Company is required to provide its regulator with a computation of its ROE. If the level of earned common equity in the applicable rate year exceeds 10.5%, the company is 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 will be 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.

Revenue decoupling mechanism: In December 2009, the NYSPSC adopted the terms of a Joint Proposal between Staff and the Company that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1,

2010. The RDM applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer, for the affected customer classes, on an annual basis. The revenue decoupling mechanism is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the linkage between sales volumes and revenues. The company had deferred receivable balances related to RDM in the amount of $3.8 million at March 31, 2013 presented as a component of current regulatory assets. The balances are fully recoverable from the affected customer classes.

Carrying Charges

The Company includes in rate base or records carrying charges on most regulatory balances with the exception of derivative contracts and regulatory 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. The total amount of accumulated accrued carrying charges recorded as regulatory assets at March 31, 2013 and March 31, 2012 was $17.2 million and $61.7 million, respectively. The total amount of accumulated accrued carrying charges recorded as regulatory liabilities at March 31, 2013 and March 31, 2012 was $23.7 million and $34.9 million, respectively. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

During fiscal year 2013, the Company received an order from the NYPSC relating to SIR as described above, requiring that carrying charges on SIR related balances be calculated net of deferred taxes. As a result, management concluded that all of its carrying charges should be calculated in the same manner and recognized an impairment on existing carrying charges deferred within regulatory assets of $31.2 million and derecognized existing carrying charges accrued within regulatory liabilities of $18.2 million.

The following table presents the carrying charges that were recognized in the accompanying consolidated statements of income during the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest (deductions), including affiliate interest	**$ 9,898**	$ (4,852)
Other (deductions) income, net	**(15,885)**	17,051
	$ (5,987)	$ 12,199

Rate Matters

The Company has been subject to a rate plan with a primary term of five years (through December 31, 2012) that remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates included an allowed return on equity of 9.8%. An earnings sharing mechanism in the rate plan is triggered if annual earnings result in a return on equity that exceeds 10.5%. Earnings above this threshold are shared with customers. For the rate years ended December 31, 2012 and December 31, 2011 the Company recorded excess earnings sharing of $0 and $35 million, respectively.

On February 25, 2013, a joint proposal was filed with the NYPSC that memorialized an agreement between Department of Public Service Staff ("Staff") and the Company for a two year rate settlement covering the Company's rate years ending December 31, 2013 and December 31, 2014. On June 13, 2013, the NYPSC issued an order adopting the settlement. As a result, the Company's revenue requirements for calendar years 2013 and 2014 have changed as follows: (i) there is no change in base delivery rates, other than those previously approved by the Commission in the rate plan, (ii) the allowed return on equity has decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure has increased from 45% to 48%. Additionally, the joint proposal provides that 80% of any earnings above the 9.4% allowed return will be applied as a credit to the Company's SIR balance for the benefit of customers.

Other Regulatory Matters

In June 2009, the Company made a 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 revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. On June 14, 2013, and then updated on August 7, 2013, the Company submitted a compliance filing in which it estimated a Temporary State Assessment of $23.9 million for the 2013/2014 State Fiscal Year and indicated that it would maintain its currently effective surcharges for the July 1, 2013 through June 30, 2014 collection period to recover revenues sufficient to pay the Temporary State Assessment. The Company had deferred payable balances related to the Temporary State Assessment in the amount of $9.3 million at March 31, 2013 and deferred receivable balances of $1.3 million at March 31, 2012.

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid’s affiliate cost allocation, policies and procedures. The audit of these service company charges sought to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. A final report was provided to the Company by the NYPSC in October 2012. In its January 16, 2013 Order Directing Submission of Implementation Plan and Establishing Further Findings, the NYPSC disclosed the findings of the Overland Audit of the affiliate cost allocations, policies and procedures of National Grid’s service companies as applicable to its New York utilities. The final audit report concluded that the Company was overcharged $22.2 million in service company related costs. The Company disputes the audit conclusions as the Company believes that sampling amounts found by Overland to be in error should not have been extrapolated to the larger population. The NYPSC has ordered that further proceedings be conducted to address the Company’s disagreement with the testing results and statistical extrapolation. 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.

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

Note 3. 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 (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 Company participates in the following plans: The KeySpan Retirement Plan, National Grid USA Companies’ Executive SERP, Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., KeySpan Benefit Plan for Retired (West) Union Employees, KeySpan Benefit Plan for Retired (West) Management Employees.

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $50.2 million and $47.7 million to the Plans.

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.

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. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any variances between actual costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. Pension and PBOP expense is included in operations and maintenance expenses in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 892,701**	$ 929,794
PBOP	**1,339,788**	1,267,919
	$ 2,232,489	$ 2,197,713

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, 2013 and March 31, 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 15,407**	$ 15,969
PBOP	**19,207**	19,290
	$ 34,614	$ 35,259

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, the Company recognized $1.2 million and $1.0 million of expense, respectively, for matching contributions, in the accompanying consolidated statements of income for matching contributions.

Other Benefits

The Company has accrued $16.9 million and $23.6 million at March 31, 2013 and March 31, 2012, respectively, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported.

Note 4. Property, Plant and Equipment

At March 31, 2013 and March 31, 2012, property, plant and equipment at cost along with accumulated depreciation and amortization are as follows:

	March 31, **2013**	March 31, 2012
	(in thousands of dollars)	
Plant and machinery	**$ 3,369,349**	$ 3,271,571
Land and buildings	**163,511**	158,675
Assets in construction	**125,211**	44,237
Software and other intangibles	**124,387**	124,382
Total	**3,782,458**	3,598,865
Accumulated depreciation and amortization	**(1,065,232)**	(1,027,058)
Property, plant and equipment, net	**$ 2,717,226**	$ 2,571,807

Note 5. Derivatives

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

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. The Company's strategy is to minimize fluctuations in firm gas sales prices to the Company's customers.

The following are commodity volumes in dekatherms ("dths") associated with derivative contracts as of March 31, 2013 and March 31, 2012:

		March 31, **2013**	March 31, 2012
		(in thousands)	
Physical Contracts:	Gas purchase	**8,721**	50,229
Financial Contracts:	Gas swaps	**19,174**	37,946
	Gas options	**1,750**	2,800
	Total	**29,645**	90,975

The following table presents the Company's derivative assets and liabilities that are included in the accompanying consolidated balance sheets for the above contracts at March 31, 2013 and March 31, 2012:

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2013	2012		**2013**	2012
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 1,992**	$ 3,526	Gas purchase contracts	**$ 1,988**	$ 1,904
Gas swap contracts	**2,213**	17,857	Gas swap contracts	**4,436**	11,661
Gas option contracts	**469**	6	Gas option contracts	**5**	1,103
	4,674	21,389		**6,429**	14,668
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**466**	1,064	Gas purchase contracts	**4,785**	6,762
	466	1,064		**4,785**	6,762
Total	**$ 5,140**	$ 22,453	Total	**$ 11,214**	$ 21,430

The changes in fair value of our 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 on the accompanying consolidated statements of income.

The following table presents the impact of the change in the fair value of the Company's derivative contracts had on the accompanying consolidated balance sheets and consolidated statements of income for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (1,893)**	$ 4,253
Gas swap contracts	**(7,225)**	6,305
Gas option contracts	**(1,098)**	934
	(10,216)	11,492
Regulatory liabilities:		
Gas purchase contracts	**(2,132)**	2,334
Gas swap contracts	**(15,644)**	17,593
Gas option contracts	**463**	(102)
	(17,313)	19,825
Total increase in net regulatory (liabilities) assets	**$ 7,097**	$ (8,333)

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the NGUSA Energy Procurement Risk Management Committee (EPRMC). The ERPMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures, as well transaction strategies, annual supply plans and all valuation and control procedures. The EPRMC is chaired by Global Tax and Treasury Director and includes NGUSA's Senior Vice President of Regulatory Affairs, Senior Vice President US General Counsel and Regulatory, and the Vice President US Treasury. The EPRMC reports to NGUSA's Finance Committee. Counterparty credit exposure is monitored, 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 reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $6.1 million as of March 31, 2013.

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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, 2013 and March 31, 2012 was $4.0 million and $12.5 million, respectively. The Company had no collateral posted for these instruments at March 31, 2013 and March 31, 2012, 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 $4.1 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

The Company measures commodity derivatives at fair value.

The following table presents 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, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Financials	$ -	$ 2,213	$ 469	$ 2,682
Physicals		127	2,331	2,458
Total assets	-	2,340	2,800	5,140
Liabilities:				
Derivative contracts				
Financials	$ -	$ 4,436	$ 5	$ 4,441
Physicals	-	76	6,697	6,773
Total assets	-	4,512	6,702	11,214
Net assets (liabilities)	$ -	$ (2,172)	$ (3,902)	$ (6,074)

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Financials	$ -	$ 17,857	$ 6	$ 17,863
Physicals		13	4,577	4,590
Total assets	-	17,870	4,583	22,453
Liabilities:				
Derivative contracts				
Financials	$ -	$ 11,661	$ 1,103	$ 12,764
Physicals			8,666	8,666
Total liabilities	-	11,661	9,769	21,430
Net asset (liabilities)	$ -	$ 6,209	$ (5,186)	$ 1,023

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward physical gas deals with pricing inputs obtained from the New York Mercantile Exchange ("NYMEX") and Intercontinental Exchange ("ICE"), except in cases in which ICE publishes seasonal averages or there were no transactions within last seven days. We may utilize discounting based on quoted interest rate curves that may include liquidity reserves calculated based on bid/ask spread for our 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.

Level 3 fair value derivative instruments consist of the Company's complex and structured OTC physical gas transactions valued based on internally-developed models. Our complex and structured OTC physical gas transactions are categorized in Level 3 as the model inputs generally are not observable. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about risks such as nonperformance risk, liquidity, volatility and contract duration. Industry-standard valuation techniques, such as a Black-Scholes pricing model, Monte Carlo simulations, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative instrument is designated as Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from a market observable curve with correlation coefficients less than 95%, 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. The forward curves used for financial reporting are developed and verified by the middle office.

Level 3 Fair Value Measurements

The following table presents the fair value reconciliation of Level 3 derivative assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Balance at beginning of year	$ (5,186)	$ (2,219)
Transfers out of Level 3	-	457
Total gains or losses:		
included in regulatory assets and liabilities	(2,065)	(4,866)
Purchases	1,344	(66)
Settlements	2,005	1,508
Balance at end of year	$ (3,902)	$ (5,186)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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, 2013 and March 31, 2012, respectively.

The following table provides information about our significant Level 3 valuations, of which the most significant positions are gas forward contracts. Long term gas supply contracts are measured at fair value using both actively traded pricing points as well as unobservable inputs such as gas prices beyond observable periods and long term basis quotes and accordingly, the fair value measurements are classified in Level 3.

Commodity	**Level 3 Position**	**Fair Value as of March 31, 2013**			**Valuation Technique(s)**	**Significant Unobservable Input**	**Range**
		Assets	**(Liabilities)**	**Total**			
Physical							
Gas	Gas Purchase Contract (A)	$ 2,331	$ (6,697)	$ (4,366)	Discounted Cash Flow	Forward Curve	(A)
Financial							
Gas	Gas Option Contract (B)	$ 469	$ (5)	$ 464	Discounted Cash Flow	Forward Curve	(B)
	Total	$ 2,800	$ (6,702)	$ (3,902)			

(A) Includes long-term gas supply contracts (greater than one year) that have valuation assumptions and unobservable forward gas curves. . Valuation assumptions are made while estimating fair value of Physical Gas Options. Natural gas prices range between $4.13/Dth to $6.41/Dth for the term of open positions.
(B) Includes Gas Option contracts which are immaterial at March 31, 2013.

The significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement commodity derivatives are forward commodity prices. 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 fair value of the Company's long-term debt was estimated based on quoted market prices for similar issues or on current rates offered to the Company for similar debt of the same remaining maturity. The fair value of our long-term debt at March 31, 2013 and March 31, 2012 was 1.2 billion.

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

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Year Ended March 31, 2013	2012 (Revised)
	(in thousands of dollars)	
Current tax expense:		
Federal	$ (183)	$ 13,169
State	2,888	16,942
Total	2,705	30,111
Deferred tax expense:		
Federal	67,045	59,938
State	14,635	2,608
Total	81,680	62,546
Amortization of investment tax credits [1]	(911)	(911)
Total deferred tax expense	80,769	61,635
Total income tax expense	$ 83,474	$ 91,746

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

A reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Year Ended March 31, 2013	2012 (Revised)
	(in thousands of dollars)	
Computed tax	$ 69,941	$ 73,972
Change in computed taxes resulting from:		
State income tax, net of federal benefit	11,389	12,709
Depreciation differences not normalized	3,301	3,301
Investment tax credit	(911)	(911)
Other items	(246)	2,675
Total	13,533	17,774
Federal and state income taxes	$ 83,474	$ 91,746

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2013 and March 31, 2012 are as follows:

	March 31, 2013	March 31, 2012 (Revised)
	(in thousands of dollars)	
Deferred tax assets:		
Reserve - environmental	**$ 219,415**	$ 210,368
Pensions, OPEB and other employee benefits	**67,869**	103,040
Future federal benefit on state taxes	**46,451**	40,638
Other items	**116,044**	111,685
Total deferred tax assets (1)	**449,779**	465,731
Deferred tax liabilities:		
Property related differences	**664,771**	631,746
Regulatory Assets - environmental	**318,092**	302,163
Regulatory Assets - pension and OPEB	**101,405**	116,798
Other items	**109,062**	79,340
Total deferred tax liabilities	**1,193,330**	1,130,047
Net deferred income tax liability	**743,551**	664,316
Deferred investment tax credits	**4,725**	5,635
Net deferred income tax liability and investment tax credits	**748,276**	669,951
Current portion of net deferred income tax asset	**1,665**	12,199
Non-current deferred income tax liability and investment tax credits	**$ 749,941**	$ 682,150

(1) There were no valuation allowances for deferred tax assets at March 31, 2013 or 2012.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2013:

Jurisdiction	Expiration	Amount
		(in thousands of dollars)
Federal	03/31/2033	$ 11,287
New York	03/31/2029	8,372
New York	03/31/2033	4,512

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.

As of March 31, 2013 and March 31, 2012, the Company's current federal income tax balances payable to its parent are $30.1 million and $42.3 million, respectively.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $113.0 million and $103.4 million, respectively, of which $16.8 million as of March 31, 2013 and March 31, 2012 would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 103,367**	$ 103,584
Gross increases related to prior period	**3,065**	2,940
Gross decreases related to prior period	**(466)**	(4,080)
Gross increases related to current period	**7,998**	2,161
Gross decreases related to current period	**(934)**	(1,238)
Balance at the end of the year	**$ 113,030**	$ 103,367

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $12.9 million and $9.5 million, respectively. During years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $3.4 million and $3.5 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in non-operating expenses. No tax penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

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.

In September 2011, the Internal Revenue Service ("IRS") commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and NGNA and subsidiaries for the fiscal years ending March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 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 years ended August 24, 2007 and March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2013 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 therefore expects to make a payment with regard to tax and interest within the next 12 months.

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

Jurisdiction	Tax Year
Federal	August 24, 2007
New York	December 31, 2000*

*The 2000-2006 years are only open with respect to the impact of Federal amended returns and NY ITC claims.

Note 8. Debt

Notes Payable

The Company's $400 million of 5.60% Senior Unsecured Notes mature on November 29, 2016. Interest is payable on a semi-annual basis each May and November.

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, 2013 and March 31, 2012, $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 0.14% to 2.17% during the year ended March 31, 2013 and 0.21% to 2.17% during the year ended March 31, 2012. 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.

The aggregate maturities of long-term debt subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ending March 31,	
2014	$ -
2015	-
2016	-
2017	400,000
2018	-
Thereafter	640,500
Total	$ 1,040,500

The Company is obligated to meet certain financial and non-financial covenants. During the years ended March 31, 2013 and March 31, 2012, respectively, the Company was in compliance with all such covenants.

Note 9. Commitments and Contingencies

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern United States affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer restoration through March 31, 2013 from this storm were approximately $53.3 million. The Company has recorded an "other receivable" on the consolidated balance sheet at March 31, 2013 in the amount of $25.1 million, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles.

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 service required from third-parties.

The Company's commitments under these long-term contracts for years subsequent to March 31, 2013, are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Gas
2014	$ 211,988
2015	132,427
2016	120,383
2017	71,459
2018	47,017
Thereafter	66,971
Total	$ 650,245

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 $11.2 million for both the years ended March 31, 2013 and March 31, 2012. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statement of income was approximately $6.5 million and $4.3 million for the years ended March 31, 2013 and March 31, 2012, respectively.

The future minimum lease payments for the years subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ending March 31,	
2014	11,464
2015	11,502
2016	11,815
2017	11,903
2018	11,993
Thereafter	85,518
Total	$ 144,195

Legal Matters

The collective and class action lawsuit filed on behalf of Local 101 and its members alleging violations of the Fair Labor Standards Act and the New York Labor Law as a result of the payroll irregularities that occurred after the Company's implementation in November 2012 of its back office financial system has been discontinued and is now subject to a settlement agreement. Accordingly, there are no material employment-related actions currently pending involving the Company.

In addition to the payroll matter, the Company is subject to various legal proceedings, primarily injury claims, 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 condition, or cash flows.

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 Orders on Consent or Voluntary Cleanup Agreements ("VCA") 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, 2013 and March 31, 2012 were $45.3 million and $19.9 million, respectively.

The fair values included discounting of the reserve at a rate of 6.5%, 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 accounting guidance on environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $506.5 million and $482.2 million at March 31, 2013 and March 31, 2012, respectively. The Company's environmental obligation arising at the date of acquisition of Keyspan is net of a discount rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2013 and March 31, 2012 was $632.4 million and $590.3 million, respectively. These costs are expected to be incurred over the next 44 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 upon 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 site investigation and remediation costs. Accordingly, as of March 31, 2013 and March 31, 2012, the Company has recorded net environmental regulatory assets of $707.5 million and $649.7 million, respectively.

During the year ended March 31, 2012, the Company received new information concerning the proposed remediation plans for a site in downstate New York which resulted in the Company increasing its environmental reserve by approximately $107 million. During the year ended March 31, 2013, the company increased its environmental reserve by approximately $17 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

Several plaintiffs in a single lawsuit alleged damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Staten Island, New York. The litigation was settled in July 2011. KeySpan continues to conduct remediation activities at this location pursuant to an Order on Consent with the DEC.

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.

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. Generally, our largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and polychlorinated biphenyls contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Balance at beginning of year	**$ 10,862**	$ 10,247
Accretion expense	**652**	615
Balance at end of year	**$ 11,514**	$ 10,862

Note 10. Related Party Transactions

Accounts Receivable from Affiliates 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. At March 31, 2013 and March 31, 2012, the Company had net outstanding accounts receivable from affiliates/accounts payable to affiliates balances as follows:

	March 31, 2013	March 31, 2012	March 31, 2013	March 31, 2012 (Revised)
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ -**	$ -	**$ 125,320**	$ 118,867
NGUSA Service Co	**-**	-	**134,687**	109,092
KeySpan Gas East Corp	**45,238**	12,671	**-**	-
Other affiliates, net	**436**	1,257	**7,266**	1,476
Total	**$ 45,674**	$ 13,928	**$ 267,273**	$ 229,435

Money Pool

The settlement of the Company's various transactions with KeySpan, NGUSA and certain affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an Unregulated Money Pool. Financing for the Company's working capital and gas inventory needs are obtained through participation in the Regulated Money Pool, except for that of NETCO, which participates in the Unregulated Money Pool. The Company, as a participant in the Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. 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 Money Pools, if necessary. The Company had a short-term money pool payable of $106.6 million and $21.0 million at March 31, 2013 and March 31, 2012, respectively. NETCO had a short-term money pool receivable of $77.0 million and $60.6 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 1.45% and 1.23% for the years ended March 31, 2013 and March 31, 2012, 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 typically 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, etc. Lastly, all other costs are allocated based on a general allocator. Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $261.2 million and $204 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. 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 approximately $5.1 million and $5.0 million before taxes, and $3.3 million and $3.2 million after taxes, for each of the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. 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. The Golden Share was issued by the Company on July 8, 2011. The Golden Share has a par value of $1 dollar.

