Thomas R Teehan
Senior Counsel - Rhode Island

August 7, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Division Clerk
RI Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02888

RE: Division Docket No. D-09-49
The Narragansett Electric Company[1] Application for Long-Term Debt Issuance
Responses to Division's First Set of Data Requests

Dear Ms. Massaro:

Enclosed please find one original and five (5) copies of the Company's responses to the Division's First Set of Data Requests issued in the above-captioned proceeding on July 17, 2009.

Please be advised that the Company is seeking protective treatment of response to Division Data Request 1-4, as permitted by Division Rule 3(d) and by R.I.G.L. § 38-2-2(4)(i)(B). The Company has submitted a Motion for Protective Treatment along with a copy of the confidential response to the Division pending a determination on the Company's Motion. In addition, the Company has submitted a redacted version of the response in this filing for the public record.

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

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Leo Wold, Esq.
Steve Scialabba, Division
John Spirito, Esq.

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[1] The Narragansett Electric Company d/b/a National Grid ("the Company").

280 Melrose Street, Providence, RI 02907
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
BEFORE THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS

In Re: Application of The Narragansett Electric Company **Docket No. 09-49**
d/b/a National Grid
Issuance of New Long-Term Debt

MOTION OF THE NARRAGANSETT ELECTRIC COMPANY,
D/B/A NATIONAL GRID
FOR PROTECTIVE TREATMENT OF CONFIDENTIAL INFORMATION

Now comes The Narragansett Electric Company, d/b/a National Grid ("Company") hereby requests that the Rhode Island Division of Public Utilities & Carriers ("Division") grant protection from public disclosure of certain confidential, competitively sensitive, and proprietary information submitted in this proceeding, as permitted by Division Rule 3(d) and R.I.G.L. § 38-2-2(4)(i)(B).

I. BACKGROUND

On June 18, 2009, the Company filed with the Division its Application of Issuance of New Long-Term Debt seeking authorization to issue and sell one or more series and/or issues of new long-term debt, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17. On July 17, 2009, the Division issued its First Set of Data Requests, which the Company is responding to on August 7, 2009. Pursuant to Division Rule 3 (d), the Company is seeking protective treatment of the Company's response to Division Data Requests 1-4. That response contains proprietary and commercially sensitive Company information that the Company wishes to keep confidential. For the reasons stated below, the Company requests that this information be protected from public disclosure. The Company has also filed redacted copies of its filing deleting the sensitive and proprietary information in question.

II. LEGAL STANDARD

Rule 3(d) of the Division's Rules of Practice and Procedure provides that access to public records shall be granted in accordance with the Access to Public Records Act ("APRA"), R.I.G.L. §38-2-1, *et seq.* Under APRA, all documents and materials submitted in connection with the transaction of official business by an agency is deemed to be a "public record," unless the information contained in such documents and materials falls within one of the exceptions specifically identified in R.I.G.L. §38-2-2(4). Therefore, to the extent that information provided to the Division falls within one of the designated exceptions to the public records law, the Division has the authority under the terms of APRA to deem such information to be confidential and to protect that information from public disclosure.

In that regard, R.I.G.L. §38-2-2(4)(i)(B) provides that the following records shall not be deemed public:

> Trade secrets and commercial or financial information obtained from a person, firm, or corporation which is of a privileged or confidential nature.

The Rhode Island Supreme Court has held that the determination as to whether this exemption applies requires the application of a two-pronged test set forth in <u>Providence Journal Company v. Convention Center Authority</u>, 774 A.2d 40 (R.I.2001). The first prong of the test assesses whether the information was provided voluntarily to the governmental agency. <u>Providence Journal</u>, 774 A.2d at 47. If the answer to the first question is affirmative, then the question becomes whether the information is "of a kind that would customarily not be released to the public by the person from whom it was obtained." Id.

In addition, the Court has held that the agencies making determinations as to the disclosure of information under APRA may apply the balancing test established by the Court in Providence Journal v. Kane, 577 A.2d 661 (R.I.1990). Under this balancing test, the Division may protect information from public disclosure if the benefit of such protection outweighs the public interest inherent in disclosure of information pending before regulatory agencies.

III. BASIS FOR CONFIDENTIALITY

The Company seeks to protect from public disclosure the information contained in its response to Division Data Request 1-4. One of the key considerations supporting confidential treatment, consistent with the Division's rules and precedent, is that public disclosure of information would be commercially harmful to the Company and to its customers. In this case, the Company's response to Division Data Request 1-4 provides its forecast for indicative pricing for long term debt. The release of this type of information could potentially prejudice the Company's negotiating ability in obtaining financing at reasonable pricing. Additionally, because National Grid is a publicly traded company, communication of financial information about the Company's prospective performance is highly regulated by state and federal securities laws. Financial forecasts are necessarily forward-looking statements, which the Company does not wish to make publicly available. This type of information is competitively sensitive because it could affect trading in National Grid stock. The Company must exercise a duty of care in how information about it is communicated to the financial markets. Release of this highly sensitive, confidential information could infringe on that duty.

V. CONCLUSION

In light of the foregoing, the Company respectfully requests that the Division grant its Motion for Protective Treatment as stated herein.

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY

By its attorney,

Thomas R. Teehan (RI #4698)
280 Melrose Street
Providence, RI 02907
(401) 784-7667

Dated: August 7, 2009

Division Data Request 1-1

Request:

Please state whether any of the existing issues of Narragansett debt are callable. If so, please identify any plans for refinancing those debt issues. Provide a copy of any analyses conducted by or for Narragansett concerning refinancing of existing high-cost debt.

Response:

All five (5) remaining series of the Company's long-term debt are callable at the option of the Company by paying Yield-Maintenance Premiums. There are no plans to redeem this debt at this time. Attached is the analysis performed by the Company soon after this debt was assumed in the 2006 acquisition of the New England Gas business from Southern Union Company. As shown in Attachment DIV 1-1(a), the Yield Maintenance Premiums would have required in excess of $16 million to redeem this debt totaling approximately $61 million. Attachment DIV 1-1 (b) shows it was not economical to redeem any of these series of debt at that time. Based on current market conditions, we expect this to still be the case.

Prepared by or under the supervision of: Lorraine Lynch

Providence Gas Debt - Calculation of Make Whole Premiums

						Annual Sinking Fund $625K	Annual Sinking Fund $750K
Series	S	N	O	P	R	P	R
Principal	$14,464,000	$10,000,000	$12,500,000	$10,000,000	$14,250,000	10625000	15000000
Int. Rate	6.82%	9 63%	8.46%	8 09%	7.50%	principal	principal
11/06	493222.4	481500	528750	404500	562500	10000000	14250000
05/07	493222.4	481500	528750	404500	534375	10000000	14250000
11/07	493222.4	481500	528750	1029500	1284375	9375000	13500000
05/08	493222.4	481500	528750	379218.75	506250	9375000	13500000
11/08	493222.4	481500	528750	1004218.75	1256250	8750000	12750000
05/09	493222.4	481500	528750	353937.5	478125	8750000	12750000
11/09	493222.4	481500	528750	978937.5	1228125	8125000	12000000
05/10	493222.4	481500	528750	328656.25	450000	8125000	12000000
11/10	493222.4	481500	528750	953656.25	1200000	7500000	11250000
05/11	493222.4	481500	528750	303375	421875	7500000	11250000
11/11	493222.4	481500	528750	928375	1171875	6875000	10500000
05/12	493222.4	481500	528750	278093.75	393750	6875000	10500000
11/12	493222.4	481500	528750	903093.75	1143750	6250000	9750000
05/13	493222.4	481500	528750	252812.5	365625	6250000	9750000
11/13	493222.4	481500	528750	877812.5	1115625	5625000	9000000
05/14	493222.4	481500	528750	227531 25	337500	5625000	9000000
11/14	493222.4	481500	528750	852531 25	1087500	5000000	8250000
05/15	493222.4	481500	528750	202250	309375	5000000	8250000
11/15	493222.4	481500	528750	827250	1059375	4375000	7500000
05/16	493222.4	481500	528750	176968.75	281250	4375000	7500000
11/16	493222.4	481500	528750	801968.75	1031250	3750000	6750000
05/17	493222.4	481500	528750	151687.5	253125	3750000	6750000
11/17	493222.4	481500	528750	776687.5	1003125	3125000	6000000
05/18	14957222.4	481500	528750	126406 25	225000	3125000	6000000
11/18		481500	528750	751406 25	975000	2500000	5250000
05/19		481500	528750	101125	196875	2500000	5250000
11/19		481500	528750	726125	946875	1875000	4500000
05/20		10481500	528750	75843.75	168750	1875000	4500000
11/20			528750	700843.75	918750	1250000	3750000
05/21			528750	50562.5	140625	1250000	3750000
11/21			528750	675562.5	890625	625000	3000000
05/22			13028750	25281 25	112500	625000	3000000
11/22				650281 25	862500	625000	2250000
05/23					84375		2250000
11/23					834375		1500000
05/24					56250		1500000
11/24					806250		750000
05/25					28125		750000
11/25					778125		750000

Premium	$2,268,931.64	$4,544,798.18	$4,623,419.96	$2,066,786.77	$2,678,801.06	Total:	$16,182,737.61
0.0253	$16,732,931.64	$14,544,798.18	$17,123,419.96	$12,066,786.77	$16,928,801.06		
	0.0253	0.0253	0.0253	0.0253	0.0253		
	10/16/06 WSJ	10/16/06 WSJ	10/16/06 WSJ	10/16/06 WSJ	10/16/06 WSJ		
	T=4.81%	T=4.81%	T=4.81%	T=4.81%	T=4.81%		
	+0.25%	+0.25%	+0.25%	+0.25%	+0.25%		
	Disc Rate 5 06%	Disc Rate 5.06%	Disc Rate 5 06%	Disc Rate 5.06%	Disc Rate 5 06%		
	/2=2.53%	/2=2.53%	/2=2.53%	/2=2.53%	/2=2.53%		

NPV Calculation - Redeem Providence Gas First Mortgage Bonds at Make Whole Premiums

Series	S	N	O	P	R		P	R
Principal	$14,464,000	$10,000,000	$12,500,000	$10,000,000	$14,250,000		Annual Sinking Fund $625K	Annual Sinking Fund $750K
Int Rate	6.82%	9.63%	8.46%	8.09%	7.50%			
New Rate	5.65%	5.90%	5.90%	5.65%	5.65%			
08/06							10000000	14250000
11/06	($2,268,931.64)	($4,544,798.18)	($4,623,419.96)	($2,066,786.77)	($2,678,801.06)		10000000	14250000
05/07	84614.4	186500	160000	122000	131812.5		10000000	14250000
11/07	84614.4	186500	160000	122000	131812.5		9375000	13500000
05/08	84614.4	186500	160000	114375	124875		9375000	13500000
11/08	84614.4	186500	160000	114375	124875		8750000	12750000
05/09	84614.4	186500	160000	106750	117937.5		8750000	12750000
11/09	84614.4	186500	160000	106750	117937.5		8125000	12000000
05/10	84614.4	186500	160000	99125	111000		8125000	12000000
11/10	84614.4	186500	160000	99125	111000		7500000	11250000
05/11	84614.4	186500	160000	91500	104062.5		7500000	11250000
11/11	84614.4	186500	160000	91500	104062.5		6875000	10500000
05/12	84614.4	186500	160000	83875	97125		6875000	10500000
11/12	84614.4	186500	160000	83875	97125		6250000	9750000
05/13	84614.4	186500	160000	76250	90187.5		6250000	9750000
11/13	84614.4	186500	160000	76250	90187.5		5625000	9000000
05/14	84614.4	186500	160000	68625	83250		5625000	9000000
11/14	84614.4	186500	160000	68625	83250		5000000	8250000
05/15	84614.4	186500	160000	61000	76312.5		5000000	8250000
11/15	84614.4	186500	160000	61000	76312.5		4375000	7500000
05/16	84614.4	186500	160000	53375	69375		4375000	7500000
11/16	84614.4	186500	160000	53375	69375		3750000	6750000
05/17	84614.4	186500	160000	45750	62437.5		3750000	6750000
11/17	84614.4	186500	160000	45750	62437.5		3125000	6000000
05/18	84614.4	186500	160000	38125	55500		3125000	6000000
11/18		186500	160000	38125	55500		2500000	5250000
05/19		186500	160000	30500	48562.5		2500000	5250000
11/19		186500	160000	30500	48562.5		1875000	4500000
05/20		186500	160000	22875	41625		1875000	4500000
11/20			160000	22875	41625		1250000	3750000
05/21			160000	15250	34687.5		1250000	3750000
11/21			160000	15250	34687.5		625000	3000000
05/22			160000	7625	27750		625000	3000000
11/22				7625	27750		625000	2250000
05/23					20812.5			2250000
11/23					20812.5			1500000
05/24					13875			1500000
11/24					13875			750000
05/25					6937.5			750000
11/25					6937.5			750000
0.02825	($828,502.00)	($1,074,728.37)	($1,361,840.23)	($512,750.75)	($789,552.83)	Total:	($4,567,374.17)	
	0.02825	0.0295	0.0295	0.02825	0.02825			

Division Data Request 1-2

Request:

Please describe in detail the process or procedures that Narragansett will use in selecting underwriters or financial institutions that manage the long-term debt issuance in order to minimize (a) issuance costs; and (b) the all-in cost of the issued debt. For example, will Narragansett use competitive bidding, negotiations, etc.?

Response:

The Company has issued a Request for Proposal to various underwriters and financial institutions that manage long-term debt issuance as part of its selection process. The Request for Proposal was issued to evaluate the capabilities of the underwriters and the role they could play in a long-term debt issuance.

The Company has requested the ability to issue securities through among other methods, the use of competitive bidding and negotiation. However, a competitive bid, while allowing the utility to show the regulator that they have received the lowest bid, is uncommon practice. For bidders to take on such a risk, they will charge an extremely large premium, especially at the moment when banks are taking a more cautious approach to risk. The premium to their bid price is to offset the risk they are taking by not knowing what the market clearing rate would be for the deal. In addition they will look to sell the bonds as quickly as possible to reduce their risk which will harm the Company's reputation with investors if the bank sells any bonds it is holding after the initial sale process cheaply to eliminate its risk. This is extremely important for future financings by the Company.

The Company believes that it is in the best interest of the public to have the guidance of financial partners that know the market and can advise the Company on changes in credit spreads, interest rates, market conditions, and other market events that could affect issuance. Upon discussion with two financial partners, we have been advised that they have not seen this method of placement by US utilities for at least the last 18 months. Prior to the time period, competitive bid issuances were utilized for very small size issuances, \$20 ml - \$50 ml, where the company would be looking for interest from a single investor.