Note 12. Dividends

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, 2013 and March 31, 2012, 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.

nationalgrid

KeySpan Gas East Corporation
d/b/a National Grid

Financial Statements
For the years ended March 31, 2013 and March 31, 2012

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, which comprise the balance sheets as of March 31, 2013 and March 31, 2012, 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 conducte 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 whethe 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, 2013 and March 31, 2012, and the result 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 17, 2013

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,157**	$ 5,623
Accounts receivable	**264,423**	191,976
Allowance for doubtful accounts	**(17,062)**	(22,007)
Other receivable	**42,192**	-
Accounts receivable from affiliates	**47,299**	1,157
Unbilled revenue	**69,104**	52,334
Materials, supplies, and gas in storage	**45,956**	79,215
Regulatory assets	**64,323**	46,766
Derivative contracts	**14,261**	11,356
Prepaid and other current assets	**12,344**	15,515
Total current assets	**545,997**	381,935
Property, plant, and equipment, net	**2,358,756**	2,262,803
Deferred charges and other assets:		
Goodwill	**1,018,407**	1,018,407
Regulatory assets	**594,591**	782,471
Derivative contracts	**3,165**	12,817
Other deferred charges	**5,476**	4,925
Total deferred charges and other assets	**1,621,639**	1,818,620
Total assets	**$ 4,526,392**	$ 4,463,358

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

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

	March 31,	
	2013	2012
		(Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 62,433**	$ 37,918
Accounts payable affiliates	**107,437**	95,973
Intercompany moneypool	**398,042**	79,566
Customer deposits	**8,613**	10,148
Interest accrued	**21,084**	20,168
Taxes accrued	**19,404**	14,955
Regulatory liabilities	**24,742**	23,656
Current portion of deferred income tax liabilities	**26,707**	14,877
Derivative contracts	**349**	13,589
Other current liabilities	**8,495**	14,814
Total current liabilities	**677,306**	325,664
Deferred credits and other liabilities:		
Regulatory liabilities	**260,437**	369,389
Asset retirement obligations	**13,281**	12,529
Deferred income tax liabilities	**609,310**	577,131
Postretirement benefits and other reserves	**261,364**	242,900
Environmental remediation costs	**109,408**	142,516
Derivative contracts	**1,003**	8,042
Other deferred liabilities	**42,338**	31,355
Total deferred credits and other liabilities	**1,297,141**	1,383,862
Capitalization:		
Shareholders' equity	**1,951,945**	2,153,832
Long-term debt	**600,000**	600,000
Total capitalization	**2,551,945**	2,753,832
Total liabilities and capitalization	**$ 4,526,392**	$ 4,463,358

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

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

	Year Ended March 31,	
	2013	2012 (Revised)
Operating revenues	**$ 957,563**	$ 997,146
Operating expenses:		
Purchased gas	**353,150**	399,105
Operations and maintenance	**235,435**	210,797
Depreciation, amortization, and accretion	**57,690**	55,979
Amortization of regulatory assets and rate plan	**40,455**	22,655
Other taxes	**132,470**	126,797
Total operating expenses	**819,200**	815,333
Operating income	**138,363**	181,813
Other income and (deductions):		
Interest on long-term debt	**(34,858)**	(34,943)
Other interest, including affiliate interest	**(6,742)**	(22,984)
Other (deductions) income, net	**(14,662)**	23,603
Total other deductions, net	**(56,262)**	(34,324)
Income before income taxes	**82,101**	147,489
Income taxes expense:		
Current taxes	**(6,734)**	(21,880)
Deferred taxes	**40,960**	82,006
Total income tax expense	**34,226**	60,126
Net income	**$ 47,875**	$ 87,363

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

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

	Year Ended March 31,	
	2013	2012
		(Revised)
Operating activities:		
Net income	$ **47,875**	$ 87,363
Adjustments to reconcile net income to net cash provided by operating activiies:		
Depreciation, amortization, and accretion	**57,690**	55,979
Amortization of regulatory assets and rate plan deferrals	**40,455**	22,655
Provision for deferred income taxes	**40,960**	82,006
Bad debt expense	**185**	10,758
Regulatory deferrals	**35,591**	(8,638)
Pension and other postretirement expenses	**20,525**	30,019
Pension and other postretirement contributions	**(29,251)**	(19,079)
Environmental remediation payments	**(36,514)**	(42,441)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(134,961)**	113,297
Materials, supplies, and gas in storage	**33,259**	(29,451)
Accounts payable and accrued expenses	**23,952**	16,102
Prepaid and accrued taxes	**4,449**	21,965
Regulatory assets and liabilities, net	**13,125**	(8,201)
Other liabilities	**7,100**	7,027
Derivative contracts	**(13,532)**	8,539
Other, net	**(15)**	13,294
Net cash provided by operating activities	**110,893**	361,194
Investing activities:		
Capital expenditures	**(144,263)**	(127,157)
Cost of removal	**(17,555)**	(13,724)
Issurance proceeds applied to capital expenditures	**14,423**	-
Net cash used in investing activities	**(147,395)**	(140,881)
Financing activities:		
Dividends to KeySpan Corporation	**(250,000)**	-
Affiliated money pool and intercompany borrowing	**283,798**	(214,715)
Share based compensation	**238**	-
Net cash provided by (used in) financing activities	**34,036**	(214,715)
Net (decrease) increase in cash and cash equivalents	**(2,466)**	5,598
Cash and cash equivalents, beginning of year	**5,623**	25
Cash and cash equivalents, end of year	$ **3,157**	$ 5,623
Supplemental disclosures:		
Interest paid	$ **37,321**	$ 20,230
Income taxes refunded from Parent	**21,221**	15,047
State income taxes paid	**2,005**	1,730
Significant non-cash items:		
Capital-related accruals included in accounts payable	**12,542**	601

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

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

			March 31,	
			2013	2012 (Revised)
Total shareholders' equity			**$ 1,951,945**	$ 2,153,832
Long-term debt:	Interest Rate	Maturity Date		
Senior unsecured note	5.60%	November 29, 2016	**100,000**	100,000
Senior unsecured note	5.82%	April 1, 2041	**500,000**	500,000
Total long-term debt			**600,000**	600,000
Total capitalization			**$ 2,551,945**	$ 2,753,832

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, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
BALANCE AS OF MARCH 31, 2011 - revised	100	$ -	-	$ -	$ 2,014,878	$ 51,591	$ 2,066,469
Net income - revised						87,363	87,363
Issuance of preferred stock	-	-	1	-	-	-	-
BALANCE AS OF MARCH 31, 2012 - revised	100	$ -	1	$ -	$ 2,014,878	$ 138,954	$ 2,153,832
Net income	-	-	-	-	-	47,875	47,875
Share based compensation	-	-	-	-	238	-	238
Dividend issued to Keyspan Corporation	-	-	-	-	(111,046)	(138,954)	(250,000)
BALANCE AS OF MARCH 31, 2013	100	$ -	1	$ -	$ 1,904,070	$ 47,875	$ 1,951,945

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

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

KeySpan Gas East Corporation d/b/a National Grid (the "Company", "we", and "our") distributes natural gas to approximately 487,000 retail customers and transports natural gas to approximately 72,000 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"). KeySpan 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 an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through August 17, 2013, 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, 2013.

B. Financial Statement Revisions

During 2013, management determined that the Company's previously issued financial statements for the year ended March 31, 2012 included errors related to the recording of certain accounting transactions. The Company corrected these errors by revising the prior period financial statements, the impacts of which are described below. Management has concluded that the errors did not have a material impact on any previously issued financial statements but would have been material if the corrections were recorded in the current year statement of income. Therefore, the previously reported amounts were revised within the financial statements for the year ended March 31, 2012.

The first error related to an understatement of the allocation from the Company's parent of claims incurred but not yet reported for injuries and damages. A cumulative adjustment of $4.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $3.5 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011), and $1.4 million was recorded as a reduction of net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The second error related to the incorrect calculation and therefore insufficient amounts of amortization of certain regulatory assets and liabilities in previous years. A cumulative adjustment of $2.1 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $1.3 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011) and $0.8 million was recorded as a reduction of net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The third error related to the incorrect accounting for a gas management contract as a derivative in its entirety. Only a portion of the contract related to a peaking gas option embedded within the contract should have been accounted for as a derivative. The contract is subject to regulatory recovery and as such, the resulting adjustment in the year ended March 31, 2012 had no impact on the statement of income. An overall adjustment to reduce the reported amount of Derivative Contracts and resulting Regulatory Liability by $24.2 million was recorded.

The fourth correction reclassifies $27.2 million of regulatory liabilities previously classified within long term regulatory assets, to long term regulatory liabilities. These reclassifications had no effect on the Company's results of operations or cash flows.

In addition, certain misclassifications related to the presentation of current and deferred income taxes and uncertain tax positions have been reflected in the revisions below. The Company misclassified the current portion of deferred tax liabilities by $3.9 million, accrued taxes by $20.1 million, accounts payable to affiliates by $11.7 million, and accrued interest related to uncertain tax positions by $5.3 million. These misclassifications in current liabilities were offset by misclassifications in non-current deferred tax liabilities by $19.9 million, other deferred liabilities by $14.8 million and regulatory assets by $6.4 million. The adjustments for this balance sheet presentation error in the prior fiscal year had an immaterial impact on the statement of income.

The following table shows the amounts previously reported as revised:

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Balance Sheet			
Current assets			
Regulatory assets	$ 50,161	$ (3,395)	$ 46,766
Derivative contracts	15,769	(4,413)	11,356
Total Current assets	**65,930**	**(7,808)**	**58,122**
Deferred charges and other assets			
Regulatory assets	765,683	16,788	782,471
Derivative contracts	39,010	(26,193)	12,817
Total Deferred charges and other assets	**804,693**	**(9,405)**	**795,288**
Current liabilities			
Accounts payable to affiliates	107,646	(11,673)	95,973
Interest accrued	25,452	(5,284)	20,168
Taxes accrued	35,099	(20,144)	14,955
Regulatory liabilities	28,069	(4,413)	23,656
Current portion of deferred income tax liabilities	18,819	(3,942)	14,877
Derivative contracts	16,984	(3,395)	13,589
Total Current liabilities	**232,069**	**(48,851)**	**183,218**
Deferred credits and other liabilities			
Regulatory liabilities	365,910	3,479	369,389
Deferred income tax liabilities	562,003	15,128	577,131
Derivative contracts	11,057	(3,015)	8,042
Other deferred liabilities	8,221	23,134	31,355
Total Deferred credits and other liabilities	**947,191**	**38,726**	**985,917**
Capitalization:			
Retained Earnings			
March 31, 2012	146,042	(7,088)	138,954
March 31, 2011	56,478	(4,887)	51,591

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Statement of Income			
Operating revenues	$ 997,214	$ (68)	$ 997,146
Operating expense:			
Operations and maintenance	208,424	2,373	210,797
Amortization of regulatory assets and rate plan deferrals	21,415	1,240	22,655
Income before income taxes	151,170	(3,681)	147,489
Income taxes			
Current taxes	(15,147)	(6,733)	(21,880)
Deferred taxes	76,753	5,253	82,006
Net income	89,564	(2,201)	87,363
Statement of Cash Flows			
Net income	$ 89,564	$ (2,201)	$ 87,363
Amortization of regulatory assets and rate plan deferrals	21,415	1,240	22,655
Provision for deferred income taxes	76,753	5,253	82,006
Accounts payable and accrued expenses	15,315	787	16,102
Prepaid and accrued taxes	17,238	4,727	21,965
Regulatory assets and liabilities, net	270	(8,471)	(8,201)
Derivatives, net	-	8,539	8,539
Other liabilities	10,914	(3,887)	7,027
Net cash provided by operating activities	355,207	5,987	361,194
Affiliated money pool and intercompany borrowing	(208,728)	(5,987)	(214,715)
Net cash used in financing activities	(208,728)	(5,987)	(214,715)

C. Basis of Presentation

The financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

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

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 10, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are presented as such.

D. Regulatory Accounting

The New York State Public Service Commission ("NYPSC") provides the final determination of the rates the Company charges its retail customers. In certain cases, the actions of the NYPSC to determine the rates the Company charges its customers 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

E. Revenue Recognition

The Company bills its customers on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a cost of gas adjustment factor ("CGAF") included in the utility tariff. The CGAF provision requires an annual reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending subsequent recovery from or refund to firm customers.

Revenues are subject to a Revenue Decoupling Adjustment Factor ("RDAF") which requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without financial detriment to the Company resulting from reductions in gas usage.

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.

The Company's revenue from the sale and delivery of gas for the years ended March 31, 2013 and March 31, 2012 is as follows:

	March 31,	
	2013	2012
Residential	**66%**	64%
Commercial	**19%**	19%
Gas transportation and other services	**15%**	17%

F. Property, Plant and Equipment

Property, plant and equipment is stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally 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. Whenever 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 average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2013 are as follows:

	March 31,	
	2013	2012
Composite rates - depreciation	**2.7%**	2.7%
Composite rates - cost of removal	**0.2%**	0.2%
Total composite rates	**2.9%**	2.9%
Average service life	**35 years**	35 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $42.3 million and $36.8 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income and deductions for the equity component and other interest expense for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Debt	**$ 408**	$ 142
Equity	**1,100**	1,121
	$ 1,508	$ 1,263
Composite AFUDC rate	**5.7%**	8.2%

G. Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 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, 2013 to March 31, 2018; (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 US 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 we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2013 or March 31, 2012.

H. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have original maturities of three months or less at the date of purchase as cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

I. Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is calculated by applying a reserve factor to outstanding receivables. The reserve factor is based upon historical write-off experience and assessment of customer collectability.

J. Materials, Supplies, and Gas in Storage

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, the balance of materials and supplies was $15.8 million and $5.8 million, respectively. 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, 2013 or March 31, 2012.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the NYPSC. At March 31, 2013 and March 31, 2012, gas in storage was $30.2 million and $73.4 million, respectively.

K. Incomes and Other Taxes

Federal 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. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and 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 included subsidiaries. Benefits allocated by NGNA are treated as capital contributions.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected in the accompanying balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

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 state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects from customers various taxes that are levied by state and local governments on the sale or distribution of gas. The Company presents taxes that are imposed on customers (such as sales taxes) on a net basis (i.e., excluded from revenues) and presents excise taxes on a gross basis.

Gas distribution revenues include the collection of excise taxes and the related expense is included in other taxes in the accompanying statements of income. Excise taxes collected and paid for the years ended March 31, 2013 and March 31, 2012 were $12.8 million and $12 million, respectively.

L. Employee Benefits

The Company follows the accounting guidance related to the accounting for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the balance sheets as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated entities, this offsetting entry is recorded as a regulatory asset or liability when the balance will be recovered from or refunded to customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP assets are measured at fair value, using the year-end market value of those assets.

M. Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities, equity or other indices. Derivatives enable their users to manage their exposure to these markets or credit risks. The Company uses derivative instruments to manage our operational market risks from commodities and economically hedge a portion of the Company's exposure to commodity price risk. When economic hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts (hedging transactions), as well as non-performance by the counterparties of the underlying transactions.

Commodity Derivative Instruments – Regulated Accounting

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

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sales exception and are accounted for upon settlement. If the Company were to determine that a contract 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.

Balance Sheet Offsetting

Accounting guidance relating to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. 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 instrument on a gross basis, with related cash collateral recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2013 or March 31, 2012.

N. Fair Value Measurements

The Company measures commodity 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.

O. Recent Accounting Pronouncements

Accounting Guidance Adopted in Fiscal Year 2013

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance that amended existing fair value measurement guidance. The amendment was issued with a goal of achieving common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value, requires new disclosures about fair value measurements, and changes specific applications of the fair value measurement guidance. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to: fair value measurement of a portfolio of financial instruments; fair value measurement of premiums and discounts; and additional disclosures about fair value measurements. This guidance became effective for financial statements issued for annual periods (for non-public entities such as the Company) beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013, which only impacted its fair value disclosures. There were no changes to our approach to measuring fair value as a result of adopting the new guidance.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance in its fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the new guidance, reporting entities will be 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. In January 2013, the FASB issued additional guidance to clarify that the specific instruments and activities that should be considered in these disclosures will be limited to recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, and is to be applied retrospectively. The Company will begin including the new required disclosures in its fiscal year 2014 quarterly financial statements as applicable and does not expect any impact on its financial position, results of operations, or cash flows.

Note 2. Rates and Regulation

Regulatory Assets and Liabilities

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2013 and March 31, 2012:

	March 31, 2013	March 31, 2012 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Environmental response costs	**$ 43,101**	$ 3,101
Postretirement benefits	**16,906**	17,515
Derivative contracts	**349**	13,589
Cost to achieve	**3,879**	3,879
PSC assessment	**-**	3,280
Gas costs adjustment	**-**	2,067
Other	**88**	3,335
Total	**64,323**	46,766
Non-current:		
Regulatory deferred tax assets	**3,838**	3,225
Property taxes	**18,405**	30,611
Environmental response costs	**291,149**	462,298
Postretirement benefits	**165,339**	145,188
Derivative contracts	**1,003**	8,042
Asset retirement obligation	**12,818**	11,799
Rate Mitigation	**24,608**	22,581
Carrying Charges	**51,178**	89,767
Other	**26,253**	8,960
Total	**594,591**	782,471
Regulatory liabilities:		
Current:		
Property taxes	**-**	9,300
Derivative contracts	**14,261**	11,356
PSC assessment	**1,596**	-
Gas costs adjustment	**5,665**	-
Transition balancing accounts	**-**	3,000
Other	**3,220**	-
Total	**24,742**	23,656
Non-current:		
Environmental response costs	**9,806**	62,513
Postretirement benefits	**44,866**	40,101
Property taxes	**3,171**	30,086
Delivery rate surcharge	**85,295**	72,964
Derivative contracts	**3,165**	12,817
Costs of removal	**42,312**	36,799
Excess earnings	**6,813**	24,309
Carrying Charges	**13,943**	27,266
Capital Tracker	**27,016**	33,467
Other	**24,050**	29,067
Total	**260,437**	369,389
Net regulatory assets	**$ 373,735**	$ 436,192

Postretirement benefits: The amount in regulatory assets primarily represents the excess costs of the Company's pension and postretirement benefits 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. The amount in regulatory liabilities primarily represents accrued carrying charges as calculated in accordance with the Company's Pension and OPEB reserve mechanism.

Delivery rate surcharge and Environmental response costs: A $10 million annual surcharge for the recovery of regulatory assets (“Delivery Rate Surcharge”) was implemented in January 2009. The Delivery Rate Surcharge increased by $10 million per year in rate years 2010 through 2012 of the Company’s rate plan, resulting in an aggregate recovery of approximately $100 million. Revenues collected from the Delivery Rate Surcharge were deferred and used to offset future increases in rates for costs such as site investigation and remediation (“SIR”) or other cost deferrals. The Delivery Rate Surcharge expired on December 31, 2012. In January 2010, the Company submitted a filing on the status of its regulatory deferrals so that the NYPSC could determine if the Company should adjust its revenue levels under the existing rate plan so as to minimize outstanding deferral balances. On November 28, 2012, the NYPSC issued an order authorizing the recovery of $93.1 million through the implementation of an SIR surcharge which supersedes the Delivery Rate Surcharge that expired on December 31, 2012. The SIR surcharge is designed to collect $40.0 million per year beginning January 1, 2013, to amortize the SIR balance approved for recovery by the NYPSC. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. Because the SIR surcharge supersedes the Delivery Rate Surcharge, amounts previously relating to the Delivery Rate Surcharge, all related have been presented within the Environmental response costs captions as of March 31, 2013 in the above table.

Cost of removal: The Company’s depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to customers. This regulatory liability represents cumulative costs recovered in excess of costs incurred. For a vast majority of its gas distribution assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

Capital tracker: The Company has a capital tracker mechanism that reconciles the Company's Capital Expenditures to the amounts permitted in rates. The mechanism provides 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 defers the full revenue requirement equivalent of CSC expenditures above or below the CSC rate allowance and defers the revenue requirement equivalent of any other unspent Capex below the rate allowance for all other capital expenditures.

Excess earnings: The base rates in the Company's rate plan (2008-12) provides for a 9.8% return on common equity capital ("ROE"). At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its ROE. If the level of earned common equity in the applicable rate year exceeds 10.5%, the company is required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers.

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 depending on the asset or liability position.

Carrying Charges: The Company includes in rate base or records carrying charges on most regulatory balances related to rate adjustment mechanisms, postretirement benefits, and environmental 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. The total amount of accumulated accrued carrying charges recorded as regulatory assets at March 31, 2013 and March 31, 2012 was $51.2 million and $89.8 million, respectively. The total amount of accumulated accrued carrying charges recorded as regulatory liabilities at March 31, 2013 and March 31, 2012 was $13.9 million and $27.3 million, respectively. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

During fiscal year 2013, the Company received an order from the NYPSC relating to SIR as described above, requiring that carrying charges on SIR related balances be calculated net of deferred taxes. As a result, management concluded that all of its carrying charges should be calculated in the same manner and recognized an impairment on existing carrying charges deferred within regulatory assets of $31.5 million and derecognized existing carrying charges accrued within regulatory liabilities of $14.0 million.

The following table presents the carrying charges that were recognized in the accompanying statement of income during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ (294)**	$ (15,203)
Other income, net	**(9,518)**	24,118
	$ (9,812)	$ 8,915

Rate Matters

The Company has been subject to a rate plan with a primary term of five years (through December 31, 2012) that remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates included an allowed return on equity of 9.8%. An earnings sharing mechanism in the rate plan is triggered if cumulative annual earnings result in a return on equity that exceeds 10.5%. Earnings above this threshold are shared with customers. For the rate years ended December 31, 2012 and December 31, 2011, the Company did not have any excess earnings.

Other Regulatory Matters

In June 2009, the Company made a 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 revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. On June 14, 2013, the Company submitted a compliance filing in which it estimated a Temporary State Assessment of $15 million for the 2013/14 State Fiscal Year and indicated that it would maintain its currently effective surcharges for the July 1, 2013 through June 30, 2014 collection period to recover revenues sufficient to pay the Temporary State Assessment. The Company had deferred payable balances related to the Temporary State Assessment in the amount of $3.4 million at March 31, 2013 and deferred receivable balances of $3.3 million at March 31, 2012.

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges sought to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. A final audit report was provided to the Company by the NYPSC in October 2012. In its January 16, 2013 Order Directing Submission of Implementation Plan and Establishing Further Findings, the NYPSC disclosed the findings of the Overland Audit of the affiliate cost allocations, policies and procedures of National Grid's service companies as applicable to its New York utilities. The final audit report concluded that the Company was overcharged $13.3 million in service company related costs. The Company disputes the audit conclusions as the Company believes that sampling amounts found by Overland to be in error should not have been extrapolated to the larger population. The NYPSC has ordered that further proceedings be conducted to address the Company's disagreement with the testing results and statistical extrapolation. 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.

On December 22, 2009, the NYS PSC adopted the terms of a Joint Proposal between Staff of the Department of Public Service and the Company that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1, 2010. The RDM applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The RDM is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the link between sales volumes and revenues. The company had deferred payable balances related to the RDM in the amount of $146 thousand at March 31, 2013. These payable balances are fully refundable to the affected customer class.

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

Note 3. 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 Company participates in the following plans: Retirement Income Plan of KeySpan Corporation, National Grid USA Companies' Executive SERP (Verion III-KeySpan) (ESRP), Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., Retirement Income Restoration Plan (former Lilco Plan), Supplemental Death and Retirement Plan (former Lilco Plan), KeySpan Benefit Plan for Retired (East) Union Employees and KeySpan Benefit Plan for Retired (East) Management Employees.

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $29.1 million and $19.1 million to the Plans.

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.

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 expense is included in operations and maintenance expenses in the accompanying statements of operations. The Company is subject to certain deferral accounting requirements mandated by the NYPSC for pension and PBOP costs. Any variation between actual costs and amounts used to establish rates is deferred as a regulatory asset or a regulatory liability and collected from or refunded to customers in subsequent periods.

KeySpan's unfunded obligations at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 892,701**	$ 929,794
PBOP	**1,339,788**	1,267,919
	$ 2,232,489	$ 2,197,713

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, 2013 and March 31, 2012 are as follows:

	Years Ended March 31, 2013	Years Ended March 31, 2012
	(in thousands of dollars)	
Pension	**$ 11,284**	$ 11,329
PBOP	**13,877**	15,297
	$ 25,161	$ 26,626

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, the Company recognized $0.3 million and $0.3 million of expense for matching contributions, respectively, in the accompanying statements of income.

Note 4. Property, Plant and Equipment

At March 31, 2013 and March 31, 2012, property, plant and equipment at cost and accumulated depreciation and amortization are as follows:

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Plant and machinery	**2,813,595**	$ 2,737,187
Land and buildings	**55,880**	55,824
Assets in construction	**88,808**	23,561
Software and other intangibles	**24,149**	24,149
Total	**2,982,432**	2,840,721
Accumulated depreciation and amortization	**(623,676)**	(577,918)
Property, plant and equipment, net	**$ 2,358,756**	$ 2,262,803

Note 5. Derivative Contracts

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

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. The Company's strategy is to minimize fluctuations in firm gas sales prices to the Company's customers. The Company also employs a small number of derivative instruments related to storage optimization and a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers.

The following are commodity volumes in dekatherms ("dths") associated with derivative contracts as of March 31, 2013 and March 31, 2012:

		March 31, 2013	March 31, 2012
		(in thousands)	
Physical Contracts:	Gas purchase	**24,397**	44,428
Financial Contracts:	Gas swaps	**5,540**	7,273
	Gas options	**1,450**	2,450
Total		**31,387**	**54,151**

The following table presents the Company's derivative assets and liabilities at March 31, 2013 and March 31, 2012 that are included in the accompanying balance sheets for the above contracts:

	Asset Derivatives March 31, 2013	Asset Derivatives March 31, 2012 (Revised)		Liability Derivatives March 31, 2013	Liability Derivatives March 31, 2012 (Revised)
	(in thousands of dollars)			(in thousands of dollars)	
Current assets:			Current liabilities:		
Rate recoverable contracts			Rate recoverable contracts		
Gas purchase contracts	**$ 12,026**	$ 9,914	Gas purchase contracts	**$ 335**	$ 6,574
Gas swap contracts	**1,813**	1,437	Gas swap contracts	**10**	6,063
Gas option contracts	**422**	5	Gas option contracts	**4**	952
	14,261	11,356		**349**	13,589
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts			Rate recoverable contracts		
Gas purchase contracts	**3,165**	12,817	Gas purchase contracts	**1,003**	8,042
	3,165	12,817		**1,003**	8,042
Total	**$ 17,426**	$ 24,173	Total	**$ 1,352**	$ 21,631

The changes in fair value of our 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 on the accompanying statements of income. The changes in fair value of our contracts not subject to rate recovery are recorded within purchased gas in the accompanying statements of income.

The following table presents the impact that the change in the fair value of the Company's derivative contracts had on the accompanying balance sheets and statements of income for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (13,278)**	$ 7,049
Gas swap contracts	**(6,053)**	1,679
Gas option contracts	**(948)**	875
	(20,279)	9,603
Regulatory liabilities:		
Gas purchase contracts	**(7,540)**	(49)
Gas swap contracts	**376**	1,215
Gas option contracts	**417**	(102)
	(6,747)	1,064
Total decrease in net regulatory assets (liabilities)	**$ (13,532)**	$ 8,539

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the NGUSA Energy Procurement Risk Management Committee (EPRMC). The ERPMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures, as well transaction strategies, annual supply plans and all valuation and control procedures. The EPRMC is chaired by Global Tax and Treasury Director and includes NGUSA's Senior Vice President of Regulatory Affairs, Senior Vice President US General Counsel and Regulatory, and the Vice President US Treasury. The EPRMC reports to NGUSA's Finance Committee. Counterparty credit exposure is monitored, 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 reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $16 million as of March 31, 2013.

The Company enters into commodity transactions on the New York Mercantile Exchange ("NYMEX"). The NYMEX clearinghouses 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, we may limit our 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, 2013 and March 31, 2012 was $0.05 million and $7.0 million, respectively. The Company had no collateral posted for these instruments at March 31, 2013 and March 31, 2012, 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 $0.05 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

The Company measures commodity derivatives at fair value. 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, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Financial	$ -	$ 1,813	$ 422	$ 2,235
Physical		4	15,187	15,191
Total assets	-	1,817	15,609	17,426
Liabilities:				
Derivative contracts				
Financial		10	4	14
Physical		47	1,291	1,338
Total liabilities	-	57	1,295	1,352
Net (liabilities) assets	$ -	$ 1,760	$ 14,314	$ 16,074

	March 31, 2012 (Revised)			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Financial	$ -	$ 1,437	$ 5	$ 1,442
Physical		6	22,725	22,731
Total assets	-	1,443	22,730	24,173
Liabilities:				
Derivative contracts				
Financial		6,063	952	7,015
Physical		-	14,616	14,616
Total liabilities	-	6,063	15,568	21,631
Net (liabilities) assets	$ -	$ (4,620)	$ 7,162	$ 2,542

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward physical gas deals with pricing inputs obtained from the NYMEX and Intercontinental Exchange ("ICE"), except in cases in which ICE publishes seasonal averages or there were no transactions within last seven days. We may utilize discounting based on quoted interest rate curves including consideration of nonperformance risk and may include liquidity reserves calculated based on bid/ask spread for our 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 consist of the Company's complex and structured OTC physical gas transactions, which are valued based on internally-developed models. Our complex and structured OTC physical gas transactions are categorized in Level 3 as the model inputs generally are not observable. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about risks such as nonperformance risk, liquidity, volatility and contract duration. Industry-standard valuation techniques, such as a 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 curve with correlation coefficients less than 95%, 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. The forward curves used for financial reporting are developed and verified by the middle office.

Level 3 Fair Value Measurements

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Beginning balance	**$ 7,162**	$ 15,243
Transfers out of Level 3	**-**	38
Total gains or losses included in regulatory assets and liabilities	**1,517**	7,459
Purchases	**1,006**	(5,297)
Settlements	**4,629**	(10,281)
Ending balance	**$ 14,314**	$ 7,162

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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 in or out of Level 3 during the year ended March 31, 2013. In addition, there were no transfers between Level 1 and Level 2 during the years ended March 31, 2013 or March 31, 2012.

The following table provides information about our significant Level 3 valuations, of which the most significant positions are gas forwards contracts. Long term gas supply contracts are measured at fair value using both actively traded pricing points as well as unobservable inputs such as gas prices beyond observable periods and long term basis quotes and accordingly, the fair value measurements are classified in Level 3.

Commodity	Level 3 Position	Fair Value as of March 31, 2013 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input
Physical						
Gas	Gas Purchase Contract (A)	$ 15,187	$ (1,291)	$13,896	Discounted Cash Flow	Forward Curve
Financial						
Gas	Gas Option Contract (B)	422	(4)	418	Discounted Cash Flow	Forward Curve
	Total	$ 15,609	$ (1,295)	$14,314		

(A) Includes long-term gas supply contracts (greater than one year) with various unobservable inputs and valuation assumptions. Unobservable inputs include long term basis prices, forward capacity costs, etc. In addition, valuation assumptions are made while estimating the fair value of Physical Gas Options. Natural gas prices range between $3.53/Dth to $6.41/Dth for the term of open positions.

(B) Includes Gas Option contracts which are immaterial at March 31, 2013.

The significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement commodity derivatives are forward commodity prices, forward capacity costs, variable charges to the pipeline, etc. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates. In addition, contracts that include release of a storage or pipeline capacity to the counterparty maybe impacted by changes in the capacity costs for such assets.

Other Fair Value Measurement

The Company's balance sheets reflect the long-term debt at amortized cost. The fair value of the Company's long-term debt was estimated based on quoted market prices for similar issues or on current rates offered to the Company for similar debt. The fair value of this debt at March 31, 2013 and March 31, 2012 was $744.1 million and $712.7 million, respectively.

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

Note 7. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Years Ended March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Current tax benefit:		
Federal	**$ (10,208)**	$ (40,256)
State	**3,474**	18,376
Total current tax benefit	**(6,734)**	(21,880)
Deferred tax expense:		
Federal	**35,781**	86,676
State	**5,179**	(4,670)
Total deferred tax expense	**40,960**	82,006
Total income tax expense	**$ 34,226**	$ 60,126

A reconciliation between the expected federal income tax expense, using the federal statutory rate of 35% to the Company's actual income tax expense for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Years Ended March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Computed tax	**$ 28,736**	$ 51,621
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**5,624**	8,909
Other items, net	**(134)**	(404)
Total	**5,490**	8,505
Federal and state income taxes	**$ 34,226**	$ 60,126

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2013 and March 31, 2012 are as follows:

	March 31, 2013	March 31, 2012 (Revised)
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, OPEB and other employee benefits	**$ 121,219**	$ 130,746
Regulatory liabilities - other	**53,629**	53,347
Reserve - environmental	**47,735**	62,180
Future federal benefit on state taxes	**42,540**	40,099
Net operating losses	**14,144**	6,305
Other items	**21,376**	19,439
Total deferred tax assets [1]	**300,643**	312,116
Deferred tax liabilities:		
Property related differences	**665,828**	615,732
Regulatory Assets - environmental	**168,210**	226,569
Other items	**102,622**	61,823
Total deferred tax liabilities	**936,660**	904,124
Net deferred income tax liabilities	**636,017**	592,008
Net deferred income tax liability and investment tax credits	**636,017**	592,008
Current portion of net deferred income tax liability	**26,707**	14,877
Non-current deferred income tax liability and investment tax credits	**$ 609,310**	$ 577,131

[1] There were no valuation allowances for deferred tax assets at March 31, 2013 or 2012.

Jurisdiction	Expiration	Amount
	(in thousands of dollars)	
Federal	03/31/2033	$ 16,948
New York	03/31/2029	126,259
New York	03/31/2030	30,845
New York	03/31/2032	22,450
New York	03/31/2033	50,325

The Company included in the National Grid North America Inc. ("NGNA") and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

As of March 31, 2013 and March 31, 2012, the Company's current federal income tax balances receivable from its parent are $1 million and $12 million, respectively.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $102.9 million and $92.6 million, respectively, of which $10.3 million and $10.3 million, respectively, would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2013 and March 31, 2012:

	2013	2012
	(in thousands of dollars)	
Balance at the beginning of the year	$ 92,618	$ 118,334
Gross increases related to prior period	2,364	856
Gross decreases related to prior period	(421)	(28,232)
Gross increases related to current period	10,769	1,674
Gross decreases related to current period	(407)	(14)
Settlements with tax authorities	(2,005)	-
Ending balance	$ 102,918	92,618

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $10.7 million and $8.5 million, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $4.7 million and $2.5 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in other deductions in the accompanying income statement. No tax penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

It is reasonably possible that other events will occur during the next 12 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 their results of operations, financial position, or liquidity.

In September 2011, the IRS commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and National Grid North America Inc. and subsidiaries for the fiscal years ending March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 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 ended December 31, 2003 through March 31. 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2013 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, 2000 through March 31, 2010. New York State has disallowed the claims for December 31, 2000 through December 31, 2006 during audit, and also denied them on appeal to the New York Tax Tribunal, which decision was futher appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and therefore expects to make a payment with regard to tax and interest within the next 12 months.

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

Jurisdiction	Tax Year
Federal	August 24, 2007
New York	December 31, 2000*

*The 2000-2002 years are only open with respect to the NY ITC claims.

Note 8. Debt

Authorization to Issue Debt

The Company has previously been provided authority from the NYPSC to issue, prior to March 31, 2014, up to $1.0 billion in new long term debt securities. The Company has $500 million in Senior Unsecured Notes outstanding under this authority.

Senior Unsecured Notes
The Company's $100 million of 5.6% Senior Unsecured Notes mature on November 29, 2016. Interest is payable on a semi-annual basis each May and November. In addition, the Company has $500 million of Senior Unsecured Notes at 5.82% outstanding, and which are due April 1, 2041. Interest on those Notes are payable on a semi-annual basis each April and October.

The aggregate maturities of long-term debt subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ended March 31,	
2014	$ -
2015	-
2016	-
2017	100,000
2018	-
Thereafter	500,000
Total	$ 600,000

Note 9. Commitments and Contingencies

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern United States affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer restoration through March 31, 2013, from this storm were approximately $97.2 million. The Company has recorded an "other receivable" on the balance sheet at March 31, 2013 in the amount of $42.2 million, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles.

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 service required from third-parties.

The Company's commitments under these long-term contracts for years subsequent to March 31, 2013, are summarized in the table below:

(in thousands of dollars) Years Ended March 31,	Gas
2014	$ 345,129
2015	263,689
2016	253,365
2017	218,347
2018	195,165
Thereafter	831,014
Total	$ 2,106,709

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. Generally, our largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and Polychlorinated Biphenyl contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Balance as of beginning of year	**$ 12,529**	$ 11,820
Accretion expense	**752**	709
Balance as of end of year	**$ 13,281**	$ 12,529

Legal Matters

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Bay Shore. KeySpan has been conducting a remediation at Bay Shore pursuant to an Administrative Order on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). KeySpan 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 condition or cash flows.

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 DEC for inclusion on appropriate site inventories. ACOs or Voluntary Cleanup Agreements ("VCA") 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, 2013 and March 31, 2012 were $36.5 million and $42.4 million, respectively.

Upon acquisition by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve at a rate of 6.5%, 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 accounting guidance on environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $109.4 million and $142.5 million at March 31, 2013 and March 31, 2012, respectively. The Company's environmental obligation arising at the date of acquisition of Keyspan is net of a discount rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2013 and March 31, 2012 was $129.6 million and $163.8 million, respectively. These costs are expected to be incurred over the next 34 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 upon 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 site investigation and remediation costs. Accordingly, as of March 31, 2013 and March 31, 2012, the Company has recorded net environmental regulatory assets of $324.4 million and $462.8 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, 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.

Note 10. Related Party Transactions

Accounts Receivable from affiliates 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 and 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. At March 31, 2013 and March 31, 2012, the Company had net outstanding accounts receivable from affiliates and accounts payable to affiliates balances as follows:

	Accounts Receivable from Affiliates				Accounts Payable to Affiliates			
	March 31,				March 31,			
	2013		2012		**2013**		2012 (Revised)	
	(in thousands of dollars)				*(in thousands of dollars)*			
KeySpan Corporation	**$**	**45,450**	$	-	**$**	**-**	$	9,917
Brooklyn Union Gas Company		**-**		-		**45,238**		12,671
NGUSA Service Company		**-**		-		**52,816**		71,352
Niagara Mohawk Power Corp		**-**		-		**910**		276
NG Energy Trading Services		**675**		824		**-**		-
NG Electric Services LLC		**-**		-		**6,914**		740
Other affiliates		**1,174**		333		**1,559**		1,017
Total	**$**	**47,299**	$	1,157	**$**	**107,437**	$	95,973

Money Pool

The settlement of the Company's various transactions with NGUSA and other affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an Unregulated Money Pool. Financing for the Company's working capital and gas inventory needs are obtained through participation in the Regulated Money Pool. The Company, as a participant in the Regulated Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. 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 Money Pools, if necessary. The Company had short-term money pool borrowings of $398.0 million and $79.6 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 1.45% and 1.23% for the years ended March 31, 2013 and March 31, 2012, 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 typically 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, and value of property owned, etc. Lastly, all other costs are allocated based on a general allocator.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $204.1 million and $169.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its 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 this subsidiary, the estimated effect on net income would be approximately $3.0 million and $2.8 million before taxes, and $2.0 million and $1.8 million after taxes, for the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. 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. The Golden Share was issued by the Company on July 8, 2011. The Golden Share has a par value of $1 dollar.