The Company has provided in Exhibit B a current estimate of costs and expenses of issuing new debt. Exhibit B represents the standard fees charged by investment banks for acting as underwriters on US domestic capital markets issues. Other Issuance Expenses are based on an

Division Data Request 1-2 (cont.)

estimate of $1 million of fees on a $500m sized transaction. 1/500 = 0.20%. The figure of $1 million is an estimate of such expenses as lawyers' fees, auditors' fees and printing costs.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Request 1-3

Request:

Have any underwriters or managing financial institutions that will market the bonds been selected by Narragansett? If so, please identify and explain how they were selected.

Response:

No selection has been made to date.

Prepared by or under the supervision of: Lorraine Lynch

REDACTED

Division Data Request 1-4

Request:

Please provide Narragansett's most recent estimates of indicative pricing and/or credit spreads (i.e., relative to Treasury securities) for the issuance of long-term debt. If this information has been provided to Narragansett by financial institutions, please provide a copy.

Response:

Narragansett's forecast for long-term debt over the next five years is as follows:

[redacted]

	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

REDACTED

Division Data Request 1-4 (cont.)

[redacted]	
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
	[redacted]
[redacted]	[redacted]

Prepared by or under the supervision of: Lorraine Lynch

Division Data Request 1-5

Request:

Please provide the complete basis, including any supporting studies, for the Company's proposed capital structure.

Response:

The basis for the Company's proposed capital structure is explained on pages 2 to 3 and pages 6 to 7 of the testimony of Lorraine Lynch (Exhibit A).

Prepared by or under the supervision of: Andrew E. Dinkel, III

Division Data Request 1-6

Request:

The Application, paragraph 4(b), identifies terms for the new long-term debt ranging from one to 40 years. Please explain in detail how the term(s) of the new debt will be selected. Describe the factors, criteria and considerations.

Response:

The Company has requested to issue long-term debt with a maturity of greater than one year and not to exceed 40 years. The Company would select the term of each issue based on economic analysis of interest rates and investor demand.

The Company may seek to issue long-term debt with a maturity of forty years if interest rates are favorable at the time of issuance for such long-term debt. For example, a climate where the yield curve is inverted would mean that it would make economic sense for the Company to go long on maturity. There may also be times when investor demand for that maturity of issue makes the pricing relatively competitive. Circumstances under which the Company may seek to issue long-term debt with a short maturity would include situations when the Company requires long-term financing in an environment when long-term rates are unusually high. If there is an expectation that the high rates are a temporary phenomenon and will decrease over the next year or two, the Company may issue long-term debt with a shorter maturity to satisfy the immediate financing requirement. The Company would then be in a position to refinance the long-term debt at maturity in a potentially more favorable environment for issuing longer-term debt.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Request 1-7

Request:

Is the reference in paragraph 4(b) of a 12 percentage maximum interest rate intended to apply only to variable rate debt or to fixed rate debt as well?

Response:

The reference to a 12 percent maximum interest rate is intended to apply to both variable rate and fixed rate debt. The Company has identified 12 percent as a maximum rate for fixed rate and variable rate debt based on historical views of 6 months USD LIBOR over the past 10 years and credit spreads on A rated US utility bonds. The historical views of 6 month USD LIBOR over the past 10 years have indicated the maximum rate was 7.10875%. In November 2008, credit spreads for A rated US utility bonds reached approximately 4.2%, giving a total maximum rate of 11.3%. The Company therefore believes a maximum rate of 12% is appropriate at this time.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Request 1-8

Request:

Please explain in detail the Company's efforts to obtain authority to issue (or finance using) tax-exempt debt. Does the Company presently have an estimate of its ability to make use of tax-exempt debt?

Response:

The Company does not have current plans to issue tax-exempt debt, but has requested the flexibility to do so if applicable laws change in a manner that would enable the Company to issue tax exempt debt via conduit issuances or otherwise

Prepared by or under the supervision of: Lorraine Lynch

Division Data Request 1-9

Request:

Please provide any analysis conducted by the Company pertaining to the advantages or absence of advantages of issuing secured versus unsecured debt. Include with the response the cost (i.e., interest rate) savings from issuing secured debt.

Response:

The benefit of issuing secured debt is that it would generally have a lower interest cost than unsecured debt. A disadvantage of secured debt, if secured against Company assets, is that the security places a restriction on what the Company can do with those assets and reduces flexibility for the Company. It is also likely to cause any subsequent unsecured debt issues to have a higher interest cost than they otherwise would.

Providing other types of security as discussed in Exhibit A, page 8, line 27; page 9, line 10, can reduce the interest cost required by debt investors, although the value of this should be offset against the fee paid to the provider of the security. Such security providers typically have a higher credit rating than the Company does.

If market conditions allow, the Company is likely to issue unsecured debt in preference to secured debt.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-10

Request:

With respect to paragraph 4(c), please state the Company's plans in connection with the debt issuance:

a. To utilize insurance; and
b. Use hedging instruments (identify).

Response:

a. The Company does not see the utilization of insurance as an option at this time due to the current market conditions. The Company is requesting the ability to utilize insurance in the event that market conditions should change and the utilization of insurance would provide a benefit to the interest rate achievable at the time of issuance.

b. The Company has requested the utilization of hedging instruments such as interest rate swaps, interest rate options, forward rate agreements, forward starting swaps, forward starting locks, currency swaps and treasury locks to manage volatility of interest and currency rates. The Company may use other financial instruments designed to manage volatility that become available in the marketplace in the future if these instruments meet the needs and objectives of the Company.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-11

Request:

Please identify Narragansett's capital spending for 2009 to March 2012.

Response:

Narragansett Electric's forecast of capital expenditures is as follows:

Fiscal Year Ending March 2010 - $229.5 million

Fiscal Year Ending March 2011 - $285.5 million

Fiscal Year Ending March 2012 - $472.8 million

Prepared by or under the supervision of: Andrew E. Dinkel, III

Division Data Requests 1-12

Request:

Please provide the month-ending balance of short-term debt and associated interest rate for each month July 2008 to June 2009.

Response:

The requested information is attached.

Prepared by or under the supervision of: Lorraine Lynch

NATIONAL GRID USA MONEY POOL
NARRAGANSETT ELECTRIC
M/E STD Balances

	Money Pool	Rate	Open Acct Advance	Rate
JULY 08	$99,500,000	2.45%	0	N/A
AUGUST 08	$134,525,000	2.44%	0	N/A
SEPTEMBER 08	$75,800,000	3.47%	$50,000,000	N/A
OCTOBER 08	$98,375,000	4.52%	$50,000,000	N/A
NOVEMBER 08	$147,475,000	1.88%	$50,000,000	N/A
DECEMBER 08	$119,400,000	1.18%	$100,000,000	N/A
JANUARY 09	$122,075,000	0.57%	$130,000,000	N/A
FEBRUARY 09	$124,800,000	0.76%	$130,000,000	N/A
MARCH 09	$129,625,000	0.69%	$130,000,000	N/A
APRIL 09	$126,825,000	0.48%	$130,000,000	N/A
MAY 09	$131,600,000	0.38%	$100,000,000	N/A
JUNE 09	$137,925,000	0.35%	$110,000,000	N/A

Division Data Requests 1-13

Request:

Please describe Narragansett's sources of short-term debt and maturities, including its ability to participate in any National Grid USA money pool or credit agreement.

Response:

Narragansett has no external short-term debt. Narragansett is a participant in the National Grid USA money pool and has a FERC-imposed short term debt borrowing limit of $145 million. In addition, Narragansett has access to unlimited non-interest bearing short term open account advances from its parent company. Also, under a syndicated loan agreement, which will expire on November 29, 2009, banks have committed up to $20 million for the issuance of letters of credit for the account of Narragansett.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-14

Request:

Please provide the Company's most recently prepared balance sheet, cash flow and income statement.

Response:

Attached is the Company's FERC Form 1 for the period ending March 31, 2009 which contains its most recently prepared balance sheet, cash flow statement and income statement

Prepared by or under the supervision of: Andrew E. Dinkel, III

The Narragansett Electric Company

FERC FORM NO.1
FISCAL YEAR SUPPLEMENTAL STATEMENTS
WITH CPA CERTIFICATION
YEAR ENDED MARCH 31, 2009

nationalgrid

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
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300 Madison Avenue
New York NY 10017
Telephone (646) 471 3000
Facsimile (813) 286 6000

Report of Independent Auditors

To the Management and Board of Directors of
Narragansett Electric Company:

We have audited the accompanying balance sheets of Narragansett Electric Company (the "Company") as of March 31, 2009 and March 31, 2008 and the related statements of income, of comprehensive income, of retained earnings and cash flows for the years then ended, included on pages 110 through 122 of the accompanying Federal Energy Regulatory Commission Form 1. 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 in accordance with auditing standards generally accepted in the United States of America and the Public Company Accounting Oversight Board (United States). 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Notes A and O, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Narragansett Electric Company as of March 31, 2009 and March 31, 2008, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of Narragansett Electric Company and for filing with the Federal Energy Regulatory Commission and should not be used for any other purpose.

PricewaterhouseCoopers LLP

July 9, 2009

FERC FORM NO. 1:

ANNUAL REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER

PART I: IDENTIFICATION

01 Exact Legal Name of Respondent		02 Year of Report
Narragansett Electric Company		March 31, 2009
03 Previous Name and Date of Change (If name changed during the year)		
N/A		
04 Address of Principal Business Office at End of Year (Street, City, State, Zip Code)		
25 Research Drive, Westborough, MA 01582		
05 Name of Contact Person		06 Title of Contact Person
Martin Wheatcroft		Controller & VP Fin Svc
07 Address of Contact Person (Street, City, State, Zip Code)		
One MetroTech Center, Brooklyn, NY 11201		
08 Telephone of Contact Person, Including Area Code	09 This Report is	10 Date of Report (Mo, Da, Yr)
(718) 403-2742	(1) _X_An Original (2)__A Resubmissior	July 31, 2009

ATTESTATION

The undersigned officer certifies that he/she has examined the accompanying report; that to the best of his/her knowledge, information, and belief, all statements of fact contained in the accompanying report are true and the accompanying report is a correct statement of the business and affairs of the above named respondent in respect to each and every matter set forth therein during the period from and including April 1, 2008 to and including March 31, 2009.

01 Name	03 Signature	04 Date Signed (Mo, Da, Yr)
Andrew Sloey		July 31, 2009
02 Title		
Sr VP of US Financial Services		

Title 18, U.S.C. 1001, makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

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Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	(Mo, Da, Yr) 07/31/09	March 31, 2009

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at March 31, 2009 (c)	Balance at March 31, 2008 (d)
1	UTILITY PLANT			
2	Utility Plant (101-106, 114)	200-201	2,732,865,002	2,624,858,934
3	Construction Work in Progress (107)	200-201	44,395,045	50,102,043
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)	--	2,777,260,047	2,674,960,977
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108,110,111,115)	200-201	871,586,586	828,439,883
6	Net Utility Plant (Enter Total of line 4 less 5)		1,905,673,461	1,846,521,094
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203		
8	Nuclear Fuel in Materials and Assemblies-Stock Account (120.1)	--		
9	Nuclear Fuel Assemblies in Reactor (120.3)	--		
10	Spent Nuclear Fuel (120.4)	--		
11	Nuclear Fuel Under Capital Leases (120.6)	--		
12	(Less) Accum. Prov. For Amort. Of Nucl. Fuel Assemblies (120.5)	202-203		
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)	--	0	0
14	Net Utility Plant (Enter Total of lines 6 and 13)	--	1,905,673,461	1,846,521,094
15	Utility Plant Adjustments (116)	122		
16	Gas Stored Underground - Noncurrent (117)	--		
17	OTHER PROPERTY AND INVESTMENTS	--		
18	Nonutility Property (121)	--	1,346,630	1,346,630
19	(Less) Accum. Prov. For Depr. And Amort. (122)	--	110,968	103,345
20	Investments in Associated Companies (123)	--		
21	Investment in Subsidiary companies (123.1)	224-225		
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229		
24	Other Investments (124)	--	2,287,083	2,204,861
25	Sinking Funds (125)	--		
26	Depreciation Fund (126)	--		
27	Amortization fund - Federal (127)	--		
28	Other Special Funds (128)	--	3,133,908	3,887,420
29	Special funds (Non Major Only) (129)	--		
30	Long-Term Portion of Derivative Assets (175)	--	1,302,489	
31	Long-Term Portion of Derivative Assets - Hedges (176)	--		
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)	--	7,959,142	7,335,566
33	CURRENT AND ACCRUED ASSETS	--		
34	Cash and Working Funds (Non-major Only) (130)	--		
35	Cash (131)	--	17,631,088	8,640,984
36	Special Deposits (132-134)	--	91,679,750	7,974,671
37	Working Fund (135)	--	552	800
38	Temporary Cash Investments (136)	--	0	0
39	Notes Receivable (141)	--	342	674
40	Customer Accounts Receivable (142)	--	251,322,198	241,424,909
41	Other Accounts Receivable (143)	--	6,643,269	9,831,393
42	(Less) Accum. Prov. For Uncollectible Acct.-Credit (144)	--	36,261,216	15,627,455
43	Notes Receivable from Associated Companies (145)	--	0	0
44	Accounts Receivable from Assoc. Companies (146)	--	10,374,398	11,415,868
45	Fuel Stock (151)	227		
46	Fuel Stock Expenses Undistributed (152)	227		
47	Residuals (Elec) and Extracted Products (153)	227		
48	Plant Materials and Operating Supplies (154)	227	8,610,527	8,513,721
49	Merchandise (155)	227		
50	Other Materials and Supplies (156)	227		
51	Nuclear Materials Held for Sale (157)	202-203/227		
52	Allowances (158.1 and 158.2)	228-229		

Name of Respondent NARRAGANSETT ELECTRIC COMPANY	This Report Is: (1) _X_ An Original (2) __ A Resubmission	Date of Report *(Mo, Da, Yr)* 07/31/09	Year of Report March 31, 2009

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) (Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at March 31, 2009 (c)	Balance at March 31, 2008 (d)
53	(Less) Noncurrent Portion of Allowances	--		
54	Stores Expense Undistributed (163)	227	223,544	
55	Gas Stored Underground - Current (164.1)	--	5,629,493	13,122,535
56	Liquified Natural Gas Stored and Held for Processing (164.2-164.3)	--	4,923,353	5,082,324
57	Prepayments (165)	--	310,903	3,961,947
58	Advances for Gas (166-167)	--		
59	Interest and Dividends Receivable (171)	--		
60	Rents Receivable (172)	--	173,163	100,915
61	Accrued Utility Revenues (173)	--	78,259,616	86,273,139
62	Miscellaneous Current and Accrued Assets (174)	--	220,419	239,596
63	Derivative Instrument Assets (175)	--		
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)	--		
65	Derivative Instrument Assets - Hedges (176)	--	6,556,817	21,190,470
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176)	--		
67	Total Current and Accrued Assets (Lines 34 through 66)	--	446,298,216	402,146,491
68	DEFERRED DEBITS			
69	Unamortized Debt Expenses (181)		491,295	530,759
70	Extraordinary Property Losses (182.1)	230		
71	Unrecovered Plant and Regulatory Study costs (182.2)	230		
72	Other Regulatory Assets (182.3)	232	345,182,511	204,583,664
73	Prelim. Survey and Investigation Charges (Electric) (183)	--	1,688,602	4,461,567
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)	--	9,201	18,428
75	Other Preliminary Survey and Investigation charges (183.2)	--		
76	Clearing Accounts (184)	--	0	214
77	Temporary Facilities (185)	--		
78	Miscellaneous Deferred Debits (186)	233	2,048,175	4,656,662
79	Def. Losses from Disposition of Utility Plt. (187)	--		
80	Research, Devel. And Demonstration Expend. (188)	352-353		
81	Unamortized Loss on Reacquired Debt (189)	--	6,763,691	7,563,865
82	Accumulated Deferred Income taxes (190)	234	138,327,119	118,240,759
83	Unrecovered Puchased Gas Costs (191)	--		
84	Total Deferred Debits (lines 69 through 83)	--	494,510,594	340,055,918
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		2,854,441,413	2,596,059,069

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	(Mo, Da, Yr) 07/31/09	March 31, 2009

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at March 31, 2009 (c)	Balance at March 31, 2008 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	56,624,350	56,624,350
3	Preferred Stock Issued (204)	250-251	2,454,450	2,454,450
4	Capital Stock Subscribed (202, 205)	252		
5	Stock Liability for Conversion (203, 206)	252		
6	Premium on Capital Stock (207)	252		
7	Other Paid-In Capital (208-211)	253	1,353,559,018	1,353,559,018
8	Installments Received on Capital Stock (212)	252		
9	(Less) Discount on Capital Stock (213)	254		
10	(Less) Capital Stock Expense (214)	254		
11	Retained Earnings (215, 215.1, 216)	118-119	318,147,339	287,145,884
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119		
13	(Less) Reacquired Capital Stock (217)	250-251		
14	Noncorporate Proprietorship (Non-major only) (218)	--		
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	(118,759,755)	(78,511,840)
16	Total Prorietary Capital (lines 2 through 15)		1,612,025,402	1,621,271,862
17	LONG-TERM DEBT	--		
18	Bonds (221)	256-257	57,089,000	60,110,000
19	(Less) Reacquired Bonds (222)	256-257		
20	Advances from Associated Companies (223)	256-257		
21	Other Long-Term Debt (224)	256-257	1,375,000	5,000,000
22	Unamortized Premium on Long-Term Debt (225)	--		
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)	--	161,125	186,575
24	TOTAL Long-Term Debt (Enter Total of lines 18 thur 23)	--	58,302,875	64,923,425
25	OTHER NONCURRENT LIABILITIES	--		
26	Obligations Under Capital Leases - Noncurrent (227)	--	29,910	29,910
27	Accumulated Provision for Property Insurance (228.1)	--		
28	Accumulated Provision for Injuries and Damages (228.2)	--	5,590,000	6,400,000
29	Accumulated Provision for Pensions and Benefits (228.3)	--		
30	Accumulated Miscellaneous Operating Provisions (228.4)	--		
31	Accumulated Provision for Rate Refunds (229)	--		
32	Long-Term Portion of Derivative Instrument Liabilities	--		
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges	--	7,199,060	
34	Asset Retirement Obligations (230)	--	3,418,000	3,500,911
35	Total Other Noncurrent Liabilities (lines 26 through 34)	--	16,236,970	9,930,821
36	CURRENT AND ACCRUED LIABILITIES	--		
37	Notes Payable (231)	--		
38	Accounts Payable (232)	--	116,554,190	161,768,673
39	Notes Payable to Associated Companies (233)	--	259,625,000	89,625,000
40	Accounts Payable to Associated Companies (234)	--	12,956,188	9,568,019
41	Customer Deposits (235)	--	7,826,530	7,163,004
42	Taxes Accrued (236)	262-263	(3,636,316)	15,919,562
43	Interest Accrued (237)	--	1,335,920	2,295,719
44	Dividends Declared (238)	--	27,613	27,613
45	Matured Long-Term Debt (239)	0		

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS) (Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at March 31, 2009 (c)	Balance at March 31, 2008 (d)
46	Matured Interest (240)	--		
47	Tax Collections payable (241)	--	2,717,904	2,901,523
48	Miscellaneous Current and Accrued Liabilities (242)	--	50,893,312	89,415,846
49	Obligations Under Capital Leases-Current (243)	--		
50	Derivative instrument Liabilities (244)	--		
51	(Less) Long-Term Portion of Derivative Instrument Liabilities	--		
52	Derivative Instrument Liabilities - Hedges (245)	--	68,662,390	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges	--		
54	Total Current and Accrued Liabilities (lines 37 through 53)	--	516,962,731	378,684,959
55	DEFERRED CREDITS	--		
56	Customer Advances for Construction (252)	--	924,170	123,266
57	Accumulated Deferred Investment Tax Credits (255)	266-267	2,809,564	3,380,185
58	Deferred Gains from Disposition of Utility Plant (256)			
59	Other Deferred Credits (253)	269	336,958,008	236,487,000
60	Other Regulatory Liabilities (254)	278	85,005,252	103,904,049
61	Unamortized Gain on Reacquired Debt (257)			
62	Accum. Deferred Income Taxes-Accel.(281)	272-277		
63	Accum. Deferred Income Taxes-Other Property (282)	--	160,940,906	140,318,774
64	Accum. Deferred Income Taxes-Other (283)	--	64,275,534	37,034,728
65	Total Defered Credits (lines 56 through 64)	--	650,913,434	521,248,002
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54, and 65)		2,854,441,413	2,596,059,069

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	*(Mo, Da, Yr)* 07/31/09	March 31, 2009

Application of Issuance Long-Term Debt
Division Docket No. D-09-49
Attachment DIV 1-14
Page 12 of 45

STATEMENT OF INCOME FOR THE YEAR

1. Report amounts for accounts 412 and 413, Revenue and Expenses from Utility Plant Leased to Others, in another utility column (i,k,m,o) in a similar manner to a utility department. Spread the amount(s) over lines 02 thru 24 as appropriate. Include these amounts in columns (c) and (d) totals.
2. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.
3. Report data for lines 7, 9, and 10 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1 and 407.2
4. Use page 122 for important notes regarding the statement of income for any account thereof.
5. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in a material refund to the utility with respect to power or gas purchases. State for each year affected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power and gas purchases.
6. Give concise explanations concerning significant amounts of any refunds made or received during the year

Line No.	Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Prior Year (d)
1	UTILITY OPERATING INCOME			
2	Operating Revenues (400)	300-301	1,592,743,054	1,467,213,661
3	Operating Expenses			
4	Operation Expenses (401)	320-323	1,330,499,961	1,212,432,227
5	Maintenance Expenses (402)	320-323	46,522,432	38,067,992
6	Depreciation Expense (403)	336-337	63,107,008	61,527,483
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337	9,763	11,923
8	Amort. & Depl. of Utility Plant (404-405)	336-337	2,326,403	2,824,947
9	Amort. of Utility Plant Acq. Adj. (406)	336-337	0	
10	Amort. Prop Losses, Unrecov Plant and Regulatory Study Costs (407)	--	0	
11	Amort. of Conversion Expenses (407)	--	0	
12	Regulatory Debits (407.3)	--	830,530	0
13	(Less) Regulatory Credits (407.4)	--	0	
14	Taxes Other Than Income Taxes (408.1)	--	94,266,142	84,084,254
15	Income Taxes - Federal (409.1)	--	(25,915,893)	2,244,704
16	- Other (409.1)	--	(7,475)	43,984
17	Provision for Deferred Income Taxes (410.1)	--	80,275,801	62,473,962
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	--	40,219,468	51,639,830
19	Investment Tax Credit Adj. - Net (411.4)	--	(570,621)	(603,418)
20	(Less) Gains from Disp. of Utility Plant (411.6)	--	0	
21	Losses from Disp. of Utility Plant (411.7)	--	0	
22	(Less) Gains from Disposition of Allowances (411.8)	--	0	
23	Losses from Disposition of Allowances (411.9)	--	0	
24	Accretion Expense (411.10)	--	(349,512)	208,890
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)	-- --	1,550,775,071	1,411,677,118
26	Net Utility Operating Income (Enter Total of line 2 less 25) (Carry forward to page 117, line 27)		41,967,983	55,536,543

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	(Mo, Da, Yr) 07/31/09	March 31, 2009

Application of Issuance Long-Term Debt
Division Docket No. D-09-49
Attachment DIV 1-14
Page 13 of 45

STATEMENT OF INCOME FOR THE YEAR (Continued)

resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purchases, and a summary of the adjustments made to balance sheet, income, and expense accounts.

7. If any notes appearing in the report to stockholders are applicable to this Statement of Income, such notes may be attached at page 122.

8. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also give the approximate dollar effect of such changes.

9. Explain in a footnote if the previous year's figures are different from that reported in prior reports.

10. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles, lines 2 to 23, and report the information in the blank space on page 122 or in a supplemental statement.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year (e)	Previous Year (f)	Current Year (g)	Previous Year (h)	Current Year (i)	Previous Year (j)	Line No.
						1
1,128,326,823	1,003,821,513	464,416,231	463,392,148			2
						3
949,111,613	823,546,179	381,388,348	388,886,048			4
25,707,699	21,608,905	20,814,732	16,459,087			5
44,936,851	42,163,701	18,170,157	19,363,782			6
2,221	3,059	7,542	8,864			7
0	0	3,156,933	2,824,947			8
						9
						10
						11
						12
						13
68,865,254	60,963,232	25,400,888	23,121,022			14
(15,603,326)	182,324	(10,312,567)	2,062,381			15
0		(7,475)	43,984			16
36,690,937	44,269,462	43,584,864	18,204,500			17
10,626,968	32,205,730	29,592,500	19,434,100			18
(570,621)	(603,418)	0				19
						20
						21
						22
						23
(95,002)	47,760	(254,510)	161,130			24
1,098,418,659	959,975,474	452,356,412	451,701,645			25
29,908,164	43,846,039	12,059,819	11,690,503			26

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Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	(Mo, Da, Yr) 07/31/09	March 31, 2009

STATEMENT OF INCOME FOR THE YEAR (Continued)

Line No.	Account (a)	Ref. Page No. (b)	TOTAL Current Year (c)	 Prior Year (d)
27	Net Utility Operating Income (Carried forward from page 114)	--	41,967,983	55,536,543
28	Other Income and Deductions	--		
29	Other Income	--		
30	Nonutility Operating Income	--		
31	Revenues From Merchandising, Jobbing and Contract Work (415)	--		
32	(Less) Costs and Exp. of Merchandising, Job & Contract Work (416)	--		
33	Revenues From Nonutility Operations (417)	--	984,535	1,030,109
34	(Less) Expenses of Nonutility Operations (417.1)	--	3,956,915	2,042,619
35	Nonoperating Rental Income (418)	--	(7,622)	(7,622)
36	Equity in Earnings of Subsidiary Companies (418.1)	119		
37	Interest and Dividend Income (419)	--	1,439,949	1,696,650
38	Allowance for Other Funds Used During Construction (419.1)	--	23,106	296,034
39	Miscellaneous Nonoperating Income (421)	--	(3,726)	92,686
40	Gain on Disposition of Property (421.1)	--	0	128,494
41	TOTAL Other Income (Enter Total of lines 31 thru 40)	--	(1,520,673)	1,193,732
42	Other Income Deductions	--		
43	Loss on Disposition of Property (421.2)	--	0	828,614
44	Miscellaneous Amortization (425)	340		
45	Donations (426.1)	340	824,304	600,360
46	Life Insurance (426.2)	--	(393,633)	11,192
47	Penalties (426.3)	--	0	2,042
48	Exp.for Certain Civic, Political & Related Activities (426.4)	--	470,502	392,988
49	Other Deductions (426.5)	--	(944,618)	(47,024)
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)	--	(43,445)	1,788,172
51	Taxes Applic. to Other Income and Deductions	--		
52	Taxes Other Than Income Taxes (408.2)	262-263	40,047	39,437
53	Income Taxes - Federal (409.2)	262-263	(884,300)	(225,800)
54	Income Taxes - Other (409.2)	262-263	10	10
55	Provision for Deferred Inc. Taxes (410.2)	234,272-277	0	0
56	(Less) Provision for Deferred Income Taxes - Cr. (411.2)	234,272-277		
57	Investment Tax Credit Adj. - Net (411.5)	--		
58	(Less) Investment Tax Credits (420)	--		
59	TOTAL Taxes on Other Inc. and Ded. (Total of lines 52-58)	--	(844,243)	(186,353)
60	Net Other Income and Deductions (Total of lines 41,50, 59)	--	(632,985)	(408,087)
61	Interest Charges			
62	Interest on Long-Term Debt (427)		4,828,579	5,800,531
63	Amort. of Debt Disc. and Expense (428)	--	64,914	66,369
64	Amortization of Loss on Reacquired Debt (428.1)	--	800,174	958,343
65	(Less) Amort. of Premium on Debt-Credit (429)	--		
66	(Less) Amortization of Gain on Reacquired Debt-Credit (429.1)	--		
67	Interest on Debt to Assoc. Companies (430)	340	1,729,202	1,804,116
68	Other Interest Expense (431)	340	3,361,868	5,919,511
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)	--	561,645	1,023,820
70	Net Interest Charges (Enter Total of lines 62 thru 69)	--	10,223,092	13,525,050
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)	--	31,111,906	41,603,406
72	Extraordinary Items			
73	Extraordinary Income (434)	--		
74	(Less) Extraordinary Deductions (435)	--		
75	Net Extraordinary Items (Total of line 73 less line 74)	--	0	0
76	Income Taxes - Federal and Other (409.3)	262-263		
77	Extraordinary Items After Taxes (line 75 less line 76)	--	0	0
78	Net Income (Enter Total of lines 71 and 77)		31,111,906	41,603,406

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	*(Mo, Da, Yr)* 07/31/09	March 31, 2009

STATEMENT OF RETAINED EARNINGS FOR THE YEAR

1. Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the year.
2. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436-439 inclusive). Show the contra primary account affected in column (b).
3. State the purpose and amount for each reservation or appropriation of retained earnings.
4. List first Account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items, in that order.
5. Show dividends for each class and series of capital stock.
6. Show separately the State and Federal income tax effect of items shown for Account 439, Adjustments to Retained Earnings.
7. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.
8. If any notes appearing in the report to stockholders are applicable to this statement, attach them at page 122.