Note 12. Dividends

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, 2013 and March 31, 2012, 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 by NGUSA, 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 million to Keyspan which was settled via the money pool. Of the total $250 million dividend, $139 million has been issued from retained earnings, with the remainder from Additional Paid in Capital.

nationalgrid

Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2013 and March 31, 2012

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Shareholder and Board of Directors of Niagara Mohawk Power Corporation:

We have audited the accompanying financial statements of Niagara Mohawk Power Corporation, which comprise the balance sheets as of March 31, 2013 and March 31, 2012, 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 Corporation at March 31, 2013 and March 31, 2012, 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

September 20, 2013

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

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

	March 31, 2013	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 14,672**	$ 2,213
Restricted cash	**34,982**	18,380
Special deposits	**15,671**	16,484
Accounts receivable	**572,794**	529,215
Allowance for doubtful accounts	**(126,209)**	(189,593)
Accounts receivable from affiliates	**7,327**	2,489
Intercompany money pool	**97,171**	117,250
Unbilled revenues	**149,784**	118,402
Materials, supplies and gas in storage	**43,178**	59,078
Derivative contracts	**19,497**	1,364
Regulatory assets	**56,809**	265,220
Current portion of deferred income tax assets	**119,727**	104,301
Prepaid taxes	**66,074**	53,961
Prepaid and other current assets	**58,483**	60,632
Total current assets	**1,129,960**	1,159,396
Equity investments	**3,933**	5,245
Property, plant, and equipment, net	**7,080,116**	6,760,766
Deferred charges and other assets:		
Regulatory assets	**1,079,734**	1,150,894
Goodwill	**1,289,132**	1,289,132
Derivative contracts	**6,202**	350
Financial investments	**28,177**	29,099
Other deferred charges	**34,626**	14,688
Total deferred charges and other assets	**2,437,871**	2,484,163
Total assets	**$ 10,651,880**	$ 10,409,570

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

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

	March 31, 2013	2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ **183,196**	$ 186,720
Accounts payable to affiliates	**134,687**	32,707
Current portion of long-term debt	**45,600**	500,000
Taxes accrued	**26,818**	39,848
Customer deposits	**34,669**	38,476
Interest accrued	**27,716**	30,938
Payroll and benefits accruals	**53,937**	46,106
Regulatory liabilities	**178,126**	84,580
Advance from affiliates	**20,000**	19,654
Derivative contracts	**492**	43,581
Other current liabilities	**25,056**	37,442
Total current liabilities	**730,297**	1,060,052
Deferred credits and other liabilities:		
Regulatory liabilities	**737,767**	700,091
Asset retirement obligations	**10,329**	9,937
Deferred income tax liabilities	**1,691,829**	1,563,702
Postretirement benefits	**244,225**	363,535
Environmental remediation costs	**438,847**	461,130
Derivative contracts	**472**	2,672
Other deferred liabilities	**337,323**	413,989
Total deferred credits and other liabilities	**3,460,792**	3,515,056
Capitalization:		
Shareholders' equity	**3,906,475**	3,934,735
Long-term debt	**2,554,316**	1,899,727
Total capitalization	**6,460,791**	5,834,462
Total liabilities and capitalization	$ **10,651,880**	$ 10,409,570

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

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

	Years Ended March 31, 2013	2012
Operating revenues:		
Electric services	$ 2,775,045	$ 2,916,767
Gas distribution	587,655	654,623
Total operating revenues	3,362,700	3,571,390
Operating expenses:		
Purchased electricity	880,592	838,992
Purchased gas	247,183	277,264
Operations and maintenance	1,217,606	1,203,771
Depreciation and amortization	214,368	209,468
Amortization of stranded costs and rate plan deferrals	197,260	461,160
Other taxes	244,803	240,531
Total operating expenses	3,001,812	3,231,186
Operating income	360,888	340,204
Other income and (deductions):		
Interest on long-term debt	(76,407)	(66,804)
Other interest, including affiliate interest	(18,273)	(38,355)
Other income (deductions), net	5,986	(4,366)
Total other deductions, net	(88,694)	(109,525)
Income before income taxes	272,194	230,679
Income taxes:		
Current	(2,259)	77,832
Deferred	98,293	24,768
Income tax expense	96,034	102,600
Net income	$ 176,160	$ 128,079

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, 2013	2012
Net income	**$ 176,160**	$ 128,079
Other comprehensive income (loss):		
Unrealized gains on securities, net of $1,151 and $729 tax expense	**1,727**	1,093
Changes in pension and other postretirement obligations, net of $449 and $155 tax benefit	**(674)**	(233)
Reclassification of losses into net income, net of $362 and $416 tax benefit	**(544)**	(624)
Other comprehensive income	**509**	236
Comprehensive income	**$ 176,669**	$ 128,315

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, 2013	2012
Operating activities:		
Net income	**$ 176,160**	$ 128,079
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**214,368**	209,468
Amortization of stranded costs and rate plan deferrals	**197,260**	461,160
Provision for deferred income taxes	**98,293**	24,768
Amortization of debt discount and issuance costs	**3,739**	2,497
Bad debt expense	**(18,241)**	36,996
Loss from equity investments	**354**	138
Allowance for funds used during construction	**(7,138)**	(6,356)
Pension and other postretirement expense	**150,106**	154,321
Pension and other postretirement contributions	**(201,191)**	(285,655)
Net environmental remediation payments	**(31,438)**	(11,923)
Changes in operating assets and liabilities:		
Accounts receivable, net and unbilled revenues	**(120,104)**	138,976
Materials, supplies and gas in storage	**15,900**	(20,187)
Accounts payable and accrued expenses	**1,085**	(20,768)
Prepaid and accrued taxes	**(13,129)**	(129,647)
Accounts receivable from/payable to affiliates, net	**27,296**	(500)
Other liabilities	**(86,915)**	(83,441)
Derivative contracts	**(69,274)**	120,087
Regulatory assets and liabilities, net	**179,293**	18,306
Other, net	**(15,777)**	2,601
Net cash provided by operating activities	**500,647**	738,920
Investing activities:		
Capital expenditures	**(497,962)**	(464,365)
Affiliated money pool borrowing and other	**89,925**	(97,596)
Changes in restricted cash	**(16,602)**	(18,380)
Cost of removal	**(49,152)**	(43,552)
Other	**(5,614)**	2,119
Net cash used in investing activities	**(479,405)**	(621,774)
Financing activities:		
Dividends paid on common and preferred stock	**(211,060)**	(1,060)
Payments on long-term debt obligation	**(500,000)**	-
Proceeds from issuance of long-term debt	**700,000**	-
Changes in advance from affiliates	**346**	-
Payment of debt issuance costs	**(4,200)**	-
Parent tax loss allocation	**445**	41,552
Share based compensation	**5,686**	-
Affiliated money pool borrowing and other	**-**	(165,804)
Net cash used in financing activities	**(8,783)**	(125,312)
Net increase (decrease) in cash and cash equivalents	**12,459**	(8,166)
Cash and cash equivalents, beginning of year	**2,213**	10,379
Cash and cash equivalents, end of year	**$ 14,672**	$ 2,213
Supplemental disclosures:		
Interest paid	**$ (91,047)**	$ (77,180)
Income taxes paid	**(99,349)**	(218,390)
Significant non-cash item:		
Capital-related accruals included in accounts payable	**11,396**	23,410

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

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

	Interest Rate	Maturity Date	March 31, 2013	March 31, 2012
Total shareholders' equity			**$ 3,906,475**	$ 3,934,735
Long-term debt:				
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**	-
Senior Note	2.72%	November 28, 2022	**300,000**	-
			1,950,000	1,250,000
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	**575,065**	575,065
Total			**650,065**	650,065
Intercompany Notes:				
Niagara Mohawk Holdings Inc. Note	5.80%	November 1, 2012	**-**	500,000
Unamortized debt discounts			**(149)**	(338)
Total long-term debt			**2,599,916**	2,399,727
Long-term debt due within one year			**45,600**	500,000
Total long-term debt, excluding current portion			**2,554,316**	1,899,727
Total capitalization			**$ 6,460,791**	$ 5,834,462

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, except per share data)

	Common Stock, par value $1 per share		Cumulative Preferred Stock, par value $100 per share			Accumulated Other Comprehensive Income (Loss)				
	Authorized Issued and Outstanding Shares	Amount	Authorized Issued and Outstanding Shares	Amount	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, 2011	187,364,863	$ 187,365	289,847	$ 28,985	$ 2,913,140	$ (119)	$ (863)	$ (982)	$ 637,420	$ 3,765,928
Net income	-	-	-	-	-	-	-	-	128,079	128,079
Comprehensive income:										
Unrealized gain on securities, net of $729 tax expense	-	-	-	-	-	1,093	-	1,093	-	1,093
Changes in pension and other postretirement obligations, net of $155 tax benefit	-	-	-	-	-	-	(233)	(233)	-	(233)
Reclassification adjustment for (gains) included in net income, net of $416 tax expense	-	-	-	-	-	(624)	-	(624)	-	(624)
Total comprehensive income	-	-	-	-	-	-	-	-	-	128,315
Parent tax loss allocation		-		-	41,552	-	-	-	-	41,552
Dividends on preferred stock	-	-	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2012	187,364,863	187,365	289,847	28,985	2,954,692	350	(1,096)	(746)	764,439	3,934,735
Net income	-	-	-	-	-	-	-	-	176,160	176,160
Comprehensive income:										
Unrealized gains on securities, net of $1,151 tax expens	-	-	-	-	-	1,727	-	1,727	-	1,727
Changes in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	-	-	(674)	(674)	-	(674)
Reclassification adjustment for (gains) included in 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	187,364,863	$ 187,365	289,847	$ 28,985	$ 2,960,823	$ 1,533	$ (1,770)	$ (237)	$ 729,539	$ 3,906,475

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

NIAGARA MOHAWK POWER CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Niagara Mohawk Power Corporation (the "Company," "we," and "our"), 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 wholly-owned by 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 an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through September 20, 2013, 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, 2013.

B. Basis of Presentation

The financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

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

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 10, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are presented as such.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the New York Public Service Commission ("NYPSC") provide the final determination of 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

D. Revenue Recognition

The Company bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month-end.

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers. Additionally, a transmission revenue adjustment mechanism is in place that reconciles actual and forecast wholesale transmission revenue for pass back to, or recovery from, retail customers. Furthermore, 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 liability.

The gas distribution business is influenced by seasonal weather conditions. Therefore, the Company's gas utility 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 variation from normal weather.

The relative proportions of the Company's revenue from the sale and delivery of electricity and gas for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Electric		Gas	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Residential	**68%**	68%	**82%**	82%
Commercial and industrial	**32%**	32%	**18%**	18%

E. *Property, Plant and Equipment*

Property, plant and equipment is stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead, and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements, and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Depreciation is generally computed over the estimated useful life of the assets using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the NYPSC. Whenever 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 average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Electric		Gas		Common	
	March 31,		March 31,		March 31,	
	2013	2012	**2013**	2012	**2013**	2012
Composite rates - depreciation	**1.8%**	1.8%	**2.0%**	2.0%	**1.9%**	1.9%
Composite rates - cost of removal	**0.3%**	0.3%	**0.5%**	0.5%	**0.1%**	0.1%
Total composite rates	**2.1%**	2.1%	**2.5%**	2.5%	**2.0%**	2.0%
Average service life	**58 years**	58 years	**49 years**	49 years	**53 years**	53 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $390.9 million and $401.5 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. The equity component of AFUDC is a non-cash amount within the statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income (deductions) net for the equity component and other interest expense for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in its rate base and corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Debt	**$ 3,774**	$ 2,447
Equity	**7,138**	6,356
	$ 10,912	$ 8,803
Composite AFUDC rate	**6.1%**	6.1%

F. Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 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, 2013 to March 31, 2018; (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 US 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 we believe is appropriate based on comparison of our business with the benchmark companies.

The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as we believe that each methodology provides equally valuable information. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2013 or March 31, 2012.

G. Available-For-Sale Securities

The Company holds available-for-sale securities which primarily include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in financial investments in the accompanying balance sheets.

H. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have original maturities of three months or less as cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

I. *Restricted Cash and Special Deposits*

Restricted cash primarily consists of New York Independent System Operator ("NYISO") deposits. Special deposits primarily consist of health care claims deposits.

J. *Allowance for Doubtful Accounts*

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is calculated by applying a reserve factor to outstanding receivables. The reserve factor is based upon historical write-off experience and assessment of customer collectability.

K. *Materials, Supplies and Gas in Storage*

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, the balance of materials and supplies was $36.1 million and $33.6 million, respectively. 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, 2013 or March 31, 2012.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the NYPSC. At March 31, 2013 and March 31, 2012, gas in storage was $7 million and $25.5 million, respectively.

L. *Income and Other 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. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and 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 included subsidiaries. Benefits allocated by NGNA are treated as capital contributions.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected in the accompanying balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

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 state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects certain taxes from customers such as sales taxes, along with 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). Where these taxes, such as gross receipts taxes, excise tax or other surcharges or fees are imposed on the Company, it accounts for these taxes on a gross basis.

Other taxes in the accompanying statements of income primarily include excise tax, property tax and payroll tax. Gas distribution revenues include the collection of excise taxes, while other taxes include the related expense. Excise taxes collected and paid for the years ended March 31, 2013 and March 31, 2012 were $39.1 million and $44.9 million, respectively.

M. Employee Benefits

The Company follows the accounting guidance for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the balance sheets as a net liability or asset and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated entities, this offsetting entry is recorded as a regulatory asset or liability when the balance will be recovered from or refunded to customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. The Company measures and records its pension and PBOP assets at the year-end date. Pension and PBOP assets are measured at fair value, using the year-end market value of those assets.

N. Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities, equity or other indices. Derivatives enable their users to manage their exposure to these markets or credit risks. The Company uses derivative instruments to manage our operational market risks from commodities and economically hedge a portion of the Company's exposure to commodity price risk. When economic hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts (hedging transactions), as well as non-performance by the counterparties of the underlying transactions.

Commodity Derivative Instruments – Regulated Accounting

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas and electricity purchases. The Company's strategy is to minimize fluctuations in firm gas and electricity sales costs to the Company's customers. The accounting for these derivatives is recorded as current or deferred assets or liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the accompanying balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from the Company's customers consistent with regulatory requirements.

Certain non-trading contracts for the physical purchase of electricity qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract 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.

Balance Sheet Offsetting

Accounting guidance related to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. The Company's accounting practice is to not offset such amounts, and to record and present the fair value of derivative instrument on a gross basis, with related cash collateral recorded as restricted cash in the accompanying balance sheets.

O. Fair Value Measurements

The Company measures commodity 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.

P. Power Purchase Agreements

The Company enters into power purchase agreements 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; the and the pricing mechanisms in the contract among other factors.

Q. New and Recent Accounting Guidance

<u>Accounting Guidance Adopted in Fiscal Year 2013</u>

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance that amended existing fair value measurement guidance. The amendment was issued with a goal of achieving common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value, requires new disclosures about fair value measurements, and changes specific applications of the fair value measurement guidance. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to: fair value measurement of a portfolio of financial instruments; fair value measurement of premiums and discounts; and additional disclosures about fair value measurements. This guidance became effective for financial statements issued for annual periods (for non-public entities such as the Company) beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013, which only impacted its fair value disclosures. There were no changes to our approach to measuring fair value as a result of adopting the new guidance.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This new guidance seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. As a result of this guidance entities are required to either present the statement of income and statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. This guidance does not change the items that are reported in other comprehensive income or any reclassification of items to net income. In addition, the new guidance does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance became effective for non-public companies for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company adopted this guidance for the fiscal year ended March 31, 2013, with no impact on its financial position, results of operations, or cash flows.

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the new guidance, reporting entities will be 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. In January 2013, the FASB issued additional guidance to clarify that the specific instruments and activities that should be considered in these disclosures, will be limited to recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, and is to be applied retrospectively. The Company will begin including the new required disclosures in its fiscal year 2014 quarterly financial statements as applicable and does not expect any impact on its financial position, results of operations, or cash flows.

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued accounting guidance that requires an entity to report information about significant reclassifications out of accumulated other comprehensive income. The new guidance requires presentation either in a single footnote or parenthetically on the financial statements, of the effect of significant amounts reclassified out of accumulated other comprehensive income based on the corresponding line items in the statement of net income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity would cross-reference other disclosures that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company is evaluating the impact, if any, on its financial position, results of operations, and cash flows.

R. Reclassifications and Out of Period Adjustments

The Company identified certain accounting errors from prior years totaling $9.3 million (pre-tax) and $9.4 million (after tax) that were recorded in the current fiscal year, which if had been recorded in the proper period would reduce the current year net income. Such amounts represent 3.4% and 5.4% of fiscal year 2013 pre-tax income and net income, respectively. Management has concluded that such amounts do not materially impact fiscal year 2013 or any of the prior years affected. Certain other reclassifications have been made to the financial statements to conform prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulation

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2013 and March 31, 2012:

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 42,347**	$ 218,026
Pension and postretirement benefit plans	**8,848**	-
Derivative contracts	**492**	43,581
Storm costs	**858**	-
Merger rate plan stranded costs	**107**	793
Losses on reacquired debt	**2,716**	2,820
Other	**1,441**	-
Total	**56,809**	265,220
Non-current:		
Regulatory deferred tax assets	**68,332**	54,254
Pension and postretirement benefit plans	**479,844**	565,180
Storm costs	**27,614**	18,153
Rate adjustment mechanisms		-
Merger rate plan stranded costs	**678**	-
Environmental response costs	**438,847**	461,130
Derivative contracts	**472**	2,672
Losses on reacquired debt	**17,888**	20,604
Other	**46,059**	28,901
Total	**1,079,734**	1,150,894
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**99,076**	83,216
Pension and postretirement benefit plans	**22,700**	-
Derivative contracts	**19,497**	1,364
Environmental response costs	**3,589**	-
Economic development fund	**4,560**	-
NYPA replacement power and expansion	**4,552**	-
Long-term debt true up	**9,077**	-
Other	**15,075**	-
Total	**178,126**	84,580
Non-current:		
Cost of removal	**390,914**	401,489
Pension and postretirement benefit plans	**152,944**	107,853
Economic development fund	**35,786**	11,790
Unbilled gas revenue	**22,628**	22,018
Environmental response costs	**23,295**	27,641
Derivative contracts	**6,202**	350
Rate adjustment mechanisms	**420**	17,368
Excess storm reserve	**29,778**	-
Long-term debt true up	**9,760**	-
Federal income tax repair cost deferral	**30,113**	-
Revenue subject to refund	**5,300**	50,000
Other	**30,627**	61,582
Total	**737,767**	700,091
Net regulatory assets	**$ 220,650**	$ 631,443

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms such as 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.

Pension and postretirement benefit plans: The amount in regulatory assets primarily 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 postretirement benefits plans that are deferred to a regulatory liability to be refunded in future periods and accrued carrying charges as calculated in accordance with the Company's Pension and PBOP reserve mechanism.

Storm costs: The Company's rate plan provides for a rate allowance of $29 million for incremental costs associated with major storm events, with variances deferred for future recovery or return to customers, The Company has recorded additional storm cost regulatory assets as of March 31, 2013 arising from costs incurred associated with several smaller storms during the year.

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. For the year ended March 31, 2013, the Company increased the estimated reserve by $9.1 million for various sites and incurred expenditures of $31.4 million. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs. Under the Company's new rate plan which went into effect April 1, 2013, it has specific rate allowances for these costs at a level of $42.0 million per year ($35.7 million in electric base rates and $6.3 million in gas base rates), 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.

Economic development fund: The Company increased the funding for economic development in base rates, and actual expenditures and economic development discounts above or below the rate allowance are deferred for future recovery.

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 to future customers benefit.

Cost of removal: The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to customers. This regulatory liability represents cumulative costs recovered in excess of costs incurred. For a vast majority of its electric and gas distribution assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

Carrying Charges

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue is billed. The Company records carrying charges, on the 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. The Company anticipates recovering these costs in the rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

The following table presents the carrying charges that were recognized in the accompanying statements of income during the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ 3,574**	$ 6,154
Other income, net	**(3,425)**	(3,641)
	$ 149	$ 2,513

Other interest, including affiliate interest for the year ended March 31, 2012 includes an amount of $3.7 million related to prior period carrying charges dating back to October 2008.