Line No.	Item (a)	Contra Primary Account Affected (b)	Current Year to Date (c)	Previous Year to Date (d)
	UNAPPROPRIATED RETAINED EARNINGS (Account 216)			
1	Balance - Beginning of Year		287,145,884	245,740,809
2	Changes (Identify by prescribed retained earnings accounts)			
3	Adjustments to Retained Earnings (Account 439)			
4	Credit: Gain on Reacquisition of Preferred Stock			
5	Credit:			
6	Credit:			
7	Credit:			
8	Credit:			
9	Total Credits to Retained Earnings (Account 439) (Enter Total of lines 4 thru 8)		0	0
10	Debit: Retained Earnings Adjustment			
11	Debit:			
12	Debit:			
13	Debit:			
14	Debit:			
15	Total Debits to Retained Earnings (Account 439) (Enter Total of lines 10 thru 14)		0	0
16	Balance Transferred from Income (Account 433 less Account 418.1)		31,111,906	41,603,406
17	(Less) Appropriations of Retained Earnings (Account 436)			
18				
19				
20				
21				
22	Total Appropriations of Retained Earnings (Acct. 436) (Total of lines 18 thru 21)		0	0
23	Dividends Declared - Preferred Stock (Account 437)			
24	4.50% Series		(110,451)	(110,451)
25	4.64% Series			(87,879)
26				
27				
28				
29	Total Dividends Declared - Preferred Stock (Acct. 437) (Total of lines 24 thru 28)		(110,451)	(198,330)
30	Dividends Declared - Common Stock (Account 438)			
31				
32				
33	NG USA			
34				
35				
36	Total Dividends Declared - Common Stock (Acct. 438) (Total of lines 31 thru 35)		0	0
	Transfers from Acct. 216.1, Unappropriated Undistributed Subsidiary Earnings			
38	Balance - End of Year (Total of lines 01, 09, 15, 16, 22, 29, 36 and 37)		318,147,339	287,145,885

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	(Mo, Da, Yr) 07/31/09	March 31, 2009

STATEMENT OF RETAINED EARNINGS FOR THE YEAR (Continued)

Line No.	Item (a)	Contra Primary Account Affected (b)	Current Year to Date (c)	Previous Year to Date (d)
	APPROPRIATED RETAINED EARNINGS (Account 215) State balance and purpose of each appropriated retained earnings amount at end of year and give accounting entries for any applications of appropriated retained earnings during the year.			
39				
40				
41				
42				
43				
44				
45	TOTAL Appropriated Retained Earnings (Account 215)			
	APPROPRIATED RETAINED EARNINGS - AMORTIZATION RESERVE, FEDERAL (Account 215.1) State below the total amount set aside through appropriations of retained earning, as of the end of the year, in compliance with the provisions of Federally granted hydroelectric project licenses held by the respondent. If any reductions or changes other than the normal annual credits hereto have been made during the year, explain such items in a footnote.			
46	TOTAL Appropriated Retained Earnings - Amortization Reserve, Federal (Account 215.1)			
47	TOTAL Appropriated Retained Earnings (Accounts 215, 215.1) (Enter Total of lines 45 and 46)		0	0
48	TOTAL Retained Earnings (Account 215, 215.1, 216) (Enter Total of lines 38 and 47)		318,147,339	287,145,885
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account 216.1)			
49	Balance - Beginning of Year (Debit or Credit)			
50	Equity in Earnings for Year (Credit) (Account 418.1)			
51	(Less) Dividends Received (Debit)			
52	Other Changes (Explain)			
53	Balance - End of Year (Total of lines 49 thru 52)		0	0

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	*(Mo, Da, Yr)* 07/31/09	March 31, 2009

PART VI: STATEMENT OF CASH FLOWS

1. If the notes to the cash flow statement in the respondents annual stockholders report are applicable to this statement, such notes should be attached to page 12. Information about noncash investing and financing activities should be provided on page 12. Provide also on page 12 a reconciliation between "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.

2. Under "Other" specify significant amounts and group others.

3. Operating Activities--Other: include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on Page 12 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

Line No.	Description (See Instructions for Explanation of Codes) (a)	Current Year to Date (b)	Previous Year to Date (c)
1	Net Cash Flow from Operating Activities:		
2	Net Income (Line 63(b) on page 8)	31,111,906	41,603,405
3	Noncash Charges (Credits) to Income:		
4	Depreciation, depletion and amortization	66,273,704	64,364,353
5	Amortization of Loss on Reaquired Debt	64,914	958,343
6	Debt Discount and Expense	800,174	66,369
7			
8	Deferred Income Taxes (Net)	15,702,499	10,834,132
9	Investment Tax Credit Adjustments (Net)	(570,621)	(603,418)
10	Net (Increase) Decrease in Receivables	(5,199,957)	(32,624,970)
11	Net (Increase) Decrease in Inventory	7,331,663	(4,339,872)
12	Net (Increase) Decrease in Allowances Inventory		
13	Net Increase (Decrease) in Payables and Accrued Expenses	(69,718,533)	(22,625,938)
14	Net (Increase) Decrease in Other Regulatory Assets	(62,908,406)	13,002,167
15	Net Increase (Decrease) in Other Regulatory Liabilities	(1,219,117)	2,284,794
16	(Less) Allowance for Other Funds Used During Construction	(584,751)	1,319,854
17	Contributions and Advances from Assoc. and Subsidiary Companies	4,429,650	0
18	Other, Net	6,036,593	765,980
19	Net (Increase)Decrease in Prepaid Pension Asset	0	(232,099)
20	Net (Increase)Decrease Other Def Cr - Hazardous Waste	(1,033,355)	(1,443,977)
21	Net (Increase)Decrease in Other Def Cr - FAS106	27,337,936	(7,871,096)
22	Net (Increase)Decrease in Pension Liability	34,279,790	0
23	Net (Increase)Decrease in Asset Retirement Obligation	0	0
24	Net Cash Provided by (Used in) Operating Activities (Total of lines 2 thru 23)	53,303,591	62,818,319
25			
26	Cash Flows from Investment Activities:		
27	Construction and Acquisition of Plant (including land):		
28	Gross Additions to Utility Plant (less nuclear fuel)	(112,225,467)	(110,493,109)
29	Gross Additions to Nuclear Fuel		
30	Gross Additions to Common Utility Plant		
31	Gross Additions to Nonutility Plant	7,622	0
32	(Less) Allowance for Other Funds Used During Construction	584,751	(1,319,854)
33	Other: Plant Retirement Costs Net Of Salvage	(10,418,410)	(8,143,820)
34	Gross Additions to Non-Utility Plant		
35			
36	Cash Outflows for Plant (Total of lines 28 thru 35)	(123,221,006)	(117,317,075)
37			
38	Acquistion of Other Noncurrent Assets (d)	(1,384,712)	
39	Proceeds from Disposal of Noncurrent Assets (d)		
40	Acquisition of NE Gas Distribution Assets	0	0
41	Proceeds from Sale of Fixed Assets	0	0
42	Investments in and Advances to Assoc. and Subsidiary Companies		
43	Contributions and Advances from Assoc. and Subsidiary Companies		
44	Disposition of Investments in (and Advances to)		
45	Associated and Subsidiary Companies		
46			
47	Purchase of Investment Securities (a)		
48	Proceeds from Sales of Investment Securities (a)		

Name of Respondent	This Report Is:	Date of Report	Year of Report
NARRAGANSETT ELECTRIC COMPANY	(1) _X_ An Original (2) __ A Resubmission	*(Mo, Da, Yr)* 07/31/09	March 31, 2009

PART VI: STATEMENT OF CASH FLOWS

4. Investing Activities

Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed on page 12.

Do not include on this statement the dollar amount of leases capitalized per USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on page 12.

5. Codes used:

(a) Net proceeds or payments.
(b) Bonds, debentures and other long-term debt.
(c) Include commercial paper.
(d) Identify separately such items as investments, fixed assets, intangibles, etc.

6. Enter on page 12 clarifications and explanations.

Line No.	Description (See Instruction No. 5 for Explanation of Codes) (a)	Current Year to Date (b)	Previous Year to Date (c)
49	Loans Made or Purchased		
50	Collections on Loans		
51			
52	Net (Increase) Decrease in Receivables		
53	Net (Increase) Decrease in Inventory		
54	Net (Increase) Decrease in Allowances Held for Speculation		
55	Net Increase (Decrease) in Payables and Accrued Expenses		
56	Other investing activities (provide details in footnotes):	753,514	(146,680)
57	Change in restricted Cash	(83,705,079)	11,729,388
58			
59	Net Cash Provided by (Used in) Investing Activities		
60	(Total of lines 36 thru 58)	(207,557,283)	(105,734,367)
61			
62	Cash Flows from Financing Activities:		
63	Proceeds from Issuance of:		
64	Long-Term Debt (b)		
65	Preferred Stock		
66	Common Stock		
67	Capital Contribution from Parent Company (NGUSA)		0
68	Other: Debt Expense		
69			
70	Net Increase in Short-Term Debt (c)	170,000,000	(23,400,011)
71	Other:		
72			
73			
74	Cash Provided by Outside Sources (Total of lines 64 thru 73)	170,000,000	(23,400,011)
75			
76	Payments for Retirement of:		
77	Long-Term Debt (b)	(6,646,000)	(11,648,000)
78	Preferred Stock	0	(2,852,850)
79	Common Stock		
80	Other: Return of Capital to Parent		
81			
82	Net Decrease in Short-Term Debt (c)		
83			
84	Dividends on Preferred Stock	(110,451)	59,680,424
85	Dividends on Common Stock	0	0
86	Net Cash Provided by (Used in) Financing Activities		
87	(Total of lines 74 thru 85)	163,243,549	21,779,563
88			
89	Net Increase (Decrease) in Cash and Cash Equivalents		
90	(Total of lines 24, 60 and 87)	8,989,857	(21,136,485)
91			
92	Cash and Cash Equivalents at Beginning of Year	8,641,784	29,778,269
93			
94	Cash and Cash Equivalents at End of Year	17,631,640	8,641,784

Name of Respondent	This Report Is:		Date of Report	Year of Report
The Narragansett Electric Company	(1) _X_	An Original	July 31, 2009	March 31, 2009
	(2) ___	A Resubmission		

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earning for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement expect where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustment and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the date required by instructions above and on pages 114-121, such notes may be included herein.

SEE FOOTNOTES ATTACHED

The Narragansett Electric Company

Notes to Financial Statements

Note A - Significant Accounting Policies

1. Nature of Operations:
The Narragansett Electric Company (the Company or Narragansett) is a retail distribution company providing electric service to approximately 487,000 customers and gas service to approximately 255,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers approximately 99 percent of Rhode Island. The properties of the Company include an integrated system of transmission and distribution lines, substations and gas distribution mains. The Company is a wholly owned subsidiary of National Grid USA (NGUSA), a utility holding company with regulated subsidiaries engaged in the transmission, distribution and sale of both natural gas and electricity in New England and New York State. NGUSA is a wholly owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

2. Basis of Presentation
The Company's financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP) in the United States of America.

3. Regulation:
The FERC has jurisdiction over certain of the Company's activities, including (i) regulating certain transactions among our affiliates; (ii) governing the issuance, acquisition and disposition of securities and assets by certain of our public utility subsidiaries; and (iii) approving certain utility mergers and acquisitions (see Note B).

The Company is also subject to certain regulations of the Rhode Island Public Utilities Commission (RIPUC) in addition to FERC.

4. System of Accounts:
The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction.

5. Use of Estimates:
The preparation of financial statements in conformity with the accounting requirements of the FERC requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Revenue:
Revenues are based on billing rates authorized by the RIPUC. The Company follows the policy of accruing the estimated amount of revenues for electricity and gas delivered but not yet billed (unbilled revenues), to match costs and revenues more closely. The unbilled revenues at March 31, 2009 and 2008 were approximately $78.3 million and $86.3 million, respectively. The Company records revenues in an amount management believe to be recoverable pursuant to provisions of approved tariffs, settlement agreements and state legislation. The Company defers for future recovery from or refund to electric and gas customers, the difference between revenue and expenses from energy conservation programs, standard offer/last resort service, transmission service, and contract termination charges (CTC).

7. Allowance for Funds Used During Construction (AFUDC):
The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction and includes a debt component and an equity component. AFUDC is capitalized in utility plant with offsetting credits to other interest for the debt component and other income/(expense), net for the equity component. This method is in accordance with an established rate-making

The Narragansett Electric Company

Notes to Financial Statements

practice under which a utility is permitted to earn a return on, and the recovery of, prudently incurred capital costs through their ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rate was 5.9 percent for the fiscal years ended March 31, 2009 and 2008.

8. Depreciation:
Depreciation is provided annually on a straight-line basis. The provisions for depreciation, as a percentage of weighted average depreciable property, and the weighted average service life, in years, for the fiscal years ended March 31 are presented in the table below:

	2009		2008	
	Provision	**Service Life**	Provision	Service Life
Asset Category:				
Electric	**3.4%**	**30**	3.3%	30
Gas	**4.1%**	**24**	3.8%	27

9. Related Party Transaction:
Accounts Payable, money pool: The Company participates with National Grid and its affiliates in a system money pool. The money pool is administered by a NGUSA Service Company as the agent for the participants. Short-term borrowing needs are met first by available funds of the money pool. Borrowings from the money pool bear interest at the higher of (i) the monthly average of the rate for high-grade, 30 days commercial paper sold through dealers by major corporations as published in the Wall Street Journal, or (ii) the monthly average of the rate then available to money pool depositors from an eligible investment in readily marketable money market funds or the existing short term investment accounts maintained by money pool depositors or the Service Company during the period in question. In the event neither rate is one that is permissible for a transaction because of constraint imposed by the state regulatory commission having jurisdiction over a utility participating in the transaction, the rate is adjusted to permissible rate as determined under the requirement of the state regulatory commission. Companies that invest in the money pool shares 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 money pool at any time without prior notice. The average interest rate for the money pool was 1.96% and 5.23% for fiscal years 2009 and 2008, respectively. At March 31, 2009 and 2008, the Company had borrowings from the money pool of $129.6 million and $89.6 million, respectively.

Accounts payable to affiliates: Additional, the Company engages in various transactions with NGUSA and its affiliates. Certain activities and costs, such as executive and administrative, financial (including accounting, auditing, risk management, tax and treasure/finance) human resources, information technology, legal and strategic planning are shared between the companies and allocated to each company appropriately. In addition, the Company has a tax sharing agreement with National Grid Holdings, Inc. (NGHI) in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or from the Company (See note E - Income taxes). The Company had net accounts payable to affiliates of $2.6 million at March 31, 2009 and net accounts receivable of $1.8 million at March 31, 2008, for those services.

Service Company charges: Certain costs are allocated to the Company from NGUSA's service companies. These costs, including both operating and capital costs, amounted to $105.5 million and $92.2 million for the fiscal years ended March 31, 2009 and 2008, respectively.

10. Cash and Cash Equivalents:
The Company classifies short-term investments with a maturity of 90 days or less at time of purchase as cash equivalents.

11. Restricted Cash:

The Narragansett Electric Company

Notes to Financial Statements

In connection with the acquisition of the Rhode Island gas assets of New England Gas Company (NEG) from Southern Union Company in August 2006 and assumption of $77 million of first mortgage bonds, the Company deposited approximately $17 million with its first mortgage trustee to provide for the redemption of its own first mortgage bonds. The principal amount is $15 million and the additional $2 million will satisfy all interest and premiums due on the bonds through maturity or first call date. During 2007, $10 million of this principal amount was redeemed using the funds on deposit, and the remaining $5 million matured on June 30, 2008, leaving approximately $1 million on deposit, which was returned to the Company in September 2008. At March 31, 2009 the restricted cash amount primarily reflects collateral for our currently outstanding derivative positions.

12. Utility Plant:
The cost of additions to utility plant and replacements of retirement units of property are capitalized. Costs include direct material, labor, overhead and AFUDC. Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

13. Federal and State Income Taxes:
Federal and state income taxes are recorded under the provisions of Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred investment tax credits are amortized over the useful life of the underlying property.

Effective on April 1, 2007, the Company implemented FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which applies to all income tax positions reflected on the Company's balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. FIN 48 addresses the methodology to be used prospectively in recognizing, measuring and classifying the amounts associated with tax positions that are deemed to be uncertain, including related interest and penalties. See Note E – Income Taxes

14. 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/ (loss), the other components of comprehensive income/ (loss) consists of unrealized gains and losses on marketable equity investments and certain components of the Pension and OPEB pension Liabilities.

15. New Accounting Standards:
In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements." The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 is not expected to have a material impact on the Company's financial statements, since the Company currently has no non-controlling subsidiaries.
In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which is an amendment of SFAS No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b)

The Narragansett Electric Company

Notes to Financial Statements

how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not have a material impact on the Company's financial statements.

16. Goodwill:
In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company reviews its goodwill annually for impairments in the fourth quarter and whenever indicators of impairment are present. The Company utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no impairment adjustment to goodwill carrying value was required

17. Reclassifications:
Certain amounts from prior years have been reclassified in the accompanying financial statements to conform to the current year presentation. Additionally, the Company made the following classification adjustments as of the year ended March 31, 2008. In order to recognize the fact that commodity hedging relationship costs will be recovered from rate payers in futures periods, such costs are now classified as regulatory assets and liabilities rather than as other comprehensive income. Other immaterial adjustments, including the proper classification of preferred stock dividends within net income have also been made.

Note B – Rate and Regulatory

The Company's accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the RIPUC. Our financial statements reflect the ratemaking policies and actions of the RIPUC in conformity with GAAP for rate-regulated enterprises.

The Company is subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." This statement recognizes the ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, we record these future economic benefits and obligations as regulatory assets and regulatory liabilities on the Consolidated Balance Sheet, respectively.

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

In the event the Company determines that its net regulatory assets are not probable of recovery, it can no longer apply the principles of SFAS No. 71 and would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. If the Company could no longer apply SFAS No. 71, the resulting charge would be material to the Company's reported financial condition and results of operations.

The Narragansett Electric Company

Notes to Financial Statements

At March 31 (In Thousands) - **ELECTRIC**	**2009**	2008
Regulatory assets included in accounts receivable:		
Rate adjustment mechanisms	**$ 42,626**	$ 32,695
Regulatory (liabilities):		
Rate adjustment mechanisms	**(28,233)**	(52,204)
Total net regulatory assets/(liabilities) current	**14,393**	(19,509)
Non current regulatory assets:		
Unamortized loss on required debt	**6,764**	7,564
Regulatory tax asset	**12,573**	12,375
Environmental response fund	**85,683**	84,802
2003 VERO deferral	**11,928**	14,439
Other	**2,036**	2,175
Total regulatory assets	**118,984**	121,355
Non current regulatory (liabilities):		
Revaluation - Pension and PBOP	**(29,951)**	(31,993)
Environmental response costs	**(17,625)**	(18,834)
Storm cost reserves	**(21,425)**	(19,369)
Cost of removal	**(44,891)**	(42,705)
Other	**(4,894)**	(6,098)
Total regulatory liabilities	**(118,786)**	(118,999)
Total net regulatory assets long term	**198**	2,356
Net regulatory assets/(liabilities)	**$ 14,591**	$ (17,153)

At March 31 (In Thousands) - **GAS**	**2009**	2008
Regulatory assets included in accounts receivable:		
Rate adjustment mechanisms	**$ 1,353**	$ 1,033
Other current regulatory assets:		
Regulatory derivatives	**68,662**	-
Regulatory (liabilities):		
Rate adjustment mechanisms	**(9,649)**	(21,869)
Other current regulatory (liabilities)		
Regulatory derivatives	**(6,557)**	(21,190)
Total net regulatory assets/(liabilities) current	**53,809**	(42,026)
Non current regulatory assets:		
Environmental response fund	**33,163**	34,115
Regulatory tax assets	**26**	24
Post retirement benefits	**101,566**	55,622
Gas Futures - Gas Supply	**8,481**	-
NEG & KeySpan CTA	**7,302**	-
Regulatory derivatives	**7,199**	-
Other	**4,432**	4,958
Total regulatory assets	**162,169**	94,719
Non current regulatory (liabilities):		
Revaluation - Pensions and PBOP	**(286)**	-
Cost of removal	**(91,051)**	(86,179)
Regulatory derivatives	**(1,302)**	-
Other	**(834)**	(3,696)
Total regulatory liabilities	**(93,473)**	(89,875)
Total net regulatory assets long term	**68,696**	4,844
Net regulatory assets/(liabilities)	**$ 122,505**	$ (37,182)

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At March 31 (In Thousands) - **COMBINED**	**2009**	2008
Regulatory assets included in accounts receivable:		
Rate adjustment mechanisms	**$ 43,979**	$ 33,728
Other current regulatory assets:		
Regulatory derivatives	**68,662**	-
Regulatory (liabilities):		
Rate adjustment mechanisms	**(37,882)**	(74,073)
Other current regulatory liabilities:		
Regulatory derivatives	**(6,557)**	(21,190)
Total net regulatory assets/(liabilities) current	**68,202**	(61,535)
Non current regualtory assets:		
Unamortized losses on required debt	**6,764**	7,564
Regulatory tax asset	**12,599**	12,399
Environmental response fund	**118,846**	118,917
2003 VERO deferral	**11,928**	14,439
Post retirement benefits	**101,566**	55,622
Gas future - gas supply	**8,481**	-
NEG & KeySpan CTA	**7,302**	-
Regulatory derivatives	**7,199**	-
Other	**6,468**	7,133
Total regulatory assets	**281,153**	216,074
Non current regulatory (liabilities):		
Revaluation - Pension and PBOP	**(30,237)**	(31,993)
Environmental response costs	**(17,625)**	(18,834)
Storm cost reserves	**(21,425)**	(19,369)
Regulatory derivatives	**(1,302)**	-
Cost of removal	**(135,942)**	(128,884)
Other	**(5,728)**	(9,794)
Total regulatory liabilities	**(212,259)**	(208,874)
Total net regulatory assets long term	**68,894**	7,200
Net regulatory assets/(liabilities)	**$ 137,096**	$ (54,335)

Electric segment: In September 2004, the RIPUC approved a rate plan that reduced annual distribution rates effective November 1, 2004 by $10.2 million and froze them at that level through 2009. On June 1, 2009, the Company filed for an increase in base distribution rates, which the Company anticipates the RIPUC will act upon for rates effective March 1, 2010. This rate case filing seeks approval of an increase in distribution revenue of approximately $75.3 million as compared to the revenues generated at the current rates. The filling includes a rate decoupling proposal, along with proposals for the reconciliation of commodity-related bad debt and pension costs. In addition, the filling includes new proposals for other fully reconciling adjustments for other expenses, including capital additions. The Company cannot predict the outcome of this proceeding.

The Company recovers all costs associated with procuring power for its customers, all transmission costs, and the remaining costs charged by NGUSA's affiliate, New England Power Company (NEP), for stranded costs associated with NEP's former electric generation investments. These rate recovery provisions are not altered by the filing of the base rate case.

Management continues to believe that rates are based on the Company's incurred costs and investment levels and therefore should continue to apply the provision of SFAS No. 71. The rate plan also includes provisions for recovery of major costs, and recovery or pass back to customers for exogenous costs.

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Under the terms of NEP's FERC Electric Tariff No. 1, NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities in Rhode Island, including a return on those facilities. In turn, these costs are allocated among transmission customers in New England, including the Company, in accordance with the terms of the ISO New England Open Access Transmission Tariff. On December 18, 2008, the FERC approved an uncontested settlement agreement modifying NEP's Tariff No. 1 formula rate under which the Company is compensated for its ownership of transmission facilities. Under the settlement, the Company is compensated for its actual monthly transmission costs and its authorized return on equity ranges from 11.14 percent to 12.64 percent depending upon the classification of plant as "regional" or "local" and the date the plant was placed into service.

On September 17, 2008, the Company, NEP, and Northeast Utilities jointly filed with FERC to recover financial incentives for the New England East-West Solution (NEEWS), pursuant to FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS, estimated to cost a total of $2.1 billion, consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in the tri-state area of Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is estimated to be $474 million and NEP's share is estimated to be $160 million. The Company is fully reimbursed for its transmission revenue requirements on monthly basis by NEP through NEP's Tariff No.1. Effective as of November 18, 2008, FERC granted for NEEWS (1) an incentive ROE of 12.89 percent (125 basis points above the approved base ROE of 11.64 percent), (2) 100 percent construction work in progress (CWIP) in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentive have sought rehearing of the FERC order.

In its order, FERC directed the Company to provide footnote disclosures in the notes to its financial statements which (1) fully explain the impact of CWIP in rate base; (2) include details of AFUDC not capitalized because of CWIP in rate base for the current year, the previous two years, and the sum of all years; and (3) include a partial balance sheet consisting of the Assets and Other Debits section of the balance sheet to include the amounts of AFUDC not capitalized because of the inclusion of CWIP in rate base. Accordingly, the Company states the following: at March 31, 2009, the Company had total net utility plant assets on its Balance Sheet of $875.9 million, including $24.7 million of CWIP. Pursuant to the FERC order, the Company provides the following information:

(In millions)	Current YTD	Previous Two Years	Sum of all Years
NEEWS - related CWIP in rate base	$10.50	$10.00	$10.50
Weighted avg AFUDC rate (%)	0.21	0.25	n/a
Avoided AFUDC	0.06	0.04	0.1
Return at 12.47 percent (WACC with tax plus return at 11.14 percent)	0.29	0.11	0.4

Upon Rhode Island law, the Company is allowed to recover all of its costs for commodity service. Commodity service for customers not taking supply from a competitive supplier is referred to as Standard Offer Service (SOS). In addition, there is a related service called Last Resort Service, which has been provided to customers who left Standard Offer Service to obtain supply from a competitive supplier and then returned to the Company

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for commodity service. Standard offer Service has been supplied pursuant to several long term contracts that expire at the end of 2009. Last Resort Service is provided under short term (less than one year) contracts. In addition, the Company is obligated to meet renewable energy standards for all supply. This can be met by the purchase of renewable energy certificates. On April 29, 2009, the Company filed its proposed Standard Offer Procurement Plan and its Renewable Energy Standards (RES) Procurement Plan, proposing plans for the acquisition of Standard Offer Service beginning January 1, 2010, following the expiration of the existing long term contracts. The Company's plans include consideration of entering into long-term contracts for renewable energy resources, which was directed by the Commissions on March 31, 2009.

The Company continues to be authorized to recover all costs associated with procuring power for its customers, all transmission costs, and costs charged by certain NGUSA affiliates, for stranded costs associated with the Company's former electric generation investments.

Gas segment: In August 2006, National Grid completed the acquisition of the Rhode Island gas assets of Southern Union Company. Pursuant to the Order approving the acquisition, the Company agreed to honor the provisions of a May 2002 rate settlement and committed to file a new rate plan within one year of the acquisition date. In November 2008, the RIPUC approved a $13.6 million gas distribution rate increase. The rate increase includes a new rate for low-income customers and increased recovery of commodity related bad debt expense. The RIPUC also approved a 10.5 percent allowed ROE based on an imputed equity ratio of 47.7 percent, a discrete funding mechanism for an accelerated base-steel and cast-iron mains replacement program, and a full reconciliation of pension and postretirement benefits other than pensions. The RIPUC approved the Company's proposed rate base, which was based on forecasted additions to plant in service through the end of the rate year, subject to subsequent adjustments to reflect any actual lower amount of plant in service. The RIPUC denied the Company's revenue decoupling proposal, indicating that full revenue decoupling was not appropriate at this time.

The Company is allowed recovery of all of its gas commodity costs through a fully reconciling rate recovery mechanism.

Note C - Commitments and Contingencies

1. Plant Expenditures:
Generally construction expenditure levels are consistent from year to year. However, the Company has undertaken a comprehensive capital investment program to improve performance and reliability.