Rate Matters

March 2013Electric and Gas Filing

On April 27, 2012, the Company filed with the NYPSC to adjust its base electric and gas rates. The Company's filing sought to increase electric delivery base revenues by approximately $130.7 million and gas delivery base revenues by approximately $39.8 million. In October 2012, the Department of Public Service ("DPS") Staff, the Company and other parties reached a comprehensive agreement to settle both cases. A joint proposal formalizing the settlement agreement was filed December 7, 2012 and the Company received a final order from the NYPSC in these proceedings in March 2013. The term of the new rate plan is from April 1, 2013 through March 31, 2016. The joint proposal provides for an increase in the electric revenue requirement of $43.4 million in the first year, an increase of $51.4 million in the second year, and an increase of $28.3 million in the third year. It also provides for a decrease in the gas revenue requirement of $3.3 million in the first year, and increases of $5.9 million and $6.3 million in the second and third years, respectively.

Transmission ROE Complaint

On September 11, 2012, the New York Association of Public Power filed with the FERC a complaint under Section 206 of the Federal Power Act against Niagara Mohawk Power Corporation, seeking to have the base ROE for transmission service from the FERC approved rate 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 Section 206 complaint with the FERC seeking to lower the Company's ROE to 9.25% including the NYISO participation adder. MEUA also challenges certain aspects of the Company's transmission formula rate. 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 March 29, 2013, the Company filed with the FERC to amend Niagara Mohawk's Scheduling, System Control and Dispatch Costs formula under the Wholesale Transmission Service Charge to incorporate costs incurred by the Company for Reliability Support Services ("RSS"), which are for the purpose of securing the ongoing reliability of NGUSA's transmission system. On August 30, 2013, the FERC rejected the Company's request without prejudice to make a new filing to provide additional support for recovery of RSS costs. The Company plans to submit the additional filing in fiscal year 2014.

Other Regulatory Matters

The NYPSC's January 2011 Order in Niagara Mohawk's 2010 electric rate case required an audit relating to the Company's service company cost allocations, policies and procedures. In February 2011, the NYPSC selected Overland Consulting Inc. ("Overland"), a management consulting firm, to perform the audit of Niagara Mohawk and KeySpan Gas East Corporation and Brooklyn Union Gas Company. Management has evaluated the need for and amount of a reserve based on consideration of the matters set out in the audit and taking into account all known information about the audit related to transaction testing, normalization adjustments, efficiency adjustments and the impact of our new cost allocation methodologies. As of December 31, 2011, the Company had reserved $50 million based on the identified issues above. Overland issued a final report identifying approximately $5 million of service company overcharges to Niagara Mohawk based on extrapolated test results, which the Company is contesting. On January 18, 2013 the NYPSC issued an Order commencing a new proceeding to determine what, if any, ratemaking adjustments are appropriate. The Company determined that the revenue subject to refund that was previously contingent in the amount of $44.7 million is no longer probable of refund and has been recognized in income. A reserve of $5.3 million has been recorded in Niagara Mohawk's financial statements as of March 31, 2013. 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.

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.

Temporary State Assessment Pursuant to PSL Section 18-a

In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("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 June 14, 2013, the Company submitted a compliance filing proposing to maintain the currently effective surcharge. The estimated Temporary State Assessment filed amounted to $55.1 million and $15.0 million for electric and gas, respectively.

Compliance Filing to Eliminate Competitive Transition Charges from Electric Rates and Petition to Recover Certain Deferral Balances

On July 29, 2011, the Company made a compliance filing with the NYPSC to remove Competitive Transition Charges ("CTCs") from electric rates and recover certain deferral account balances. In the Electric Rate Case Order, the NYPSC directed the Company to file tariff revisions, to become effective January 1, 2012, to remove the CTCs from rates and establish a mechanism to recover certain deferral account balances. The Company proposed eliminating $544.9 million of CTCs from rates partially offset by the proposed recovery of $236.2 million of outstanding deferral account balances over a 15-month period. On December 16, 2011, the NYPSC approved the Company's compliance filing with modifications. The NYPSC authorized the Company to recover $247.6 million in outstanding deferral account balances over a 15-month period, but conditioned recovery on Staff's ability to audit. Included in the $247.6 million was $25.2 million of Hurricane Irene storm costs that the NYPSC allowed the Company to recover, subject to Staff audit and disposition, which is pending. In addition, the NYPSC extended the amortization period beyond 15-months for the Company's PSC 214 customer classes. The balance of the deferrals not recovered from these classes during the 15-month period will be recovered from these classes over a subsequent period to be determined in the Company's next rate case.

Note 3. Employee Benefits

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several postretirement benefits other than pension plans (the "PBOP Plans", together with the Pension Plans, the "Plans"). In general, we calculate 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. The Company participates in the following Plans: The Niagara Mohawk Pension Plan, National Grid USA Companies' Executive SERP (Version II-Nimo), Niagara Mohawk Nonqualified Pension Plan, Niagara Mohawk Nonunion Retiree Medical and Life Insurance Plan, and Niagara Mohawk Union Retiree Medical and Life Insurance Plan.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans that the Company participates in. The costs related to those plans are first directly charged to the Company based on the Company's employees that participate. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden 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 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 $0.5 million to the qualified pension plan during fiscal year 2014.

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 $120.7 million to the PBOP Plans during fiscal year 2014.

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, we recognized an expense in the accompanying statements of income of $7.2 million and $7.5 million, respectively, for matching contributions.

Net Periodic Costs

The following table summarizes the Company's Pension and PBOP costs during the years ended March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Service cost, benefits earned during the year	**$ 24,772**	$ 23,863	**$ 16,676**	$ 16,063
Interest cost	**63,590**	68,434	**68,827**	77,584
Expected return on plan assets	**(92,618)**	(102,165)	**(63,329)**	(54,152)
Amortization of unrecognized prior service cost	**4,805**	4,805	**12,681**	12,681
Amortization of unrecognized net loss	**77,397**	67,791	**37,366**	38,288
Net periodic benefit costs before settlement	**77,946**	62,728	**72,221**	90,464
Settlement loss	**967**	-	-	-
Curtailment	-	-	-	(495)
Net periodic benefit cost	**$ 78,913**	$ 62,728	**$ 72,221**	$ 89,969

The following table summarizes other pre-tax changes in plan assets and benefit obligations recognized primarily in Company's regulatory assets and accumulated other comprehensive income or the years ended March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Net actuarial loss	**$ 4,084**	$ 109,723	**$ 60,618**	$ 22,239
Prior service cost	-	-	-	294
Amortization of loss	**(77,396)**	(67,791)	**(37,366)**	(38,288)
Amortization of prior service cost	**(4,805)**	(4,805)	**(12,681)**	(12,186)
Total	**$ (78,117)**	$ 37,127	**$ 10,571**	$ (27,941)
Included in regulatory assets	**(78,619)**	36,741	**10,571**	(27,941)
Included in accumulated other	**502**	386	-	-
Total	**$ (78,117)**	$ 37,127	**$ 10,571**	$ (27,941)

The following table summarizes the Company's amounts in regulatory assets and other comprehensive income on the accompanying balance sheets that have not yet been recognized as components of net actuarial loss at March 31, 2013 and March 31, 2012:

	Pension Plans		PBOP Plans	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Net actuarial loss	**$ 270,198**	$ 343,510	**$ 164,125**	$ 140,873
Prior service cost	**28,543**	33,348	**17,921**	30,602
Total	**$ 298,741**	$ 376,858	**$ 182,046**	$ 171,475
Included in regulatory assets	**296,168**	374,787	**182,046**	171,475
Included in accumulated	**2,573**	2,071	**-**	-
Total	**$ 298,741**	$ 376,858	**$ 182,046**	$ 171,475

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 following table represents the Plans' estimated net actuarial loss and prior service cost that will be amortized from regulatory assets during fiscal year 2014.

	Expected Amortization	
	Pension Plans	PBOP Plans
	March 31,	**March 31,**
	2014	2014
	(in thousands of dollars)	
Net actuarial loss	**$ 73,642**	**$ 28,075**
Prior service cost	**5,133**	**12,309**
Total	**$ 78,775**	**$ 40,384**

Changes in Benefit Obligations and Assets

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. The following table summarizes the change in the Plans' benefit obligation and funded status:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ (1,435,365)**	$ (1,324,774)	**$ (1,484,665)**	$ (1,455,172)
Service cost	**(29,531)**	(28,393)	**(18,928)**	(18,508)
Interest cost on projected benefit obligation	**(69,815)**	(75,174)	**(71,890)**	(80,610)
Net actuarial gain (loss)	**(62,516)**	(143,742)	**(86,955)**	(170,112)
Benefits paid	**114,853**	136,718	**70,985**	77,718
Actual Medicare Part D Subsidy received	**-**	-	**(14,603)**	(5,307)
Settlements	**3,210**	-	**107**	-
Plan amendments	**-**	-	**-**	(305)
Reduction in Workforce Impact	**-**	-	**-**	2,920
Healthcare reform amendment	**-**	-	**-**	164,711
Benefit obligation at end of year	**(1,479,164)**	(1,435,365)	**(1,605,949)**	(1,484,665)
Change in plan assets:				
Fair value of plan assets at beginning of year	**1,677,800**	1,568,591	**831,192**	681,067
Actual return on plan assets	**159,803**	135,482	**87,847**	35,055
Company contributions	**52,998**	110,445	**178,907**	192,788
Benefits paid	**(114,853)**	(136,718)	**(70,985)**	(77,718)
Settlements	**(3,210)**	-	**(107)**	-
Fair value of plan assets at end of year	**1,772,538**	1,677,800	**1,026,854**	831,192
Funded status	**$ 293,374**	$ 242,435	**$ (579,095)**	$ (653,473)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.3 billion at March 31, 2013 and March 31, 2012.

The amounts recognized in the accompanying balance sheets are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Other current liabilities	**$ (453)**	$ (2,590)	**$ (2,000)**	$ (2,000)
Postretirement benefits	**302,911**	262,278	**(531,580)**	(613,239)
	$ 302,458	$ 259,688	**$ (533,580)**	$ (615,239)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2013:

For the Years Ended March 31,	Pension Benefits	Postretirement Benefits
	(in thousands of dollars)	
2014	$ 135,515	$ 64,130
2015	138,389	65,366
2016	137,125	65,930
2017	135,633	66,491
2018	132,356	66,328
Thereafter	549,626	327,699
Total	$ 1,228,644	$ 655,944

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

The weighted-average assumptions used to determine the benefit obligations for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected long-term rate of return on assets	**6.75%**	6.75%	**7.00%-7.50%**	7.25%-7.50%

The weighted-average assumptions used to determine the net periodic cost for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Discount rate	**5.10%**	5.90%	**5.10%**	5.90%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**6.75%**	7.75%	**7.50%**	7.75%

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 Only 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 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.

The assumed health care cost trend rates used to develop the PBOP benefit obligations are as follows:

	PBOP Plans	
	March 31,	
	2013	2012
Health Care Cost Trend Rate		
Initial		
Pre 65	**8.00%**	8.00%
Post 65	**7.50%**	7.50%
Prescription	**8.25%**	8.25%
Ultimate	**5.00%**	5.00%
Year that Trend reaches Ultimate Rate		
Pre 65	**2019**	2018
Post 65	**2018**	2017
Prescription	**2020**	2019

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

One-Percentage-Point	Increase	Decrease
	(in thousands of dollars)	
Total of service cost plus interest cost	$ 16,619	$ (13,763)
Postretirement benefit obligation	234,192	(204,220)

Plan Assets

The Company manages 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 plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity, 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 benefit plans as of March 31, 2013 and March 31, 2012 are as follows:

	Pension Plans		PBOPs	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
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%	**-%**	-%
Real estate	**4%**	4%	**-%**	-%
Infrastructure	**2%**	2%	**-%**	-%
	100%	100%	**100%**	100%

Fair Value Measurements

We determine the fair value of plan assets using unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available. We use unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. We classify assets within this fair value hierarchy based on the lowest level of inputs which significantly affect the fair value measurement.

The following tables depict by level, within the fair value hierarchy, the Plan assets as of March 31, 2013 and March 31, 2012:

	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
Fixed income securities	-	861,180	21,533	882,713
Global tactical asset allocation	-	67,654	14,208	81,862
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
Fixed income securities	-	190,356	6	190,362
Global tactical asset allocation	30,999	35,075	8,307	74,381
Total	**$ 237,668**	**$ 772,011**	**$ 17,175**	**$ 1,026,854**

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 1,070	$ 61,466	$ -	$ 62,536
Accounts receivable	25,462	7,137	-	32,599
Accounts payable	(59,444)	-	-	(59,444)
Equity	242,790	317,709	68,991	629,490
Fixed income securities	-	790,150	14,075	804,225
Global tactical asset allocation	-	60,299	13,157	73,456
Preferred securities	1,961	-	-	1,961
Private equity	-	-	71,292	71,292
Real estate	-	-	61,685	61,685
Total	**$ 211,839**	**$ 1,236,761**	**$ 229,200**	**$ 1,677,800**
PBOP Assets:				
Cash and cash equivalents	$ 127	$ 32,731	$ -	$ 32,858
Accounts receivable	2,684	658	-	3,342
Accounts payable	(3,449)	-	-	(3,449)
Equity	177,871	370,592	22,616	571,079
Fixed income securities	-	165,102	-	165,102
Global tactical asset allocation	23,707	31,259	7,294	62,260
Total	**$ 200,940**	**$ 600,342**	**$ 29,910**	**$ 831,192**

Following is a description of the valuation methodologies used at March 31, 2013 and March 31, 2012 for pension and other postretirement benefit assets measured at fair value. The pension and other postretirement benefit assets can be invested in any of the following categories.

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 as they can be valued using other observable inputs.

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 clear 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, US 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 investments.

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 net asset value.

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 investments.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a summary of changes in the fair value of the Plan's Level 3 investments:

	Pension Plan Assets		PBOP Plan Assets	
	March 31,		**March 31,**	
	2013	2012	**2013**	2012
	(in thousands of dollars)			
Balance at beginning of year	**$ 229,200**	$ 203,940	**$ 29,910**	$ 37,072
Transfers out of Level 3	**(1,903)**	(73,792)	**(16,270)**	(23,060)
Transfers into Level 3	**410**	4,165	**25,684**	3,232
Actual gain or loss on plan assets:				
included in earnings (or changes in net assets)	**11,972**	2,405	**-**	-
included in regulatory assets and liabilities	**3,932**	9,527	**318**	(193)
Purchases	**143,053**	227,387	**172,139**	32,548
Sales	**(185,166)**	(144,432)	**(194,606)**	(19,689)
Balance at end of year	**$ 201,498**	$ 229,200	**$ 17,175**	$ 29,910

Other Benefits

The Company has accrued $10.1 million and $3.8 million for the years ended March 31, 2013 and March 31, 2012, respectively regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported. During fiscal year 2012, management corrected a misstatement of $3.6 million related to the understatement of the allocation of claims incurred but not yet reported for fiscal year 2011. Management concluded that this error did not have a material impact on the financial statements presented for the years ended March 31, 2012 or March 31, 2011, and therefore the corrections were recorded within the financial statements for the year ended March 31, 2012.

Note 4. Property, Plant and Equipment

At March 31, 2013 and March 31, 2012, property, plant and equipment at cost, along with accumulated depreciation and amortization are as follows:

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Plant and machinery	**$ 9,129,294**	$ 8,775,110
Land and buildings	**531,732**	514,540
Assets in construction	**334,633**	262,061
Software	**6,361**	77,179
Total	**10,002,020**	9,628,890
Accumulated depreciation and amortization	**(2,921,904)**	(2,868,124)
Property, plant and equipment, net	**$ 7,080,116**	$ 6,760,766

Note 5. Derivatives

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

Commodity Derivative Instruments - Regulated Accounting

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas and electricity purchases. The Company's strategy is to minimize fluctuations in firm gas and electricity sales prices to the Company's customers.

The following are commodity volumes in dekatherms ("dths") and megawatt hours ("MWhs") associated with derivative contracts as of March 31, 2013 and March 31, 2012:

		Electric		Gas	
		March 31,		March 31,	
		2013	2012	**2013**	2012
		(in thousands)		*(in thousands)*	
Physicals:	Gas purchase (dths)	**n/a**	n/a	**7,615**	7,363
Financials:	Gas swaps (dths)	**n/a**	n/a	**4,780**	3,705
	Gas options (dths)	**n/a**	n/a	**1,150**	2,680
	Electric swaps (MWhs)	**6,309**	5,380	**n/a**	n/a
Total:		**6,309**	5,380	**13,545**	13,748

The following table presents the Company's derivative assets and liabilities at March 31, 2013 and March 31, 2012 that are included in the accompanying balance sheets for the above contracts:

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2013	2012		**2013**	2012
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 1,636**	$ -	Gas swap contracts	**$ 10**	$ 5,034
Gas option contracts	**328**	6	Gas option contracts	**38**	987
Gas purchase contracts	**-**	250	Gas purchase contracts	**-**	138
Electric swap contracts	**17,533**	1,108	Electric swap contracts	**444**	37,422
	19,497	1,364		**492**	43,581
Deferred assets:			Deferred liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**6,202**	350	Electric swap contracts	**472**	2,672
	6,202	350		**472**	2,672
Total	**$ 25,699**	$ 1,714	Total	**$ 964**	$ 46,253

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 on the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2013 and March 31, 2012.

The following table presents the impact of the change in fair value of the Company's derivative contracts on the accompanying balance sheets for the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets:		
Gas swap contracts	**$ (5,024)**	$ 2,274
Gas option contracts	**(949)**	881
Gas purchase contracts	**(138)**	(804)
Electric swap contracts	**(39,178)**	11,394
	(45,289)	13,745
Regulatory liabilities:		
Gas swap contracts	**1,636**	(253)
Gas option contracts	**322**	(92)
Gas purchase contracts	**(250)**	(901)
Electric swap contracts	**22,277**	(4,687)
Electric cption contracts	**-**	(100,409)
	23,985	(106,342)
Total decrease in net regulatory (assets) liabilities	**$ (69,274)**	$ 120,087

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices. In the event of non-performance by counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the Energy Procurement Risk Management Committee, and establishes controls and procedures to determine, monitor and minimize the credit risk of counterparties. Counterparty credit exposure is monitored, 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 reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $24.7 million as of March 31, 2013.

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our 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. As of March 31, 2013, the Company did not have any derivative instruments with credit-risk-related contingent features in a liability position. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 was $46.1 million on which it had posted $18.7 million of collateral.

Note 6. Fair Value Measurements

The Company measures commodity derivatives and available-for-sale securities at fair value. 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, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 25,304	$ 395	$ 25,699
Available for sale securities	16,612	8,423	-	25,035
Total assets	16,612	33,727	395	50,734
Liabilities:				
Derivative contracts	-	926	38	964
Net assets	$ 16,612	$ 32,801	$ 357	$ 49,770

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 844	$ 870	$ 1,714
Available for sale securities	18,262	7,606	-	25,868
Total assets	18,262	8,450	870	27,582
Liabilities:				
Derivative contracts	-	45,131	1,122	46,253
Net assets (liabilities)	$ 18,262	$ (36,681)	$ (252)	$ (18,671)

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas and electric swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from the New York Mercantile Exchange and Intercontinental Exchange ("ICE"), except cases in which ICE publishes seasonal averages or there were no transactions within the last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curves that may include a liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

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

Available for Sale Securities

Available for sale securities are included in financial investments in the accompanying balance sheets and primarily include equity investments based on quoted market prices (Level 1), and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Level 3 Fair Value Measurement

The following table presents the fair value reconciliation of Level 3 derivative assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Balance, at beginning of year	**$ (252)**	$ 100,606
Transfers out of Level 3	**(4,086)**	81
Total gains or losses included in regulatory assets and liabilities	**4,526**	(61,724)
Purchases	**689**	(38)
Settlements	**(520)**	(39,177)
Balance, at end of year	**$ 357**	$ (252)
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to regulatory assets and liabilities at year-end	**$ -**	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. 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, or transfers into Level 3 during the years ended March 31, 2013 and March 31, 2012.

The following table provides information about our significant Level 3 valuations, of which the most significant positions are financial gas option contracts. These option contracts are measured at fair value using the implied volatility as a key input to the option pricing function of the risk management system. The implied volatilities used are an approximation of the actual volatility curves for various strikes and option types and are not observable in the market.