2. Legal Matters:
The Company has been in litigation with Constellation Energy Commodities Group (Constellation) in two cases. In the first case commenced on September 11, 2006 in the U.S. District Court for the District of Rhode Island, Constellation had alleged that certain power purchase agreements entitled it to additional compensation for capacity during calendar years 2006-2009, following the FERC -approved settlement in the forward capacity market. According to Constellation, the resolution of this claim could have adversely affected Constellation in amounts upwards of $150 million. In the second case commenced on April 14, 2008 in the U.S. District Court for the District of Massachusetts, Constellation had alleged that certain power purchase agreements entitled it to payments for a fuel adjustment factor during calendar years 2005-2009. The prospective portion of the fuel adjustment claim was subject to the effects of changing fuel prices. By Constellation's methodology for payment calculation, it was estimated that damages could have exceeded $200 million.

On September 30, 2008, the RIPUC voted to approve a settlement of both matters that had been signed by the Company, the Division of Public Utilities and Carriers (represented by the Rhode Island Attorney General's Office), and Constellation. Under the settlement, the Company made a lump sum payment of $20 million, payable within 20 days of the written order becoming final and non-appealable. In addition, the pricing provisions of two of the power purchase agreements have been amended to provide for monthly contract reservation charges paid in calendar year 2009, totaling $2.5 million per month, and payable on the last day of the month, from January 31, 2009 through December 31, 2009. The monthly contract reservation charges are not tied to volume, but are contingent upon Constellation's performance under the contracts. On October 21, 2008, the RIPUC issued its final written order, confirming approval of the settlement, and on December 23, 2008, the RIPUC approved the Company's revised commodity service rates, which include recovery of the settlement costs and went into effect in January 2009. The approvals of the RIPUC allowed the Company recovery of the lump sum payment and contract reservation charges from customers in the Company's commodity service rates the next time the Company changes those rates, which is expected to occur as of January 1, 2009. On October 21, 2008, the RIPUC issued its final written order, confirming approval of the settlement.

The Company accrued the $20 million settlement on its March 2008 balance sheet. Since the payment is fully recoverable from the Company's rate payers. We recorded an offsetting customer accounts receivable in a like amount resulting in no impact to the Company's statement of Income.

3. Hazardous Waste:

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

The United States Environmental Protection Agency (EPA), the Massachusetts Department of Environmental Protection (DEP), and the Rhode Island Department of Environmental Management (DEM) have named the Company as a potentially responsible party for remediation of a number of sites at which hazardous waste is alleged to have been disposed. The Company's most significant liabilities relate to former manufactured gas plant (MGP) facilities formerly owned by the Blackstone Valley Gas and Electric Company and the Rhode Island assets of NEG. The Company is currently investigating and remediating, as necessary, the MGP sites and certain other properties under agreements with the EPA, DEM and DEP.

The RIPUC approved settlement agreements provide for rate recovery of remediation costs of former MGP and other sites in Rhode Island. Under the agreement for the former Blackstone Valley Gas and Electric Company sites, qualified costs related to these sites are paid out of a special fund established by the Company. Rate-recoverable contributions of approximately $3 million are added annually to the fund along with interest and any recoveries from insurance carriers and other third parties. Under the agreement, costs are amortized over a ten year period and subject to an annual cap linked to gas usage. The Company believes that obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial condition.

4. Gas Supply, Storage and Pipeline Commitments:

The Company's gas distribution subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $156 million. The Company and its gas distribution subsidiaries are liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from utility customers as gas costs. The Company's commitments under these long-term contracts, as of March 31, 2009, are summarized in the table below.

(in thousands)	
Fiscal Years Ended March 31,	Estimated Payments
2010	$ 47,968

2011	37,800
2012	31,214
2013	22,680
2014	12,579
Thereafter	4,212
Total	**$ 156,453**

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

Note D - Employee Benefits

Summary
The Company participates in a non-contributory defined benefit pension plan and Postretirement Benefits Other than Pension Benefits (PBOPs), (the Plans) covering substantially all employees. The Plans cover the Company and certain other NGUSA subsidiaries.

The pension plan is a non-contributory, tax-qualified defined benefit plan which provides all employees with a minimum retirement benefit. Under the pension plan, a participant's retirement benefit is computed using formulas based on percentages of highest average compensation computed over five consecutive years. The compensation covered by the pension plan includes salary, bonus and incentive share awards. Non-union employees hired after July 15, 2002 participate under a non-contributory defined benefit cash balance design. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

PBOPs provide health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

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

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Plan Assets
The target asset allocations for the Plans are:

	Pension		Non - Union - PBOP		Union-PBOP	
	2009	2008	**2009**	2008	**2009**	2008
U.S. equities	**25%**	37%	**35%**	35%	**53%**	53%
Global equities (including U.S.)	**7%**	5%	**-**	-	**-**	-
Global Tactical Asset Allocation	**14%**	13%	**-**	-	**-**	-
Non-U.S. equities	**9%**	10%	**15%**	15%	**27%**	27%
Fixed income	**40%**	31%	**50%**	50%	**20%**	20%
Private equity and other	**5%**	4%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

The percentage of the fair value of plan assets at March 31 is:

	Pension		Non - Union - PBOP		Union-PBOP	
	2009	2008	**2009**	2008	**2009**	2008
U.S. equities	**26%**	35%	**37%**	33%	**52%**	50%
Global equities (including U.S.)	**6%**	5%	**-**	-	**-**	-
Global Tactical Asset Allocation	**14%**	14%	**-**	-	**-**	-
Non-U.S. equities	**8%**	10%	**13%**	15%	**27%**	29%
Fixed income	**40%**	32%	**50%**	52%	**21%**	21%
Private equity and other	**6%**	4%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

NGUSA manages the Plans' investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income. 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 funds with the objective of enhancing long-term returns while improving portfolio diversification. Investment risk and return is reviewed by an investment committee on a quarterly basis.

The discount rate is the rate at which plan obligations can be settled. The discount rate assumption is based on rates of return on high quality fixed income investments in the market places as of each measurement date (typically March 31). Specifically, the National Grid companies' use the Citigroup Pension Discount Curve along with the expected future cash flows from the retirement plans to determine the weighted average discount rate assumptions.

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

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Assumptions Used for Benefits Accounting
The following weighted average assumptions were used to determine the benefit obligation and net periodic cost for the fiscal years ended March 31, 2009 and 2008.

	Pension Benefits			
	Benefit obligation		Net periodic benefit costs	
	2009	2008	**2009**	2008
Discount rate	**7.30%**	6.50%	**6.50%**	6.00%
Rate of Compensation increase - Non-union	**3.50%**	4.00%	**4.00%**	5.00%
Rate of Compensation increase - Union	**3.50%**	3.50%	**3.50%**	3.50%
Expected long-term rate of return on assets	**8.00%**	8.00%	**8.00%**	8.00%
	PBOP			
	Benefit obligation		**Net periodic benefit costs**	
	2009	2008	**2009**	2008
Discount rate	**7.30%**	6.50%	**6.50%**	6.00%
Expected long-term rate of return on assets				
Union	**8.25%**	8.25%	**8.25%**	8.25%
Non-union	**6.75%**	6.75%	**6.75%**	7.00%
Health care cost trend rate				
Initial rate - Pre 65	**8.50%**	9.00%	**9.00%**	9.50%
Initial rate - Post 65	**9.50%**	10.00%	**10.00%**	10.50%
Ultimate rate	**5.00%**	5.00%	**5.00%**	5.00%
Year ultimate rate is reached - Pre 65	**2015**	2014	**2014**	2012
Year ultimate rate is reached - Post 65	**2016**	2015	**2015**	2013

Contributions to the National Grid companies' pension and PBOP plans during fiscal year 2010 are expected to be $16.0 million and $8.8 million, respectively. The Company participates in the plans with certain other NGUSA subsidiaries. A portion of these contributions will be allocated to the Company.

Pension Benefits:
The Company participates in the pension plans with certain other NGUSA subsidiaries. The pension plan assets are commingled and cannot be allocated to an individual company. Pension costs are allocated to the Company. At March 31, 2009, the pension plans have a net underfunded obligation of $469.8 million. The Company's actuarial cost for 2009 was approximately $2.5 million.

The Company is subject to deferral accounting requirements for pension expenses associated with its regulated gas operation. Any rarities between actual pension costs and amounts used to establishes rates are deferred and collected from or refunded to customers in subsequent periods. There is no deferred mechanism for pension expenses associated with Company's regulated electric operations.

Defined Contribution Plan
The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of approximately $2.5 million and $2.7 million were expensed for the fiscal years ended March 31, 2009 and 2008, respectively.

Postretirement Benefits Other than Pension Benefits (PBOPs):
The Company participates in the PBOP plans with certain other NGUSA subsidiaries. PBOP costs are allocated to the Company. At March 31, 2009, the PBOP plans have a net underfunded obligation of $476.8 million. The Company's actuarial expense for 2009 was approximately $9.5 million.

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The Company is subject to deferral accounting requirements for PBOP expenses associated with its regulated gas operation. Any rarities between actual PBOP costs and amounts used to establishes rates are deferred and collected from or refunded to customers in subsequent periods. There is no deferred mechanism for PBOP expenses associated with Company's regulated electric operations.

Special Termination Benefits (Voluntary Early Retirement Offer)
In connection with National Grid plc's acquisition of KeySpan Corporation (KeySpan), which was completed on August 24, 2007, National Grid plc and KeySpan offered certain non-union employees voluntary early retirement offer (VERO) packages in June 2007. Of the 560 employees enrolled in the VERO, 36 were the Company's employees. Employees enrolled in the VERO program will retire by October 1, 2010. The Company's share of the cost of the VERO program is expected to be $10.2 million which includes VERO costs allocated from affiliates. The Company recorded $4.8 million and $3.4 million of VERO costs for the fiscal year end March 31, 2009 and 2008, respectively. The remaining $2.0 million will be recorded through October 1, 2010 as the program participants retire.

An additional VERO package was offered to 30 union employees in July 2008 in connection with National Grid plc's acquisition of KeySpan to further the effort to achieve necessary staff reduction through voluntary means. Of the 30 eligible employees, 28 enrolled in the VERO and were all employees of one affiliates of the Company. Employees enrolled in the early retirement program retire between October 1, 2008 and December 1, 2009. The Company recorded $0.3 million of allocated costs associated with this VERO package.

Note E - Income Taxes

Following is a summary of the components of federal and state income tax and reconciliation between the amount of federal income tax expense reported in the Consolidated Statements of Operations and the computed amount at the statutory tax rate:

Fiscal Year Ended March 31 (In thousands)	**2009**	2008
Components of federal and state income taxes:		
Current tax expense (benefit):		
Federal	**$ (26,800)**	$ 2,019
State	**(8)**	44
Total Current Tax expense	**(26,808)**	2,063
Deferred tax expense:		
Federal	**$ 40,057**	$ 10,834
Investment Tax Credits [(1)]	**(571)**	(603)
State	**-**	-
Total deferred tax expense	**39,486**	10,231
Total Income tax expense	**$ 12,678**	$ 12,294
Total income taxes in the consolidated statements of operations:		
Income taxes charged to operations	**$ 13,562**	$ 12,519
Income taxes credited to "Other income (deductions)"	**(884)**	(226)
Total	**$ 12,678**	$ 12,294

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

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Total income taxes differ from the amounts computed by applying the federal statutory tax rates to income before taxes. The reasons for the differences are as follows:

Fiscal Year Ended March 31, (In thousands)	**2009**	2008
Computed tax at statutory rate	**$ 15,288**	$ 18,795
Increases/(reductions) in tax resulting from:		
Medicare act	**(874)**	(788)
Service company tax allocation	**(595)**	(1,474)
Intercompany tax sharing	**(278)**	(3,972)
Deferred investment tax credit amortization	**(571)**	(603)
Accrual to return adjustment	**(243)**	294
Other	**(49)**	42
Total	**$ (2,610)**	$ (6,501)
Federal and state income taxes	**$ 12,678**	$ 12,294

Significant components of the Corporation's net deferred tax assets and liabilities at March 31, 2009 and 2008 are presented in the following table.

(In thousands)	**2009**	2008
Pension and other post retirement benefits	**$ 92,702**	$ 53,800
Bad debts	**11,749**	4,854
Contributions in aid of construction	**11,721**	10,570
Other	**17,478**	49,016
Total deferred tax assets[1]	**133,650**	118,240
Plant related	**(160,941)**	(140,319)
Deferred tax liability related to regulatory asset	**(16,883)**	1,019
Deferred tax liabilty related to regulatory pension liability	**(12,891)**	(9,536)
Other	**(29,825)**	(35,169)
Total deferred tax liabilities	**(220,540)**	(184,005)
Net accumulated deferred income tax liability	**(86,890)**	(65,765)
Current portion (net deferred tax asset)	**16,225**	31,530
Net accumulated deferred income tax liability (non-current)	**$ (103,115)**	$ (97,295)

[1] There were no valuation allowances for deferred tax assets at March 31, 2009 or 2008.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, assuming the taxing authority has full knowledge of all relevant information and that any dispute with a taxing authority is resolved by the court of last resort. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Recognized tax benefits are measured as the largest amount of tax benefit that is more likely than not to be realized upon settlement with the taxing authority, assuming the taxing authority has full knowledge of all relevant information. There were no gross unrecognized tax benefits at March 31, 2009 and 2008. Upon adoption of FIN 48 on April 1, 2007, the Company did not record any adjusting entries for unrecognized tax benefits. In addition, the Company

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has not accrued for interest. Therefore, upon adoption of FIN 48 there was no material effect on our operations, financial position or cash flows.

Effective as of April 1, 2007, the Company recognizes interest accrued related to uncertain tax positions in interest income or interest expense and related penalties if applicable in operating expenses. As of March 31, 2009, the Company had no accrued interest related to uncertain tax positions, and no interest or penalties were recognized during the fiscal year ended March 31, 2009.

The Company participates in filing a federal consolidated return with NGHI and subsidiaries. Federal income tax returns have been examined and all appeals and issues have been agreed upon by the Internal Revenue Services (IRS) and NGHI consolidated filing group through March 31, 2002. During fiscal year ended March 31, 2009, NGHI and subsidiaries settled certain proposed IRS audit adjustments related to fiscal years ending March 31, 2003 and March 31, 2004 with the IRS Office of Appeals and is awaiting finalization of the settlement agreement. The IRS is currently auditing the federal NGHI consolidated income tax returns, which include the Company for March 31, 2005 through March 31, 2007. The fiscal years ended March 31, 2008 remains subject to examination by the IRS.

Note F - Short-Term Debt

Open accounts are interest free loans from a parent; the applicable FERC order does not place a limit on the aggregate amount of open account advances that may be outstanding at any one time. At March 31, 2009 and 2008, short term debt to parent totaled $130.0 million and $0, respectively.