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2013			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
Electric	Capacity Swap	$ 67		$ 67	Discounted Cash Flow	Forward Curve	$ 0.850
Gas	Gas Option Contract	$ 328	$ (38)	$ 290	Discounted Cash Flow	Forward Curve	$ 0.274-$0.352
						Implied Volatility	$ 0.2618-$0.2822
	Total	$ 395	$ (38)	$ 357			

Other Fair Value Measurements

The Company records long-term debt at amortized cost on the accompanying balance sheets. The fair value of the Company's long-term debt was estimated based on quoted market prices for similar issues or on current rates offered to the Company for similar debt of the same remaining maturity. The fair value of our long-term debt at March 31, 2013 and March 31, 2012 was $2.8 billion and $2 billion, respectively.

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

Note 7. Income Taxes

The components of federal and state income tax expense at March 31, 2013 and March 31, 2012 are as follows:

	Years Ended March 31, 2013	2012
	(in thousands of dollars)	
Current tax expense:		
Federal	$ (8,381)	$ 61,369
State	6,122	16,463
Total current tax expense	(2,259)	77,832
Deferred tax expense:		
Federal	85,696	11,283
State	14,573	15,611
	100,269	26,894
Amortization of investment tax credits, net [1]	(1,976)	(2,126)
Total deferred tax expense	98,293	24,768
Total income tax expense	$ 96,034	$ 102,600

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

A reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Years Ended March 31, 2013	2012
	(in thousands of dollars)	
Computed tax	$ 95,268	$ 80,732
Change in computed taxes resulting from:		
State income tax, net of federal benefit	13,452	20,848
Temporary differences flowed through	(3,697)	1,701
Allowance for equity funds used during construction	(2,498)	(2,225)
Investment tax credit	(1,976)	(2,126)
Other items, net	(4,515)	3,670
Total	766	21,868
Federal and state income taxes	$ 96,034	$ 102,600

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2013 and March 31, 2012 are as follows:

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 178,054**	$ 180,080
Environmental reserve	**184,755**	194,136
Allowance for uncollectible accounts	**53,134**	79,819
Regulatory liabilities - other	**123,594**	-
Future federal benefit on state taxes	**40,418**	46,217
Other items	**38,833**	44,679
Total deferred tax assets (1)	**618,788**	544,931
Deferred tax liabilities:		
Property related differences	**1,746,203**	1,558,938
Regulatory assets - environmental	**164,710**	188,823
Regulatory assets - pension and PBOP	**224,837**	229,976
Regulatory assets - storm costs	**31,229**	3,853
Total deferred tax liabilities	**2,166,979**	1,981,590
Net deferred income tax liability	**1,548,191**	1,436,659
Deferred investment tax credit	**23,911**	22,742
Net deferred income tax liability and investment tax credit	**1,572,102**	1,459,401
Current portion of net deferred income tax asset	**119,727**	104,301
Non-current deferred income tax liability	**$ 1,691,829**	$ 1,563,702

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.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $120.2 million and $159.5 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31, 2013	Years Ended March 31, 2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 159,526**	222,276
Gross increases related to prior period	**131**	8,465
Gross decreases related to prior period	**(37,301)**	(70,789)
Gross increases related to current period	**2,738**	370
Gross decreases related to current period	**(4,899)**	(796)
Balance at the end of the year	**$ 120,195**	$ 159,526

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $13.1 million and $14.5 million, respectively. During the years ended March 31, 2013 and March 31 2012, the Company recorded interest income of $1.4 million and $1.2 million, respectively. The net interest income recorded in fiscal year 2013 is attributable to a remeasurement based on an oral agreement with the IRS related to certain disputed issues in fiscal years 2005 through 2007, while the interest income in fiscal year 2012 is primarily attributable to previously accrued interest released upon the Company's adoption of the safe harbor method of accounting pursuant to Revenue Procedure 2011-43. The Company recognizes interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in other deductions in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

During the year ended March 31, 2013, the Company entered into an oral agreement with the IRS to settle issues related to the tax deductibility of disputed items under appeal for fiscal years 2005 through 2007. This oral agreement was made with the IRS Appeals Officer in charge subject to the finalization and execution of IRS Form 870-AD, Offer to Waive Restrictions on Assessment and Collection of Tax Deficiency and to Accept Over-assessment. The Company believes that this agreement will be completed on substantially consistent terms. On the basis of this agreement the Company has concluded that in its assessment the potential exposure has declined and has reclassified a portion of its reserve for uncertain tax positions, in the amount of $37 million, to deferred income tax liabilities.

In fiscal year 2012, the Company adopted Revenue Procedure 2011-43, which provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under Section 263(a) of the Internal Revenue Code and therefore has reversed $60.8 million of tax reserves related to unrecognized tax benefits recorded in prior years, with a corresponding offset in deferred income tax liabilities.

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.

In fiscal year 2012, the IRS commenced an audit of NGNA and subsidiaries for the fiscal years ending March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 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 ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2013 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, 2005*
New York	March 31, 2006

*The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. However, pursuant to the Company's tax sharing agreement the audit or appeals may result in a change to allocated tax.

Note 8. Debt

Debt Authorizations

The Company has regulatory approval from the FERC to issue up to $1 billion of short-term debt. The Company had no short-term debt outstanding to third-parties as of March 31, 2013 or March 31, 2012.

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. The Company issued $700 million of the authorized long term debt in November 2012, as further described below.

Intercompany Notes

The Company had $500 million in long-term notes outstanding with Niagara Mohawk Holdings, Inc. at March 31, 2012 with a maturity date of November 1, 2012 and an interest rate of 5.8%. On November 1, 2012, the Company made a scheduled payment on these notes of $514.5 million representing principal of $500 million plus accrued interest of $14.5 million. The Company temporarily drew on its intercompany money pool for the payment of this obligation and then replenished this with funds received in the unsecured long-term debt offering discussed below.

Senior Notes

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.

The Company also has outstanding $750 million of unsecured long-term debt at 4.881% with a maturity date of August 15, 2019 and $500 million of long-term debt at 3.553% with a maturity date of October 1, 2014.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $650 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 $575 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 0.42% to 0.73% for the year ended March 31, 2013. The bonds are currently in the 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 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 either of the years ended March 31, 2013 and March 31, 2012.

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.

The aggregate maturities of long-term debt subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ended March 31,		
2014	$	45,600
2015		500,000
2016		100,000
2017		-
2018		-
Thereafter		1,954,465
Total	$	2,600,065

The Company is obligated to meet certain non-financial covenants in addition to a dividend restriction as described in Note 12, "Dividend Restrictions". During the years ended March 31, 2013 and March 31, 2012, respectively, the Company was in compliance with all such covenants.

Note 9. Commitments and Contingencies

Purchase Commitments

The Company has several types of 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 gas and electricity costs. 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 years subsequent to March 31, 2013 are summarized in the table below:

(in thousands of dollars) Years Ended March 31,	Power	Capital Expenditures
2014	$ 213,207	$ 162,039
2015	167,107	-
2016	149,669	2,028
2017	104,816	-
2018	94,433	-
Thereafter	883,883	-
Total	$ 1,613,115	$ 164,067

The Company can purchase additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the Independent System Operator New York ("ISO-NY") 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 million for each of the years ended March 31, 2013 and March 31, 2012.

A summary of future minimum lease payments due each year subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ended March 31,	
2014	$ 4,143
2015	3,395
2016	3,368
2017	3,391
2018	3,313
Thereafter	23,145
Total	$ 40,755

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its distribution facilities. The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Balance as of beginning of year	**$ 9,937**	$ 8,892
Accretion expense	**510**	486
Liabilities settled	**(118)**	-
Liabilities incurred	**-**	559
Balance as of end of year	**$ 10,329**	$ 9,937

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 condition, or cash flows.

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 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, 2013 and March 31, 2012 were $31.4 million and $11.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $438.8 million and $461.1 million at March 31, 2013 and March 31, 2012, respectively. These costs are expected to be incurred over the next 42 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 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, 2013, was estimated at $555.5 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, 2013 and March 31, 2012, the Company has recorded environmental regulatory assets of $438.8 million and $461.1 million, respectively, and environmental regulatory liabilities of $26.5 million and $27.6 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 ("CERCLA") 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. The Company denies liability and is defending this action.

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 generally recoverable from customers.

Nuclear Contingencies

As of each of March 31, 2013 and March 31, 2012, the Company had a liability of $167.7 million, recorded in other deferred 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 (the "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 D.C. Circuit. In January 2010 the US 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 US Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the US government will have on the ability to dispose of the spent nuclear fuel and waste.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. In 2005, the Company was subject to a sales and use tax audit conducted by the State of New York for the audit period June 2001 through November 2005, which was settled in August 2011. 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 $8.1 million and $8.0 million at March 31, 2013 and March 31, 2012, respectively, as other deferred liabilities in the balance sheets.

Note 10. Related Party Transactions

Advance from Affiliates

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 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, respectively. At March 31, 2013 and March 31, 2012, the Company had an outstanding advance from affiliates of $20 million and $19.7 million, respectively.

Accounts Receivable from Affiliates 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. At March 31, 2013 and March 31, 2012, the Company had a net outstanding accounts receivable from affiliates/accounts payable to affiliates as follows:

	Accounts receivable from Affiliates		Accounts payable to Affiliates	
	March 31,		March 31,	
	2013	2012	**2013**	2012
	(in thousands of dollars)		(in thousands of dollars)	
NGUSA Service Company	**$ -**	$ -	**$ 40,094**	$ -
Opinac North America, Inc.	**-**	-	**16,999**	16,999
NGUSA	**-**	-	**70,732**	11,246
Narragansett Electric Company	**-**	322	**456**	2,456
KeySpan Corporate Services	**-**	-	**-**	1,053
Massachusetts Electric Company	**4,077**	-	**-**	-
Brooklyn Union Gas Company	**927**	632	**-**	-
KeySpan Electric Services	**-**	516	**4,853**	-
KeySpan Gas East Corporation	**1,780**	276	**-**	-
Other	**543**	743	**1,553**	953
Total	**$ 7,327**	$ 2,489	**$ 134,687**	$ 32,707

Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an Unregulated Money Pool. Financing for the Company's working capital and gas inventory needs are obtained through participation in the Regulated Money Pool. The Company, as a participant in the Regulated Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. Since November 1, 2012, and because the Company now fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany moneypool balances and affiliate receivables and affiliate payables are reflected as investing or financing activities in the statement of cash flows.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. 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 Money Pools, if necessary. The Company had short-term money pool investments of $97.2 million and $117.3 million at March 31, 2013 and March 31, 2012, respectively. The average interest rates for the money pool were 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, 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 typically 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, and total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $595.7 million and $514.6 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. 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 approximately $12.6 million and $13.0 million before taxes, and $8.2 million and $8.5 million after taxes, for each of the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding which can be called 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 at March 31, 2013 and March 31, 2012 is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2013**	2012	**2013**	2012	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	

Company did not redeem any preferred stock during the years ended March 31, 2013 or March 31, 2012. The annual dividend requirement for cumulative preferred stock was approximately $1.1 million for the years ended March 31, 2013 and March 31, 2012.

Note 12. Dividend Restrictions

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 MRP, 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.

EXHIBIT 1

National Grid plc

Financial information
submission for the New York Public Service Commission

Year ended	March 31, 2013
Exchange rate (balance sheet)	$1.52:£1.00
Exchange rate (income statement)	$1.57:£1.00
Exchange rate (opening)	$1.60:£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, 2013	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	-	-	-	-	5	**7,640**	3,217	**10,857**
Other intangible assets	-	439	307	134	15	-	-	**895**	(895)	**-**
Property, plant & equipment	-	20,965	18,421	14,507	1,754	(3)	(43)	**55,602**	1,136	**56,737**
Investments in subsidiaries	12,425	-	-	-	164,840	31,808	(209,073)	**-**	-	**-**
Investments	-	197	-	-	365	6	(3)	**986**	-	**986**
Non-current regulatory assets	-	-	-	-	-	-	-	**-**	3,564	**3,564**
Other non-current assets	889	571	1,494	621	-	2	-	**3,451**	43	**3,494**
Intercompany receivables	14,838	-	8,575	26	65,492	21,366	(110,386)	**-**	-	**-**
Inventories	-	340	33	46	23	-	-	**442**	6	**449**
Receivables and other current assets	254	3,350	769	415	333	15	(299)	**4,837**	155	**4,992**
Regulatory assets	-	-	-	-	-	-	-	**-**	-	**-**
Financial and other investments	3,624	777	1,296	1,381	1,096	79	-	**8,252**	(6,260)	**1,992**
Cash and cash equivalents	514	98	30	5	368	5	-	**1,020**	6,260	**7,280**
Assets of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total assets	32,543	34,373	30,925	17,134	234,284	53,277	(319,799)	**83,124**	7,227	**90,351**
Borrowings (including bank overdrafts)	(931)	(1,042)	(1,682)	(1,007)	(550)	(15)	-	**(5,239)**	310	**(4,930)**
Current liabilities	(413)	(2,440)	(1,161)	(1,298)	(625)	(30)	234	**(5,722)**	16	**(5,706)**
Current tax liabilities	-	(133)	(40)	3	(175)	(18)	-	**(351)**	362	**11**
Intercompany payables	(16,825)	(129)	(3,369)	(612)	(80,265)	(9,363)	110,653	**-**	-	**-**
Non-current borrowings	(4,197)	(9,318)	(10,538)	(8,909)	(4,659)	2	112	**(37,451)**	1,368	**(36,083)**
Other non-current liabilities	(696)	(2,512)	(2,440)	(1,064)	(242)	3	-	**(7,005)**	986	**(6,019)**
Deferred tax liabilities	(3)	(2,339)	(2,761)	(1,138)	40	2	-	**(6,193)**	(4,921)	**(11,114)**
Pensions and other post-retirement benefits	-	(3,540)	-	(941)	(834)	-	-	**(5,613)**	168	**(5,445)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Total liabilities	(23,066)	(21,453)	(21,990)	(14,966)	(87,309)	(9,421)	110,999	**(67,575)**	(1,711)	**(69,286)**
Shareholders' equity	(9,477)	(12,913)	(8,935)	(2,168)	(146,975)	(43,856)	208,801	**(15,541)**	(7,813)	**(23,354)**
Minority interests	-	(7)	-	-	-	-	(2)	**(8)**	(33)	**(41)**
Total liabilities and equity	(32,543)	(34,373)	(30,925)	(17,134)	(234,284)	(53,277)	319,799	**(83,124)**	(9,557)	**(92,681)**

Consolidating schedules as at March 31, 2013	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*	Consolidation 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	-	12,558	4,732	4,884	443	(6)	(68)	**22,544**	85	**22,629**
Other operating income	-	-	36	-	25	20	(83)	**-**	-	**-**
Operating costs	-	(10,560)	(2,591)	(3,300)	(1,620)	2	1,465	**(16,650)**	(775)	**(17,424)**
Operating profit	-	1,998	2,178	1,584	(1,152)	16	1,314	**5,894**	(689)	**5,204**
Net finance costs	(283)	(459)	(438)	(298)	59	108	(25)	**(1,338)**	(150)	**(1,488)**
Dividend income	895	-	-	-	10,002	528	(11,508)	**-**	-	**-**
Share of post-tax results of joint ventures	-	22	-	-	-	-	6	**28**	(22)	**6**
Profit before taxation	612	1,561	1,740	1,286	8,909	652	(10,213)	**4,584**	(861)	**3,723**
Taxation	61	(617)	(279)	(253)	240	(104)	(28)	**(980)**	555	**(424)**
Profit for the year	674	944	1,460	1,033	9,149	548	(10,241)	**3,605**	(306)	**3,299**
Minority interests	-	(1)	-	-	-	-	-	**(2)**	-	**(2)**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	**-**	-	**-**
Net income from continuing operations	674	943	1,460	1,033	9,149	548	(10,241)	**3,603**	(306)	**3,297**
Net income from discontinued operations	-	-	-	-	-	-	-	**-**	-	**-**
Net income attributable to equity shareholders	674	943	1,460	1,033	9,149	548	(10,241)	**3,603**	(306)	**3,297**

Condensed cash flow statement	National Grid plc	National Grid USA	National Grid Gas plc	National Grid Elect. Trans. plc	Other major subsidiaries	Total of non-major subsidiaries	Consolidation adjustments	**National Grid plc IFRS consolidated**	National Grid plc US GAAP adjustments	**National Grid plc US GAAP consolidated**
Net cash inflow from operating activities	44	1,337	2,553	1,882	280	(93)	(107)	**5,888**	(74)	**5,814**
Net cash inflow from investing activities	(1,537)	(1,877)	(2,124)	(3,036)	9,110	(534)	(9,984)	**(9,624)**	4,312	**(5,312)**
Net cash inflow from financing activities	1,984	578	(391)	1,165	(9,450)	630	10,092	**4,263**	-	**4,263**
Net increase in cash and cash equivalents	491	38	38	11	(60)	3	2	**526**	4,238	**4,764**
Exchange movements	(18)	-	1	(0)	(3)	(0)	(0)	**(20)**	(216)	**(236)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	**-**	-	**-**
Net cash and cash equivalents at start of year	42	60	(43)	(6)	422	5	-	**478**	2,274	**2,752**
Net cash and cash equivalents at end of year (i)	515	98	(5)	5	360	8	2	**985**	6,295	**7,280**

(i) Net of bank overdrafts

Consolidating schedules
as at March 31, 2013

	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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet								
Goodwill	-	1	338	1,008	725	-	16	-
Other intangible assets	-	-	-	-	-	-	-	-
Property, plant & equipment	-	7	1,685	2,409	1,986	-	70	30
Investments in subsidiaries	-	-	-	-	-	-	-	-
Investments	-	-	2	-	-	-	-	-
Non-current regulatory assets	-	1	157	624	485	-	4	1
Other non-current assets	2	2	11	13	11	-	1	1
Intercompany receivables	-	-	26	5	66	29	28	-
Inventories	-	-	4	20	24	-	-	5
Receivables and other current assets	-	1	51	418	326	-	6	-
Current regulatory assets	-	-	15	155	38	-	6	-
Financial and other investments	-	-	-	69	25	-	-	-
Cash and cash equivalents	-	-	3	2	11	-	-	-
	-	-	-	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	-	-	-
Total assets	2	12	2,292	4,723	3,697	29	131	37
Borrowings (including bank overdrafts)	-	-	-	-	(1)	-	-	(3)
Current liabilities	-	(1)	(62)	(400)	(229)	1	(17)	(1)
Current tax liabilities	-	-	(8)	(2)	(11)	-	(2)	(4)
Intercompany notes payables	-	-	(206)	(239)	(88)	(24)	(2)	(5)
Non-current borrowings	-	(3)	(410)	(818)	(848)	-	(52)	(5)
Other non-current liabilities	(2)	(2)	(111)	(490)	(394)	-	(1)	(1)
Deferred tax liabilities	-	(2)	(386)	(568)	(411)	-	(14)	(8)
Pensions and other post-retirement benefits	-	-	(10)	(170)	(147)	-	(4)	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-
Total liabilities	(2)	(8)	(1,193)	(2,687)	(2,129)	(23)	(92)	(27)
Shareholders' equity	-	(4)	(1,099)	(2,036)	(1,568)	(6)	(39)	(10)
Minority interests	-	-	-	-	-	-	-	-
Total liabilities and equity	(2)	(12)	(2,292)	(4,723)	(3,697)	(29)	(131)	(37)
	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2013