The Company has regulatory approval from the FERC to issue up to $145.0 million of short-term debt.

Note G - Cumulative Preferred Stock

A summary of cumulative preferred stock at March 31, 2009 and 2008 are as follows (in thousands of dollars except for share data):

	Shares Outstanding		Amount		Dividends Declared		Call Price
	2009	2008	**2009**	2008	**2009**	2008	
$50 par value -							
4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	**$ 110**	$ 111	$55.00
4.64% Series	**-**	-	**-**	-	**-**	87	52.125 (a)
Total	**49,089**	49,089	**$ 2,454**	$ 2,454	**$ 110**	$ 198	

(a) The stock was called on December 31, 2007 at a price of $52.125

The annual dividend requirement for cumulative preferred stock was approximately $0.1 million and $0.2 million at March 31, 2009 and 2008, respectively.

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Note H – Long-Term Debt

A summary of long-term debt is as follows:

At March 31 (in thousands)

Series	Rate %	Maturity	**2009**	2008
First Mortgage Bonds:				
U (93-3)	6.650	June 30, 2008	**$ -**	$ 5,000
FMB Series M	10.250	July 31, 2008	-	271
FMB Series S	6.820	April 1, 2018	**14,464**	14,464
FMB Series N	9.630	May 30, 2020	**10,000**	10,000
FMB Series O	8.460	September 30, 2022	**12,500**	12,500
FMB Series P	8.090	September 30, 2022	**8,750**	9,375
FMB Series R	7.500	December 15, 2025	**12,750**	13,500
Unamortized discounts			**(161)**	(187)
Total long-term debt			**$ 58,303**	$ 64,923
Long-term debt due within one year			**1,375**	6,646
Total long-term debt, excluding current portion			**$ 56,928**	$ 58,277

Substantially all of the properties and franchises of the Company are subject to the lien of mortgage indentures under which the first mortgage bonds have been issued.
The aggregate maturities of long-term debt for the five years subsequent to March 31, 2009, and thereafter are, approximately:

(In thousands)

Fiscal Year	**Amount**
2010	$ 1,375
2011	1,375
2012	1,375
2013	1,375
2014	1,375
Thereafter	51,589
Total	$ 58,464

At March 31, 2009 and 2008, the Company's long-term debt had a carrying value of approximately $58.5 million and $65.1 million and had a fair value of approximately $60.6 million and $78.5 million, respectively. The fair market value of the Company's long-term debt was estimated based on the quoted prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturity.

In connection with the acquisition of the Rhode Island gas assets of Southern Union Gas, the Company assumed first mortgage bonds, of which approximately $58.5 million remain outstanding. This assumed debt may not exceed 60 percent of total capitalization or the rates on the debt will increase by 0.20 percent, and the debt may not exceed 70 percent of total capitalization or the bondholders may declare bonds due and payable. The Company has compliance with the covenant.

The Narragansett Electric Company

Notes to Financial Statements

On January 31, 2008, National Grid plc announced that it would increase its dividend for fiscal year 2008 by 15% and attempt to grow its dividends 8% per annum thereafter. Following this announcement, Moody's Investors Service changed the outlook for National Grid plc and its subsidiaries, including the Company's, debt ratings to negative outlook from stable due to the perceived aggressiveness of the dividend policy.

Note I - Restrictions on Retained Earnings Available for Dividends on Common Stock

As long as any preferred stock is outstanding, certain restrictions on payment of dividends on common stock would come into effect if the "junior stock equity" was, or by reason of payment of such dividends became, less than 25 percent of "Total capitalization." However, the junior stock equity at March 31, 2009 and 2008 was 96 percent of total capitalization, and accordingly, none of the Company's retained earnings at March 31, 2009 were restricted as to dividends on common stock under the foregoing provisions.

Note J - Supplementary Income Statement Information

Taxes, other than income taxes, charged to operating expenses are set forth by class as follows:

Year Ended March 31, (In thousands)	**2009**	2008
Municipal property taxes	**$ 31,747**	$ 28,060
State gross earning tax	**56,135**	49,683
Federal and state payroll and other taxes	**6,384**	6,341
Total taxes, other than income taxes	**$ 94,266**	$ 84,084

Note K - Accumulated Other Comprehensive Income/(Loss)

(In thousands)	Unrealized Gain/(Loss) on Available-for- Sale Securities	Postretirement Liability	Total Accumulated Other Comprehensive Income/(Loss)
March 31, 2007 balance, net of tax	$404	($80,649)	($80,245)
Other comprehensive income/(loss):			
Unrealized (loss) on securities	(32)		(32)
Tax on Medicare subsidy		555	555
Change in postretirement benefits		1,281	1,281
Reclassification adjustment for gain/(loss) included in net income	(71)		(71)
March 31, 2008 balance, net of tax	$301	($78,813)	($78,512)
Other comprehensive income/(loss):			
Unrealized (losses) on securities	(262)		(262)
Net loss arising during period		(41,312)	(41,312)
Change in postretirement benefits		3,239	3,239
Tax on Medicare subsidy		(1,922)	(1,922)
Reclassification adjustment for gain/(loss) included in net income	9		9
March 31, 2009 balance, net of tax	$48	($118,808)	($118,760)

The Narragansett Electric Company

Notes to Financial Statements

Note L - Cost of Removal and Asset Retirement Obligation

SFAS No. 143, "Accounting for Asset Retirement Obligations" provides the accounting requirements for retirement obligations associated with tangible long-lived assets. The Company does not have any material asset retirement obligations arising from legal obligations as defined under SFAS No. 143. However, under the Company's current and prior rate plans, it has collected through rates an implied cost of removal for its plant assets. This cost of removal collected from customers differs from the SFAS No. 143 definition of an asset retirement obligation in that these collections are for costs to remove an asset when it is no longer deemed usable (i.e. broken or obsolete) and not necessarily from a legal obligation. These collections have been recorded to a regulatory liability account to reflect future use. The Company estimates it has collected over time approximately $136.3 million and $129.2 million for cost of removal through March 31, 2009 and 2008, respectively.

Note M – Derivative Contracts and Fair Value

Financial Derivatives
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 risk and reduce the cash flow variability associated with the forecasted purchases 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 is subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." Therefore, subsequent changes in the fair value of these derivatives will be recorded as regulatory assets and regulatory liabilities. The majority of gains and losses on these contracts are passed through to customers as provided for in agreement with the New York State Public Service Commission (NYPSC).

The Company utilizes NYMEX gas futures and NYMEX based swaps. The fair value of these derivative instruments at March 31, 2009 was a net liability of $71.6 million. The maximum length of time over which the Company has hedged such cash flow variability is through March 2011.

Physical Derivatives
SFAS No. 133 establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features, or contracts that combine a forward contract and a purchase option contract to qualify for the normal purchases and sales exception. Certain contracts for the physical purchase of natural gas associated with our regulated gas utilities do not qualify for normal purchases under SFAS No.133. At March 31, 2009, these derivatives had a net fair value of $3.6 million and are subject to SFAS No. 71 accounting treatment.
.
The following are commodity volumes associated with those derivative contracts:

As of March 31 2009		
(In thousands)		
Physicals	Gas (dths)	4,545
Financials	Gas swaps (dths)	10,108
	Gas futures (dths)	24,180
Total	**Gas (dths)**	**38,833**

In March 2008, the FASB issued SFAS No. 161 "Disclosure about Derivative Instruments and Hedging," to amend and expand the disclosure requirements of SFAS No. 133 with the intent to provide users of the financial statement with a better understanding of how and why an entity uses derivatives instruments. Accordingly, this

The Narragansett Electric Company

Notes to Financial Statements

statement, SFAS No. 161, requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Effective January 1, 2009, the Company adopted SFAS 161 and has been applied to our financial reports for the period ending March 31, 2009.

The following are balance sheet, income statement, and cash flow hedging tables for the various commodities

Fair Values of Derivative Instruments - Income Statement

(In thousands)	March 31, 2009	March 31, 2008	YTD Movement
Derivative NOT designated as hedging instruments under Statement 133			
Gas contracts:			
Gas futures contract - regulatory asset	$ (75,100)	$ -	$ (75,100)
Gas swap contract - regulatory asset	(761)	-	(761)
Gas futures contract - regulatory liability	3,511	21,190	(17,679)
Gas swap contract - regulatory liability	756	-	756
Gas purchase contract - regulatory liability	3,592	-	3,592
Total	**$ (68,002)**	**$ 21,190**	**$ (89,192)**

Fair Values of Derivative Instruments - Balance Sheet

	Asset Derivatives			Liability Derivatives	
(In thousands)	03/31/09	03/31/08		03/31/09	03/31/08
Derivative NOT designated as hedging instruments under Statement 133					
Gas contracts:					
Gas futures contract - current asset	$ 3,511	$ 21,190	Gas future contract - current liability	$ (67,901)	$ -
Gas purchase contract - current assets	3,046	-	Gas swap contract - current liability	(761)	-
Gas purchase contract - deferred asset	546	-	Gas futures contract - deferred liability	(7,199)	-
Gas swap contract - deferred asset	756	-			
Subtotal	$ 7,859	$ 21,190	Subtotal	$ (75,861)	$ -
Total derivative NOT designated as hedging instruments under Statement 133	$ 7,859	$ 21,190	Total derivative NOT designated as hedging instruments under Statement 133	$ (75,861)	$ -

Since SFAS 71 accounting treatment is currently being applied to all derivative financial instruments, movements in the fair value of these instruments are recorded as a regulatory asset or liability, rather than through the income statement.

The aggregate fair value of the Company derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2009 is $0.9 million for which the Company does not post any collateral in the normal course of business. If the Company's credit rating were to down grade by one notch, it would be not required to post any additional collateral. If the Company's credit rating were to down grade by three notches, it would be required to post $0.9 million additional collateral to its counterparties.

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired

The Narragansett Electric Company

Notes to Financial Statements

impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2009, the Company has paid $90.3 million, including $15.2 million as initial margin requirement to its counterparties as collateral associated with outstanding derivative contracts.

Fair Value Measurements
Effective April 1, 2008, the Company adopted SFAS No. 157, which requires expanded disclosure for assets and liabilities that are recorded on the Consolidated Balance Sheet at fair value. SFAS 157 has been applied prospectively from April 1, 2008, except for limited retrospective application to selected items including financial instruments that were measured at fair value using the transaction price in accordance with the requirements of Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." The Company primarily applies the market and income approach for recurring fair value measurements and valuation techniques to maximize observable inputs. The Company has elected to defer the adoption of SFAS 157 for nonrecurring fair value measurement disclosures of non-financial assets and liabilities.
As defined in SFAS 157, 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 - exit price. To increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a 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) are available in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date. The Company's level 1 fair value derivative instruments are primarily consist of natural gas futures traded on the NYMEX.

Level 2 — Pricing 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. Derivative assets and liabilities utilizing in Level 2 inputs include non-exchanged-based financial contracts (e.g. swap) and North America Energy Standard Board (NAESB) physical gas supply contracts.

Level 3 — Pricing unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation. Derivative assets and liabilities utilizing Level 3 inputs are mainly customized physical gas contracts, certain financial contracts, as well as some standard physical gas supply contracts and over the counter financial options contracts.

Available for sale securities – These are primarily equity investments based on quoted market prices and municipal bonds based on quoted prices of similarly traded assets in open markets.

Derivatives — The Company enters into primarily exchange traded, NYMEX futures principally used to manage commodity prices associated with its natural gas operations.

The fair value of the Company's derivatives include the credit standing of the counterparties involved and the impact of credit enhancements, if any. The Company has also recorded liquidity reserves, as discussed above in the determination of fair value based on its expectation of how market participants would determine fair value. Such valuation adjustments are generally based on market evidence, if available, or management's best estimate.
Margin Deposits – The Company's margin deposits are restricted cash and are generally classified within level 1 of the fair value hierarchy as the amounts are valued using quoted market prices.

The Narragansett Electric Company

Notes to Financial Statements

The following table presents assets and liabilities measured and recorded at fair value on the Company's Consolidated Balance Sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2009:

(In thousands)	**Balance at March 31, 2009**			
Derivative contracts	Level 1	Level 2	Level 3	Total
Assets	$ 4,148	$ 7	$ 3,704	$ 7,859
Liabilities	(74,980)	(794)	(87)	(75,861)
Total derivative net liabilities	$ (70,832)	$ (787)	$ 3,617	$ (68,002)
Available for sale securities				
Assets	$ 1,130	$ 1,565	$ -	$ 2,695
Liabilities	-	-	-	-
Total net assets	$ 1,130	$ 1,565	$ -	$ 2,695

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

(In thousands)		
Balance at March 31, 2008	$ 23	
Total realized gains (losses) included in net income	-	
Total unrealized gains (losses) included in other comprehensive income	-	
Total realized gains (losses) included in regulatory assets and liabilities	(3,286)	(a), (b)
Purchase, sales and issuances, net	6,809	(c)
Transfers in and out of level 3	71	(d)
Level 3 balance at March 31, 2009	$ 3,617	
The amount of realized gains and (losses) included in net income attributed to the change in unrealized gains and (losses) related to derivative assets and liabilities at March 31, 2009	$ -	

(a) The realized portion is the Mark-To-Market amount as of the beginning of the period for transactions that settled by the end of this period.

(b) The unrealized portion is the Mark-To-Market amount as of the end of the period for transactions that exist through the end of last period and this period

(c) The Mark-To-Market amount as of the end of this period for transactions that started after last period

(d) The amount of $71 thousands was transferred from Level 3 to Level 2 as of the end of the quarter ending September 30, 2008.

Note N – Acquisition

Following an extensive approval process, National Grid plc, the ultimate parent of the Company, completed the acquisition of KeySpan on August 24, 2007 for consideration of $7.6 billion together with the assumption of approximately $4.5 billion of debt.

The Narragansett Electric Company

Notes to Financial Statements

The acquisition of KeySpan has significantly expanded National Grid plc's operations in the northeastern US as KeySpan was the fifth largest distributor of natural gas in the US and the largest in the northeast US, serving 2.6 million customers in New York, Massachusetts and New Hampshire. KeySpan also operates an electricity transmission and distribution network serving 1.1 million customers in New York under a long-term contract with the Long Island Power Authority.