	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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement								
Revenue	-	3	382	2,032	1,213	19	23	24
Other operating income/ (expense)	-	-	9	(8)	(2)	-	-	-
Operating costs	-	(3)	(251)	(1,913)	(1,078)	(18)	(20)	(19)
Operating profit	-	-	140	111	133	1	3	5
Net finance costs	-	-	(2)	(51)	(39)	-	(1)	(1)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-	-
Profit before taxation	-	-	138	60	94	1	2	4
Taxation	-	-	(54)	(28)	(33)	1	(1)	(1)
Profit for the year	-	-	84	32	61	2	1	3
Minority interests	-	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-	-
Net income from continuing operations	-	-	84	32	61	2	1	3
Net income from discontinued operations	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	-	-	84	32	61	2	1	3
Condensed cash flow statement								
Net cash inflow from operating activities	-	-	163	41	152	(9)	8	10
Net cash inflow from investing activities	-	-	(195)	(181)	(220)	(20)	(7)	(1)
Net cash inflow from financing activities	-	-	11	139	76	29	(1)	(10)
Net increase (decrease) in cash and cash equivalents	-	-	(21)	(1)	8	-	-	(1)
Exchange movements	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	24	3	3	-	-	1
Net cash and cash equivalents at end of year	-	-	3	2	11	-	-	-

Consolidating schedules
as at March 31, 2013

	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*	Wayfinder *US GAAP company*	NG-USA Service 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	+
	$'m	*$'m*	*$'m*	*$'m*	*$'m*		*$'m*		*$'m*	
Condensed balance sheet										
Goodwill	-	-	-	-	-		3,766		5,854	
Other intangible assets	-	-	-	-	-		-		-	
Property, plant & equipment	27	-	-	362	-		8,490		15,066	
Investments in subsidiaries	-	-	-	-	-		-		-	
Investments	-	-	-	189	4		179		374	
Non-current regulatory assets	2	-	-	2	-		2,153		3,429	
Other non-current assets	-	-	1	483	17		329		871	
Intercompany receivables	1	-	-	260	305		2,700		3,420	
Inventories	-	-	-	-	1		249		303	
Receivables and other current assets	1	-	-	27	-		1,892		2,722	
Current regulatory assets	-	-	-	-	-		265		479	
Financial and other investments	-	-	-	3	-		-		97	
Cash and cash equivalents	1	-	-	4	2		594		617	
	-	-	-	-	-		-		-	
Assets of businesses held for sale	-	-	-	-	-		-		-	
Total assets	32	-	1	1,330	329		20,617		33,233	
Borrowings (including bank overdrafts)	(2)	-	-	-	(6)		(160)		(172)	
Current liabilities	(1)	-	-	(320)	(1)		(1,034)		(2,065)	
Current tax liabilities	(1)	-	-	(14)	-		(76)		(118)	
Intercompany notes payables	(4)	-	-	(366)	(4)		(1,476)		(2,414)	
Non-current borrowings	(3)	-	-	-	(14)		(3,455)		(5,608)	
Other non-current liabilities	(8)	-	(1)	(600)	(259)		(2,260)		(4,129)	
Deferred tax liabilities	(8)	-	-	(6)	-		(1,609)		(3,012)	
Pensions and other post-retirement benefits	-	-	-	-	-		(2,217)		(2,548)	
Liabilities of businesses held for sale	-	-	-	-	-		-		-	
Total liabilities	(27)	-	(1)	(1,306)	(284)		(12,287)		(20,067)	
Shareholders' equity	(5)	-	-	(24)	(45)		(8,330)		(13,166)	
Minority interests	-	-	-	-	-		-		-	
Total liabilities and equity	(32)	-	(1)	(1,330)	(329)		(20,617)		(33,233)	
	-	-	-	-	-		-		-	

Consolidating schedules
as at March 31, 2013

	NE Hydro-NH *US GAAP company*	NE Trans Corp. *US GAAP company*	Wayfinder *US GAAP company*	NG-USA Service 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 +
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement							
Revenue	20	-	-	-	3	5,138	8,857
Other operating income/ (expense)	-	-	-	1	24	170	194
Operating costs	(18)	-	-	-	(4)	(4,628)	(7,952)
Operating profit	2	-	-	1	23	680	1,099
Net finance costs	(1)	-	-	-	(17)	(219)	(331)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	-	-
Profit before taxation	1	-	-	1	6	461	768
Taxation	-	-	-	-	-	(208)	(324)
Profit for the year	1	-	-	1	6	253	444
Minority interests	-	-	-	-	-	-	-
Common dividends	-	-	-	-	-	-	-
Net income from continuing operations	1	-	-	1	6	253	444
Net income from discontinued operations	-	-	-	-	-	39	39
Net income attributable to equity shareholders	1	-	-	1	6	292	483
							-
Condensed cash flow statement							
Net cash inflow from operating activities	7	-	-	(1)	(6)	-	365
Net cash inflow from investing activities	(1)	-	-	20	13	-	(592)
Net cash inflow from financing activities	(6)	-	-	(18)	(6)	-	214
Net increase (decrease) in cash and cash equivalents	-	-	-	1	1	-	(13)
Exchange movements	-	-	-	-	-	(1,468)	(1,468)
Reclassified to businesses held for sale	-	-	-	-	-	1,034	1,034
Net cash and cash equivalents at start of year	1	-	-	3	1	(115)	(79)
Net cash and cash equivalents at end of year	1	-	-	4	2	(549)	(526)

Consolidating schedules
as at March 31, 2013

	Consol-idation adjustments *US GAAP company + ELIM* *$'m*	*Discontinued* National Grid Operations ***US GAAP*** *company* *$'m*	= NGUSA + consolidated Adjustments *US GAAP* ***Audited*** *$'m*	+ ADJUSTMENTS *$'m*	= US GAAP UNAUDITED CONSOLIDATED NGUSA SAP *$'m*	+ National Grid USA *IFRS adjustments* *$'m*	= NGUSA *IFRS consolidated* HYPERION *$'m*	Group presentation and other adjustments *$'m*	NGUSA *IFRS* *$'m*
Condensed balance sheet									
Goodwill	1,297	-	7,151	(22)	7,129	507	7,636		7,636
Other intangible assets	-	-	-	-	-	439	439		439
Property, plant & equipment	7,456	-	22,522	(1,507)	21,015	(50)	20,965		20,965
Investments in subsidiaries	-	-	-	-	-	-	-		-
Investments	(190)	-	184	13	197	-	197		197
Non-current regulatory assets	1,078	-	4,507	450	4,957	(4,957)	-		-
Other non-current assets	10	-	881	2,063	2,944	(2,373)	571		571
Intercompany receivables	(3,378)	(29)	13	178	191	(191)			-
Inventories	45	-	348	-	348	(8)	340		340
Receivables and other current assets	912	-	3,634	(374)	3,260	90	3,350		3,350
Current regulatory assets	58	-	537	(537)	-	-	-		-
Financial and other investments	52	-	149	70	219	558	777		777
Cash and cash equivalents	67	-	684	26	710	(612)	98		98
	-	-		-	-		-		-
Assets of businesses held for sale	-	-	-	-	-	-	-		-
Total assets	7,407	(29)	40,610	360	40,970	(6,597)	34,373	-	34,373
Borrowings (including bank overdrafts)	(716)	-	(888)	(1)	(889)	(153)	(1,042)		(1,042)
Current liabilities	(651)	(1)	(2,717)	357	(2,360)	(80)	(2,440)		(2,440)
Current tax liabilities	(28)	-	(146)	375	229	(362)	(133)		(133)
Intercompany notes payables	2,267	24	(123)	25	(98)	(31)	(129)		(129)
Non-current borrowings	(3,362)	-	(8,970)	(4)	(8,974)	(344)	(9,318)		(9,318)
Other non-current liabilities	(950)	-	(5,079)	778	(4,301)	1,789	(2,512)		(2,512)
Deferred tax liabilities	(1,245)	-	(4,257)	(2,166)	(6,423)	4,084	(2,339)		(2,339)
Pensions and other post-retirement benefits	(1,095)	-	(3,643)	271	(3,372)	(168)	(3,540)		(3,540)
Liabilities of businesses held for sale	-	-	-	-	-	-	-		-
Total liabilities	(5,780)	23	(25,823)	(365)	(26,188)	4,735	(21,453)	-	(21,453)
Shareholders' equity	(1,601)	6	(14,761)	(15)	(14,776)	1,863	(12,913)		(12,913)
Minority interests	(26)	-	(26)	20	(6)	(1)	(7)		(7)
Total liabilities and equity	(7,407)	29	(40,610)	(360)	(40,970)	6,597	(34,373)	-	(34,373)
	-	-	-	-	-	-	-	-	-

Consolidating schedules
as at March 31, 2013

	Consol-idation adjustments *US GAAP company* *+ ELIM* *$'m*	*Discontinued* National Grid Operations ***US GAAP*** *company* *$'m*	= NGUSA + consolidated Adjustments *US GAAP* ***Audited*** *$'m*	+ ADJUSTMENTS *$'m*	= US GAAP UNAUDITED CONSOLIDATED NGUSA SAP *$'m*	+ National Grid USA *IFRS adjustments* *$'m*	= NGUSA *IFRS consolidated* HYPERION *$'m*	Group presentation and other adjustments *$'m*	NGUSA *IFRS* *$'m*
Condensed income statement									
Revenue	3,763	(19)	12,601	107	12,708	(150)	12,558		12,558
Other operating income/ (expense)	(172)	-	22	(45)	(23)	23	-		-
Operating costs	(3,569)	18	(11,503)	50	(11,453)	893	(10,560)		(10,560)
Operating profit	22	(1)	1,120	112	1,232	766	1,998	-	1,998
Net finance costs	(85)	-	(416)	1	(415)	(44)	(459)		(459)
Share of post-tax results of joint ventures	-	-		-	-	22	22		22
Dividend income (expense)	-	-		-	-	-	-		-
Profit before taxation	(63)	(1)	704	113	817	744	1,561	-	1,561
Taxation	38	(1)	(287)	(34)	(321)	(296)	(617)		(617)
Profit for the year	(25)	(2)	417	79	496	448	944	-	944
Minority interests	1	-	1	(2)	(1)	-	(1)		(1)
Common dividends	(578)	-	(578)	577	(1)	(577)	(578)		(578)
Net income from continuing operations	(602)	(2)	(160)	654	494	(129)	365	-	365
Net income from discontinued operations	(46)	-	(7)	7	-	-	-		-
Net income attributable to equity shareholders	(648)	(2)	(167)	661	494	(129)	365	-	365
Condensed cash flow statement									
Net cash inflow from operating activities	726	9	1,100	(1,656)	(556)	1,857	1,301	(36)	1,337
Net cash inflow from investing activities	(1,198)	20	(1,770)	1,427	(343)	(1,049)	(1,392)	485	(1,877)
Net cash inflow from financing activities	376	(29)	561	295	856	(703)	153	(424)	578
Net increase (decrease) in cash and cash equivalents	(96)	-	(109)	66	(43)	105	62	25	38
Exchange movements	1,468	-	-	-	-	-	-	-	-
Reclassified to businesses held for sale	(1,035)	-	(1)	1	-	-	-	-	-
Net cash and cash equivalents at start of year	873	-	794	(41)	753	(1,237)	(484)	544	60
Net cash and cash equivalents at end of year	1,210	-	684	26	710	(1,132)	(422)	569	98

Consolidating schedules

as at March 31, 2013

	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*	*PCC Land Company, Inc. US GAAP company*	*Philadelphia Coke Co., Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'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	2,717	2,359	2,059	488	726	**8,349**	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	**-**	-	-	-	-	-
Investments	75	-	-	-	-	**75**	-	1	-	-	-
Non-current regulatory assets	1,123	595	183	252	-	**2,153**	-	-	-	-	-
Other non-current assets	19	8	12	22	16	**77**	-	-	-	-	-
Intercompany receivables	123	47	52	25	478	**725**	-	-	-	-	-
Inventories	66	46	66	12	36	**226**	-	-	-	-	-
Receivables and other current assets	525	385	287	88	32	**1,317**	-	-	-	-	-
Current regulatory assets	64	64	121	15	-	**264**	-	-	-	-	-
Financial and other investments	-	-	-	-	-	**-**	-	-	-	-	-
Cash and cash equivalents	17	3	-	-	-	**20**	-	-	-	-	-
Assets of businesses held for sale	-	-	-	-	-	**-**	-	-	-	-	-
Total assets	6,180	4,525	3,176	956	1,288	**16,125**	-	1	-	-	-
Borrowings (including bank overdrafts)	-	-	(10)	-	-	**(10)**	-	-	-	-	-
Current liabilities	(204)	(126)	(93)	(83)	(45)	**(551)**	-	-	-	-	-
Current tax liabilities	(30)	(46)	(10)	-	(46)	**(132)**	-	-	-	-	-
Intercompany notes payables	(374)	(505)	(188)	(51)	(84)	**(1,202)**	-	-	-	-	-
Non-current borrowings	(1,041)	(600)	(633)	(125)	(399)	**(2,798)**	-	-	-	-	-
Other non-current liabilities	(978)	(426)	(546)	(91)	(58)	**(2,099)**	-	-	-	-	-
Deferred tax liabilities	(750)	(609)	(388)	(176)	(108)	**(2,031)**	-	-	-	-	-
Pensions and other post-retirement benefits	(142)	(261)	(101)	(70)	-	**(574)**	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	**-**	-	-	-	-	-
Total liabilities	(3,519)	(2,573)	(1,969)	(596)	(740)	**(9,397)**	-	-	-	-	-
Shareholders' equity	(2,661)	(1,952)	(1,207)	(360)	(548)	**(6,728)**	-	(1)	-	-	-
Minority interests	-	-	-	-	-	**-**	-	-	-	-	-
Total liabilities and equity	(6,180)	(4,525)	(3,176)	(956)	(1,288)	**(16,125)**	-	(1)	-	-	-

Consolidating schedules

as at March 31, 2013

	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*	*PCC Land Company, Inc. US GAAP company*	*Philadelphia Coke Co., Inc US GAAP company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	***$'m***	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement											
Revenue	1,432	958	1,167	255	500	**4,312**	-	-	-	-	-
Other operating income/ (expense)	(2)	(15)	2	1	5	**(9)**	-	-	-	-	-
Operating costs	(1,184)	(819)	(1,027)	(220)	(426)	**(3,676)**	-	-	-	-	-
Operating profit	246	124	142	36	79	**627**	-	-	-	-	-
Net finance costs	(47)	(42)	(25)	(9)	(20)	**(143)**	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	**-**	-	-	-	-	-
Dividend income (expense)	-	-	-	-	-	**-**	-	-	-	-	-
Profit before taxation	199	82	117	27	59	**484**	-	-	-	-	-
Taxation	(83)	(34)	(46)	(10)	(25)	**(198)**	-	-	-	-	-
Profit for the year	116	48	71	17	34	**286**	-	-	-	-	-
Minority interests						**-**					
Common dividends						**-**					
Net income from continuing operations	116	48	71	17	34	**286**	-	-	-	-	-
Net income from discontinued operations						**-**					
Net income attributable to equity shareholders	116	48	71	17	34	**286**	-	-	-	-	-
Condensed cash flow statement											
Net cash inflow from operating activities	157	110	185	50	104	**606**	-	-	-	-	-
Net cash inflow from investing activities	(217)	(147)	(247)	(58)	(104)	**(773)**	-	-	-	-	-
Net cash inflow from financing activities	(22)	34	61	8	-	**81**	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(82)	(3)	(1)	-	-	**(86)**	-	-	-	-	-
Exchange movements						**-**					
Reclassified to businesses held for sale	-	-	-	-	-	**-**	-	-	-	-	-
Net cash and cash equivalents at start of year	99	6	1	-	-	**106**	-	-	-	-	-
Net cash and cash equivalents at end of year	17	3	-	-	-	**20**	-	-	-	-	-

Consolidating schedules

as at March 31, 2013

	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*	*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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet												
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany notes payables	-	-	-	-	-	-	-	-	-	-	-	-
Non-current borrowings	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	-	-	-	-	-	-	-	-	-	-	-	-

Consolidating schedules

as at March 31, 2013

	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	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
	$'m	$'m	$'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	-	-	-	-	-	-	-	-	-	-	-	-
Net cash inflow from investing activities	-	-	-	-	-	-	-	-	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	-	-	-	-	-	-	-
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, 2013

	KeySpan LNG GP, LLC US GAAP company	*KeySpan LNG LP, LLC US GAAP company*	*Seneca-Upshur Petroleum, Inc US GAAP company*
	$'m	*$'m*	*$'m*
Condensed balance sheet			
Goodwill	-	-	-
Other intangible assets	-	-	-
Property, plant & equipment	-	-	-
Investments in subsidiaries	-	-	-
Investments	-	-	-
Non-current regulatory assets	-	-	-
Other non-current assets	-	-	-
Intercompany receivables	-	-	-
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	-	-	-
Borrowings (including bank overdrafts)	-	-	-
Current liabilities	-	-	-
Current tax liabilities	-	-	-
Intercompany notes payables	-	-	-
Non-current borrowings	-	-	-
Other non-current liabilities	-	-	-
Deferred tax liabilities	-	-	-
Pensions and other post-retirement benefits	-	-	-
Liabilities of businesses held for sale	-	-	-
Total liabilities	-	-	-
Shareholders' equity	-	-	-
Minority interests	-	-	-
Total liabilities and equity	-	-	-

Consolidating schedules

as at March 31, 2013

	KeySpan LNG GP, LLC US GAAP company $'m	KeySpan LNG LP, LLC US GAAP company $'m	Seneca-Upshur Petroleum, Inc US GAAP company $'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	-	-	-
Net cash inflow from investing activities	-	-	-
Net cash inflow from financing activities	-	-	-
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, 2013

	KEDC Holdings Corp US GAAP company $'m	KS Islander East Pipeline, LLC US GAAP company $'m	KeySpan Millennium PipelineLLC US GAAP company $'m	KeySpan IGTS Corp. US GAAP company $'m	Broken Bridge Corp. US GAAP company $'m	KeySpan Energy Management, LLC US GAAP company $'m	Metro Energy L.L.C. US GAAP company $'m	KeySpan Energy Services Inc. US GAAP company $'m	KeySpan Home Energy Srvcs, LLC US GAAP company $'m	Fritze LLC US GAAP company $'m
Condensed balance sheet										
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-
Other non-current assets	1	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	-	-	-	-	-	-	-	-
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	1	-	-	-	-	-	-	-	-	-
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-	-	-	-
Intercompany notes payables	-	-	-	-	-	-	-	-	-	-
Non-current borrowings	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-
Shareholders' equity	(1)	-	-	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(1)	-	-	-	-	-	-	-	-	-

Consolidating schedules

as at March 31, 2013

	KEDC Holdings Corp US GAAP company	KS Islander East Pipeline, LLC US GAAP company	KeySpan Millennium PipelineLLC US GAAP company	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
	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m
Condensed income statement										
Revenue	-	-	-	-	-	-	-	-	1	-
Other operating income/ (expense)	-	-	-	-	-	-	-	-	-	-
Operating costs	-	-	-	-	-	-	-	-	-	-
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	-

	KEDC Holdings Corp	KS Islander East Pipeline, LLC	KeySpan Millennium PipelineLLC	KeySpan IGTS Corp.	Broken Bridge Corp.	KeySpan Energy Management, LLC	Metro Energy L.L.C.	KeySpan Energy Services Inc.	KeySpan Home Energy Srvcs, LLC	Fritze LLC
Condensed cash flow statement										
Net cash inflow from operating activities	-	-	-	-	-	-	-	-	-	-
Net cash inflow from investing activities	-	-	-	-	-	-	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	-	-	-	-	-
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, 2013

	KeySpan Plumbing Solutions Inc US GAAP company	*KS Plumb Heating Solutions,LLC US GAAP company*	*KeySpan Energy Supply, LLC US GAAP company*	*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*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed balance sheet									
Goodwill	-	-	-	-	-	-	-	-	1
Other intangible assets	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	3	-	-	6
Non-current regulatory assets	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-
Intercompany receivables	-	-	-	-	-	-	-	-	5
Inventories	-	-	-	-	-	-	-	-	-
Receivables and other current assets	-	-	-	-	-	-	-	-	1
Current regulatory assets	-	-	-	-	-	-	-	-	-
Financial and other investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	1
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-
Total assets	-	-	-	-	-	3	-	-	14
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-
Current liabilities	-	-	-	-	-	-	-	-	-
Current tax liabilities	-	-	-	-	-	-	-	-	-
Intercompany notes payables	-	-	-	-	-	-	-	-	(3)
Non-current borrowings	-	-	-	-	-	-	-	-	(1)
Other non-current liabilities	-	-	-	-	-	-	-	-	(2)
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	(6)
Shareholders' equity	-	-	-	-	-	(3)	-	-	(8)
Minority interests	-	-	-	-	-	-	-	-	-
Total liabilities and equity	-	-	-	-	-	(3)	-	-	(14)

Consolidating schedules

as at March 31, 2013

	KeySpan Plumbing Solutions Inc US GAAP company	*KS Plumb Heating Solutions,LLC US GAAP company*	*KeySpan Energy Supply, LLC US GAAP company*	*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*
	$'m	*$'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
Net cash inflow from investing activities	-	-	-	-	-	-	-	-	-
Net cash inflow from financing activities	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	-		-	1

Consolidating schedules

as at March 31, 2013

	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*	*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*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed balance sheet											
Goodwill	-	-	-	-	-	-	1	2,920	846	-	3,766
Other intangible assets	-	-	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-	8,349	141	-	8,490
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	10	85	94	-	179
Non-current regulatory assets	-	-	-	-	-	-	-	2,153	-	-	2,153
Other non-current assets	-	-	-	1	-	-	2	79	250	-	329
Intercompany receivables	-	-	-	-	-	-	5	730	1,970	-	2,700
							-			-	
Inventories	-	-	-	-	-	-	-	226	23	-	249
Receivables and other current assets	-	-	-	-	-	-	1	1,318	574	-	1,892
Current regulatory assets	-	-	-	-	-	-	-	264	1	-	265
Financial and other investments	-	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	1	21	573	-	594
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-
Total assets	-	-	-	1	-	-	20	16,145	4,472	-	20,617
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	(10)	(150)	-	(160)
Current liabilities	-	-	-	-	-	-	-	(551)	(483)	-	(1,034)
Current tax liabilities	-	-	-	-	-	-	-	(132)	56	-	(76)
Intercompany notes payables	-	-	-	(1)	-	-	(4)	(1,206)	(270)	-	(1,476)
Non-current borrowings	-	-	-	-	-	-	(1)	(2,799)	(656)	-	(3,455)
Other non-current liabilities	-	-	-	-	-	-	(2)	(2,101)	(159)	-	(2,260)
Deferred tax liabilities	-	-	-	-	-	-	-	(2,031)	422	-	(1,609)
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	(574)	(1,643)	-	(2,217)
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	(1)	-	-	(7)	(9,404)	(2,883)	-	(12,287)
Shareholders' equity	-	-	-	-	-	-	(13)	(6,741)	(1,589)	-	(8,330)
Minority interests	-	-	-	-	-	-	-	-	-	-	
Total liabilities and equity	-	-	-	(1)	-	-	(20)	(16,145)	(4,472)	-	(20,617)

Consolidating schedules

as at March 31, 2013

	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*	*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*	***$'m***	***$'m***	*$'m*	*$'m*	***$'m***
Condensed income statement											
Revenue	-	-	-	1	-	-	2	4,314	824	-	5,138
Other operating income/ (expense)	-	-	-	-	-	-	-	(9)	179	-	170
Operating costs	-	-	-	(1)	-	-	(1)	(3,677)	(951)	-	(4,628)
Operating profit	-	-	-	-	-	-	1	628	52	-	680
Net finance costs	-	-	-	-	-	-	-	(143)	(76)	-	(219)
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	
Dividend income (expense)	-	-	-	-	-	-	-	-	-	-	
Profit before taxation	-	-	-	-	-	-	1	485	(24)	-	461
Taxation	-	-	-	-	-	-	-	(198)	(10)	-	(208)
Profit for the year	-	-	-	-	-	-	1	287	(34)	-	253
Minority interests							-	-	-	-	
Common dividends							-	-	-	-	
Net income from continuing operations	-	-	-	-	-	-	1	287	(34)	-	253
Net income from discontinued operations								-	39	-	39
Net income attributable to equity shareholders	-	-	-	-	-	-	1	287	5	-	292

Condensed cash flow statement											
Net cash inflow from operating activities	-	-	-	-	-	-	1	606	(288)	-	319
Net cash inflow from investing activities	-	-	-	-	-	-	-	(773)	(695)	-	(1,468)
Net cash inflow from financing activities	-	-	-	-	-	-	-	82	953	-	1,034
Net increase (decrease) in cash and cash equivalents	-	-	-	-	-	-	1	(85)	(30)	-	(115)
Exchange movements							-	-	-	-	
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	(45)	-	(45)
Net cash and cash equivalents at start of year	-	-	-	-	-	-	(1)	105	649	-	754
Net cash and cash equivalents at end of year	-	-	-	-	-	-	-	20	574	-	594

Consolidating schedules as at March 31, 2013	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	302	-	-	5	2	-	-	(2)	307	134	-	-	-	134
Property, plant & equipment	18,419	-	-	6	29	-	-	(33)	18,421	14,507	-	-	-	14,507
Investments in subsidiaries	26	-	-	-	-	152	(178)	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	1,503	-	-	-	-	-	-	(9)	1,494	621	-	-	-	621
Intercompany receivables	8,830	735	307	166	26	6,496	(7,985)	-	8,575	26	-	-	-	26
Inventories	33	-	-	-	-	-	-	-	33	46	-	-	-	46
Receivables and other current assets	758	-	-	2	5	-	-	5	769	415	-	-	-	415
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	1,298	-	-	-	-	-	-	(2)	1,296	1,381	-	-	-	1,381
Cash and cash equivalents	30	2	-	-	-	-	-	(2)	30	5	-	-	-	5
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	31,200	737	307	178	61	6,648	(8,163)	(43)	**30,925**	17,134	-	-	-	**17,134**
Borrowings (including bank overdrafts)	(1,676)	-	(6)	-	-	-	-	-	(1,682)	(1,007)	-	-	-	(1,007)
Current liabilities	(1,123)	-	-	(14)	(23)	-	-	(2)	(1,161)	(1,298)	-	-	-	(1,298)
Current tax liabilities	(40)	-	-	-	-	-	-	-	(40)	3	-	-	-	3
Intercompany payables	(4,789)	(2)	-	(27)	(3)	(6,534)	7,985	2	(3,369)	(612)	-	-	-	(612)
Non-current borrowings	(9,492)	(746)	(299)	-	-	-	-	-	(10,538)	(8,909)	-	-	-	(8,909)
Other non-current liabilities	(2,422)	-	-	-	(24)	-	-	6	(2,440)	(1,064)	-	-	-	(1,064)
Deferred tax liabilities	(2,762)	-	-	-	-	-	-	2	(2,761)	(1,138)	-	-	-	(1,138)
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	(941)	-	-	-	(941)
Liabilities of businesses held for sale								-	-				-	-
Total liabilities	(22,305)	(748)	(305)	(41)	(50)	(6,534)	7,985	8	**(21,990)**	(14,966)	-	-	-	**(14,966)**
Shareholders' equity	(8,895)	11	(2)	(137)	(11)	(114)	181	32	(8,935)	(2,168)	-	-	-	(2,168)
Minority interests	-	-	-	-	-	-	(3)	3	-	-	-	-	-	-
Total liabilities and equity	(31,200)	(737)	(307)	(178)	(61)	(6,648)	8,163	43	**(30,925)**	(17,134)	-	-	-	**(17,134)**

Consolidating schedules as at March 31, 2013	National Grid Gas plc *IFRS company* $'m	British Transco Finance BV *IFRS company* $'m	British Transco Finance Inc *IFRS company* $'m	NG Metering Limited *IFRS company* $'m	Xoserve Limited *IFRS company* $'m	Other NGG subsidiary companies *IFRS aggregated* $'m	Consol-idation adjustments *IFRS* $'m	Rounding and other differences *IFRS* $'m	**National Grid Gas plc *IFRS consolidated*** $'m	National Grid Elec. Trans. plc *IFRS company* $'m	NGET subsidiary companies *IFRS aggregated* $'m	Consol-idation adjustments *IFRS* $'m	Rounding and other differences *IFRS* $'m	**National Grid Elec. Trans. plc *IFRS consolidated*** $'m
Condensed income statement														
Revenue	4,771	-	-	151	72	-	(226)	(36)	4,732	4,884	-	-	-	4,884
Other operating income	36	-	-	-	-	-	-	-	36	-	-	-	-	-
Operating costs	(2,644)	-	-	(138)	(69)	-	226	35	(2,591)	(3,300)	-	-	-	(3,300)
Operating profit	2,163	-	-	13	3	-	-	(2)	**2,178**	1,584	-	-	-	**1,584**
Net finance costs	(440)	2	-	2	-	(2)	-	-	(438)	(298)	-	-	-	(298)
Dividend income	3	-	-	-	-	-	-	(3)	-	-	-	-	-	-
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	1,727	2	-	14	3	(2)	-	(5)	**1,740**	1,286	-	-	-	**1,286**
Taxation	(276)	-	-	(3)	-	-	-	-	(279)	(253)	-	-	-	(253)
Profit for the year	1,451	2	-	11	3	(2)	-	(5)	**1,460**	1,033	-	-	-	**1,033**
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	1,451	2	-	11	3	(2)	-	(5)	**1,460**	1,033	-	-	-	**1,033**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	1,451	2	-	11	3	(2)	-	(5)	**1,460**	1,033	-	-	-	**1,033**

Condensed cash flow statement														
Net cash inflow from operating activities	2,525	-	-	14	16	(44)	-	42	2,553	1,881	-	-	2	1,882
Net cash inflow from investing activities	(2,112)	-	-	(6)	(11)	-	-	5	(2,124)	(3,036)	-	-	-	(3,036)
Net cash inflow from financing activities	(377)	-	-	(8)	(5)	44	-	(46)	(391)	1,165	-	-	-	1,165
Net increase in cash and cash equivalents	36	-	-	-	-	-	-	2	**38**	9	-	-	2	**11**
Exchange movements	1	(0)	-	-	-	-	-	0	1	0	-	-	(0)	(0)
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	(43)	2	-	-	-	-	-	(2)	(43)	(6)	-	-	-	(6)
Net cash and cash equivalents at end of year	(6)	2	-	-	-	-	-	-	**(5)**	3	-	-	2	**5**

Consolidating schedules as at March 31, 2013	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*	National Grid Holdings Inc *IFRS company* *$'m*
Condensed balance sheet													
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	12	2	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	1,330	112	141	169	-	-	-	-
Investments in subsidiaries	-	26,341	1,026	10,816	242	-	-	-	-	16,064	11,144	7,578	8,661
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany receivables	4,141	4,876	4,218	819	1,738	38	725	6	157	707	3,031	1,237	4,996
Inventories	-	-	-	-	-	11	12	-	-	-	-	-	-
Receivables and other current assets	-	8	-	-	5	36	5	2	11	-	17	-	-
Regulatory assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial and other investments	-	56	-	-	-	-	-	-	-	-	-	-	514
Cash and cash equivalents	-	-	-	-	(2)	(2)	9	-	-	-	-	-	2
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	4,141	31,280	5,244	11,635	1,995	1,415	863	149	336	16,771	14,192	8,815	14,172
Borrowings (including bank overdrafts)	(6)	-	-	-	-	(5)	-	-	-	-	-	-	(539)
Current liabilities	-	(12)	(8)	-	(58)	(47)	(52)	(2)	(14)	(88)	-	-	(14)
Current tax liabilities	-	(170)	-	-	-	-	(8)	-	-	(14)	-	-	27
Intercompany payables	(77)	(23,359)	(1,674)	(8,944)	(789)	(333)	(1,126)	(119)	(12)	(5,920)	(10,788)	(3)	(5,166)
Non-current borrowings	(3,103)	-	-	-	-	(415)	-	-	-	-	-	-	(1,141)
Other non-current liabilities	-	-	20	-	(14)	(14)	(204)	-	-	-	-	-	(30)
Deferred tax liabilities	-	-	188	-	3	(173)	29	-	(27)	-	-	-	36
Pensions and other post-retirement benefits	-	-	(834)	-	-	-	-	-	-	-	-	-	-
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	(3,186)	(23,542)	(2,308)	(8,944)	(857)	(986)	(1,360)	(120)	(53)	(6,022)	(10,788)	(3)	(6,827)
Shareholders' equity	(954)	(7,739)	(2,936)	(2,691)	(1,138)	(428)	497	(29)	(283)	(10,749)	(3,404)	(8,812)	(7,345)
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities and equity	(4,141)	(31,280)	(5,244)	(11,635)	(1,995)	(1,415)	(863)	(149)	(336)	(16,771)	(14,192)	(8,815)	(14,172)

Consolidating schedules as at March 31, 2013	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*
Condensed balance sheet											
Goodwill	-	-	-	-	-	-	-	-	-	-	**-**
Other intangible assets	-	-	-	-	2	-	-	-	-	-	**15**
Property, plant & equipment	-	-	-	-	2	-	-	-	-	-	**1,754**
Investments in subsidiaries	-	400	-	5,148	18,682	-	12,331	2,721	22,563	21,124	**164,840**
Investments	-	365	-	-	-	-	-	-	-	-	**365**
Non-current regulatory assets	-	-	-	-	-	-	-	-	-	-	**-**
Other non-current assets	-	-	-	-	-	-	-	-	-	-	**-**
Intercompany receivables	-	131	1,041	489	9,313	-	7,874	6,759	9,301	3,896	**65,492**
Inventories	-	-	-	-	-	-	-	-	-	-	**23**
Receivables and other current assets	245	6	-	-	-	-	-	-	-	-	**333**
Regulatory assets	-	-	-	-	-	-	-	-	-	-	**-**
Financial and other investments	394	-	-	-	125	-	-	-	8	-	**1,096**
Cash and cash equivalents	29	-	-	-	330	-	-	-	2	-	**368**
Assets of businesses held for sale	-	-	-	-	-	-	-	-	-	-	**-**
Total assets	667	901	1,041	5,637	28,453	-	20,205	9,480	31,873	25,020	**234,284**
Borrowings (including bank overdrafts)	-	-	-	-	-	-	-	-	-	-	**(550)**
Current liabilities	(311)	-	-	-	-	-	(20)	-	-	-	**(625)**
Current tax liabilities	-	-	-	-	(11)	-	-	-	-	-	**(175)**
Intercompany payables	-	(1,229)	(886)	(415)	(11)	-	(11,182)	(4,580)	(270)	(3,381)	**(80,265)**
Non-current borrowings	-	-	-	-	-	-	-	-	-	-	**(4,659)**
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-	**(242)**
Deferred tax liabilities	-	-	-	-	-	-	-	-	(17)	-	**40**
Pensions and other post-retirement benefits	-	-	-	-	-	-	-	-	-	-	**(834)**
Liabilities of businesses held for sale	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities	(311)	(1,229)	(886)	(415)	(21)	-	(11,202)	(4,580)	(287)	(3,381)	**(87,309)**
Shareholders' equity	(356)	328	(155)	(5,223)	(28,431)	-	(9,003)	(4,900)	(31,586)	(21,639)	**(146,975)**
Minority interests	-	-	-	-	-	-	-	-	-	-	**-**
Total liabilities and equity	(667)	(901)	(1,041)	(5,637)	(28,453)	-	(20,205)	(9,480)	(31,873)	(25,020)	**(234,284)**

Consolidating schedules as at March 31, 2013	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*	National Grid Holdings Inc *IFRS company*
	$'m	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*	*$'m*
Condensed income statement													
Revenue	-	-	-	-	-	322	52	9	60	-	-	-	-
Other operating income	-	-	-	-	-	6	19	-	-	-	-	-	-
Operating costs	-	-	(74)	-	80	(195)	(35)	(3)	(22)	(14)	-	-	(2)
Operating profit	-	-	(74)	-	80	133	36	6	38	(14)	-	-	(2)
Net finance costs	39	(226)	151	2	24	(14)	(20)	(2)	2	(47)	(97)	13	(22)
Dividend income	-	1,545	2,983	2,983	-	-	-	-	-	3	-	-	80
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit before taxation	39	1,319	3,060	2,985	104	119	16	5	39	(58)	(97)	13	57
Taxation	(3)	77	(14)	38	11	(22)	(6)	-	(9)	17	14	(3)	159
Profit for the year	36	1,396	3,046	3,022	115	97	9	5	30	(41)	(83)	9	215
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	36	1,396	3,046	3,022	115	97	9	5	30	(41)	(83)	9	215
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to equity shareholders	36	1,396	3,046	3,022	115	97	9	5	30	(41)	(83)	9	215
Condensed cash flow statement													
Net cash inflow from operating activities	(2)	53	(2)	41	(63)	204	36	5	35	3	14	(2)	(2)
Net cash inflow from investing activities	-	1,526	2,983	2,983	-	(85)	(3)	(2)	(9)	-	-	-	(433)
Net cash inflow from financing activities	2	(1,579)	(2,981)	(3,024)	63	(115)	(28)	(3)	(30)	(3)	(14)	2	435
Net increase in cash and cash equivalents	-	-	-	-	-	5	5	-	(5)	-	-	-	-
Exchange movements	-	-	-	-	-	0	(0)	-	0	-	-	-	-
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash and cash equivalents at start of year	-	-	-	-	-	(8)	5	-	-	-	-	-	-
Net cash and cash equivalents at end of year	-	-	-	-	-	(3)	9	-	(5)	-	-	-	-

Consolidating schedules as at March 31, 2013	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*
Condensed income statement											
Revenue	-	-	-	-	-	-	-	-	-	-	**443**
Other operating income	-	-	-	-	-	-	-	-	-	-	**25**
Operating costs	(31)	(799)	-	-	-	-	(524)	-	(2)	-	**(1,620)**
Operating profit	(31)	(799)	-	-	-	-	(524)	-	(2)	-	**(1,152)**
Net finance costs	17	(29)	6	3	132	-	(40)	19	121	28	**59**
Dividend income	-	1,334	-	-	-	-	1,074	-	-	-	**10,002**
Share of post-tax results of joint ventures	-	-	-	-	-	-	-	-	-	-	**-**
Profit before taxation	(14)	506	6	3	132	-	511	19	119	28	**8,909**
Taxation	-	5	(5)	-	(6)	-	12	-	(25)	2	**240**
Profit for the year	(14)	511	2	3	126	-	523	19	94	30	**9,149**
Minority interests	-	-	-	-	-	-	-	-	-	-	**-**
Interest in equity accounted affiliates	-	-	-	-	-	-	-	-	-	-	**-**
Net income from continuing operations	(14)	511	2	3	126	-	523	19	94	30	**9,149**
Net income from discontinued operations	-	-	-	-	-	-	-	-	-	-	**-**
Net income attributable to equity shareholders	(14)	511	2	3	126	-	523	19	94	30	**9,149**
Condensed cash flow statement											
Net cash inflow from operating activities	(41)	19	(3)	-	(5)	-	18	3	(31)	(2)	**280**
Net cash inflow from investing activities	20	1,110	-	-	(49)	-	1,074	-	(6)	-	**9,110**
Net cash inflow from financing activities	6	(1,130)	3	-	5	-	(1,094)	(3)	39	2	**(9,450)**
Net increase in cash and cash equivalents	(14)	(2)	-	-	(49)	-	(2)	-	2	-	**(60)**
Exchange movements	(2)	(0)	-	-	(1)	-	-	-	(0)	-	**(3)**
Reclassified to businesses held for sale	-	-	-	-	-	-	-	-	-	-	**-**
Net cash and cash equivalents at start of year	45	2	-	-	378	-	-	-	2	-	**422**
Net cash and cash equivalents at end of year	29	-	-	-	328	-	-	-	3	-	**360**

National Grid plc
IFRS to US GAAP reconciliation
as at March 31, 2013

	$'m	$'m
Profit for the year attributable to equity shareholders under IFRS		3,603
Adjustments to conform with US GAAP		
Revenue	85	
Operating costs	(775)	
Net finance costs	(150)	
Taxation	555	
Other	(22)	
		(306)
Net income under US GAAP		3,297
Total shareholders equity under IFRS		15,541
Adjustments to conform with US GAAP		
Property, plant & equipment	1,136	
Intangible assets	(895)	
Goodwill	3,217	
Regulatory assets and liabilities	3,564	
Financial instruments	1,678	
Pensions and other post-retirement benefits	168	
Current taxes	362	
Deferred taxation	(2,591)	
Other	1,173	
		7,813
Shareholders' equity under US GAAP		23,354