Note O - Difference between Uniform System of Accounts and GAAP

In accordance with the FERC Form 1 instructions, these notes are included in the Company's published annual reports which may include reclassifications not made for FERC reporting purposes. For example, certain reclassifications for the current portions of regulatory assets and liabilities and deferred taxes are done for the published annual reports but not for FERC reporting. These financial statements are prepared in accordance with the accounting requirements of the FERC as set forth in its applicable Uniform System of Accounts and published accounting releases. This is a comprehensive basis of accounting consistent with GAAP, except for:

- lack of disclosure of the current portion of long-term debt on the balance

- the balance sheet classification of cost of removal collections from customers

- the presentation of the SFAS No. 109 including its interpretation of FASB issued Interpretation No. 48

Name of Respondent	This Report is:	Date of Report	Year of Report
	(1) _X_ An Original	(Mo.Da,Yr)	
NARRAGANSETT ELECTRIC COMPANY	(2) _ A Resubmission	July 31, 2009	March 31, 2009

PART VII: STATEMENT OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME AND HEDGING ACTIVITIES

1. Report in columns (b) (c) (d) and (e) the amounts of accumulated other comprehensive income items, on a net-of-tax basis, where appropriate

2. Report in columns (f) and (g) the amounts of other categories of other cash flow hedges.

3. For each category of hedges that have been accounted for as "fair value hedges", report the accounts affected and the related amounts in a footnote.

Line	Item (a)	Unrealized Gains and Losses on availiable-for-sale securities (b)	Minimum Pension liability Adjustment (net amount) (c)	Foreign Currency Hedges (d)	Other Ajustments (e)
1	Balance of Account 219 at Beginning of Preceding Year	403,584	(80,649,311)		
2	Preceding Year Reclassification from Account 219 Net Income	(70,816)			
3	Preceding Year Changes in Fair Value	(31,635)	1,836,338		
4	Total (lines 2 and 3)	(102,451)	1,836,338	0	0
5	Balance of Account 219 at End of Preceding Year/ Beginning of Current Year	301,133	(78,812,973)	0	0
6	Current Year Reclassifications From Account 219 to Net Income	(80,283)			
7	Current Year Changes In Fair Value	(172,434)	(39,995,198)		
8	Total (lines 6 and 7)	(252,717)	(39,995,198)	0	0
9	Balance of Account 219 at End of Current Year	48,416	(118,808,171)	0	0

Name of Respondent	This Report is:	Date of Report	Year of Report
	(1) _X_ An Original	(Mo.Da,Yr)	
NARRAGANSETT ELECTRIC COMPANY	(2) _ A Resubmission	July 31, 2009	March 31, 2009

PART VII: STATEMENT OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME AND HEDGING ACTIVITIES

Line	Other Cash Flow Hedges (Specify) (f)	Other Cash Flow Hedges (Specify) (g)	Totals for each category of items recorded in Account 219 (h)	Net Income (Carried Forward from Page 117, Line 74) (i)	Total Comprehensive Income (j)
1			(80,245,727)		
2			(70,816)		
3			1,804,703		
4	0	0	1,733,887	41,603,406	43,337,293
5			(78,511,840)		
6			(80,283)		
7		0	(40,167,632)		
8	0	0	(40,247,915)	31,111,906	(9,136,009)
9	0	0	(118,759,755)		

Division Data Requests 1-15

Request:

Please describe the Company's plans for issuing variable-rate versus fixed-rate debt.

Response:

The Company has not yet determined if it would issue variable rate or fixed rate debt; such a determination will depend upon market conditions at the time of each issuance. Circumstances under which the Company may issue long-term debt with a variable rate rather than a fixed rate would include when the Company could demonstrate that variable rate funding is more advantageous than fixed rate funding available at that time. If, for example, the Company can enter into a contract with a bank whereby the fixed rate the Company pays to the bank in return for receiving the variable rate from the bank (to match that on the bond) would be lower than the fixed rate that could be achieved from issuing a fixed rate bond to market at that time, then it would be advantageous to issue the variable rate debt.

For example, the Company is faced with the choice of issuing a 5yr bond at 6.3% or at a variable rate plus a margin of 2.7%. The Company would evaluate this choice by calculating the fixed rate equivalent of the variable rate plus the margin of 2.7%. This is achieved by calculating the net present value of the variable rate cash flows (including margin) and finding the fixed rate cash flows, which would give the same net present value. If this fixed rate is lower than 6.3%, it would be advantageous to issue the variable rate bond. The discount rate used to calculate the net present value would come from the yield curve known as the swap curve, and the variable rates are projected using the swap curve. This example is shown in the attached spreadsheet.

Another circumstance where the Company may issue variable rate bonds instead of fixed rate bonds would be when there is little or no investor demand for Company fixed rate bonds, but there is investor interest in Company variable rate bonds. If the Company wants to pay a fixed rate instead, this should not be a problem if the Company enters into a contract with a bank to convert the variable rate payments into fixed rate payments.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-16

Request:

It appears that the initial debt issue would take place this fall for up to $512 million. Please indicate how the Company intends to mitigate the "market timing risk" associated with undertaking such a large debt issuance at one time (or within a short time period).

Response:

As indicated in response 1-2, the Company is seeking to issue through a negotiated process whereby it is able to obtain market window data, with the intended result that the Company would issue the appropriate security at the appropriate time. The Company believes that it is in the best interest of customers to have the guidance of financial partners that know the market and can advise the Company on market condition changes, interest rate changes and other market events that could affect issuance.

In addition, the Company has requested the ability to manage interest rate volatility for variable and fixed rate debt.

For Variable Rate Debt

1. The Company may want to enter into an interest rate swap to pay a fixed rate of interest to eliminate exposure to variable interest rates. The Company may also conclude that fixed interest rates will, over time prove lower than the variable rate on the debt.

2. The Company may want to purchase an option on an interest rate swap to pay a fixed rate at a future date in order to eliminate the exposure to variable interest rates at a future date. As the Company has an option, if long-term rates are lower by that future date, the Company can let the option lapse. Conversely, if long-term fixed rates are higher at that future date, the Company can exercise the option and pay fixed at a lower than market rate.

3. The Company may want to enter into forward rate agreements to pay a fixed rate of interest to reduce exposure to possible higher variable interest rates in the short term, but retain exposure to variable interest rates for the remaining life of the debt.

Division Data Requests 1-16 (cont.)

For Fixed Rate Debt

1. The Company may want to enter into an interest rate swap to pay a variable rate of interest to reduce the volatility of the market value of the debt. The Company may also have the view that floating interest rates will over time prove lower than the fixed rate on the debt.

2. The Company may want to purchase an option on an interest rate swap to pay a variable rate and receive a set fixed rate at a future date in order to reduce the volatility of the market value of the debt at a future date. As the Company has an option, if fixed rates are higher by that future date, the Company can let the option lapse. Conversely, if fixed rates are lower at that future date, the Company can exercise the option and pay the variable rate, while receiving fixed at a higher than market rate.

3. The Company may want to enter into forward rate agreements to pay a variable rate of interest to reduce exposure to high fixed interest rates in the short term, but retain exposure to fixed interest rates for the remaining life of the debt.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-17

Request:

Per Ms. Lynch's testimony (page 4), identify the Company's "banking partners and financial advisors." If these institutions have prepared written presentations advising or informing the Company on debt issuance options, please provide.

Response:

The Company has several banking partners and financial advisors including but not limited to Bank of America Merrill Lynch, Barclays Capital, JPMorgan, Citibank, Bank of New York Mellon, Wells Fargo/Wachovia, and Morgan Stanley.

Prepared by or under the supervision of: Lorraine Lynch

Division Data Requests 1-18

Request:

Provide copies of the most recent credit rating reports for Narragansett from S&P, Moody's and FitchRatings.

Response:

Attached are copies of the most recent credit reports on the Company that were issued by Moody's and S&P. The Company is not rated by FitchRatings

Prepared by or under the supervision of: Lorraine Lynch

Moody's Investors Service

Credit Opinion: Narragansett Electric Company

Narragansett Electric Company

Providence, Rhode Island, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A2
Senior Secured MTN	A2
Preferred Stock	Baa2
Ult Parent: National Grid Plc	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	P-2
Parent: National Grid USA	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured	A3
Commercial Paper	P-2

Contacts

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Key Indicators

[1][2]
Narragansett Electric Company

	FY 2009	FY 2008	FY 2007	FY 2006
(CFO Pre-W/C + Interest) / Interest Expense	**9.4**	**8.6**	**11.0**	**9.8**
(CFO Pre-W/C) / Debt	**28%**	**64%**	**53%**	**86%**
(CFO Pre-W/C - Dividends) / Debt	**28%**	**64%**	**24%**	**86%**
(CFO Pre-W/C - Dividends) / Capex	**72%**	**93%**	**67%**	**175%**
Debt / Book Capitalization	**16%**	**9%**	**12%**	**8%**
EBITA Margin %	**3%**	**5%**	**7%**	**9%**

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments [2] Fiscal Year End March 31st

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

Opinion

Rating Drivers

Favorable business and operating risk profile

Regulatory supportiveness of the Rhode Island Public Utility Commission

Historically strong financial metrics expected to weaken; not cause for immediate concern

Significant financial and operational interdependencies within the National Grid family

Corporate Profile

Narragansett Electric Company (NEC) is an energy distribution company that provides electric and natural gas distribution services throughout Rhode Island. NEC is a wholly owned subsidiary of National Grid USA (NG USA) and whose ultimate parent is National Grid plc, a holding company for a range of largely regulated businesses, including transmission and distribution (T&D) networks in the UK and the Northeastern US. NEC is regulated by the Rhode Island Public Utility Commission (RIPUC).

SUMMARY RATING RATIONALE

Largely using the Moody's Rating Methodology for Global Regulated Electric Utilities, but with some consideration also given to the Rating Methodology for European Complex Holding Company Structures as a framework, NEC's A3 Issuer Rating reflects the favorable business and operating risk profile of its electric and natural gas T&D activities; the supportiveness provided by the RIPUC under NEC's performance-based rate (PBR) plan; consistent key financial metrics that are currently strong relative to similarly rated peers; and a sufficient liquidity position, albeit taking into account that NEC's internally generated cash flow is supplemented by its active borrowing under the NG USA money pool. Prospectively, we will monitor the anticipated shift in financial strategy to realign NEC's capital structure to effect a mix of debt and equity more typically seen for regulated utilities in the US to be sure the strategy, as we currently expect, allows key financial metrics to remain in line with levels appropriate for regulated utilities at the A3 senior unsecured rating level.

DETAILED RATING CONSIDERATIONS

FAVORABLE BUSINESS AND REGULATORY RISK PROFILE AS A DISTRIBUTION UTILITY

NEC's favorable business and regulatory risk profile stems from our views with respect to the essential nature of the utility services that are the primary focus of NEC's business activities and the significant weighting we ascribe to the fact that Rhode Island has historically been one of the more predictable and supportive regimes in the US on the regulatory spectrum.

For the past five years, NEC has been focusing on controlling costs and maximizing efficiency in its operations to sustain adequate and reliable service levels while striving to achieve financial incentives available under the company's performance-based ratemaking (PBR) plan which extends through December 31, 2009. The PBR plan details that NEC keep 100% of its earnings up to an allowed ROE of 10.5%, plus an additional pre-tax amount of $4.65 million. Earnings between 10.5% and 11.5 % ROE are shared 50/50 between NEC and rate payers. All earnings above an 11.5% ROE are distributed 25/75 between NEC and rate payers, respectively.

NEC has a weather normalization adjustment mechanism for its gas distribution operations which helps to largely neutralize the net revenue impacts due to abnormal weather conditions. Further regulatory support was in evidence when the RIPUC approved a 10.9% increase in gas distribution revenues effective November 24, 2008, based on a 10.5% allowed return on equity. Although NEC had requested approval to implement a decoupling mechanism to de-link revenues from volumes sold, the RIPUC decided that such a mechanism was not essential at the time.

For the past three FY years covering 2007 through 2009, we observe that NEC has had steady increases in its revenue, growing from US$1.3 to US$1.6 billion over the period; however, earnings have trended downward during this period due to regulatory lag associated with the current multi-year rate plan and a steadily increasing amount of capex (increasing from $77 million in FY'07 to $122 million in FY'09). To address this situation, NEC filed a request with the RIPUC on June 1, 2009 to increase electric base distribution rates by $75.3 million. In the filing, NEC is also presenting an electric rate decoupling proposal to de-link revenues from volumes sold, as well as proposals for reconciliations of bad debt and pension costs, and new reconciliation approaches for certain other expenses, including capital expenditures. Under the expected timing for due process, a final decision would likely allow for new rates to take effect January 2010.

Importantly, recovery of NEC's costs of serving as the electricity provider of last resort under Rhode Island law and remaining costs charged by an affiliate, New England Power (NEP), to recover stranded costs related to former NEP generation investments, which are provided for under NEC's existing rate structure, are unaffected by the electric distribution rate filing.

HISTORICALLY STRONG FINANCIAL METRICS ARE EXPECTED TO WEAKEN, YET THIS IS NOT CAUSE FOR IMMEDIATE CONCERN

Our ratings for NEC acknowledge the historical strength of NECs key financial metrics as it has operated under its performance based rate structure and funded its steadily increasing capex program. Going forward, we anticipate that NEC will be free cash flow negative due to continuation of higher than historical average capex in future periods related to smart grid projects, efficiency programs, and transmission projects and the likelihood it will begin paying regular dividends to realign its capital structure with what regulators use as part of the rate setting process. Under this scenario, we anticipate some weakening in NEC's historically robust CFO Pre W/C to interest and debt, but are not unduly concerned at this time. For perspective, NEC's CFO Pre W/C to interest and debt metrics have historically been on average 9.3x and 47.9%, respectively, for the three FY periods ended March 31, 2007 - March 31, 2009 (subject to potential further adjustments upon clarification of underfunded pension obligations), typical of what we would see for a Aa rated utility; however, we see these metrics on average dropping back into the range more typically seen for mid-to-low single A rated utilities. Also, given the flexibility within NEC's balance sheet at the starting point of its evolving financial strategies, we expect the adjusted capitalization ratios will remain well within the level appropriate for its A3 rating.

Liquidity

NEC maintains a sufficient level of liquidity primarily by supplementing its internally generated cash flow through participation in the NG USA money pool. The quality of alternate liquidity could be improved upon, in our opinion, by arranging for more substantial committed standalone multi-year bank credit facilities not burdened by a material adverse change clause. Meanwhile, the purpose of the money pool is to utilize family cash resources more effectively and reduce the need for external short-term borrowing. Participating subsidiary companies contribute their excess cash to the pool which is first used to meet the short-term borrowing needs of eligible subsidiaries. Companies borrowing from the pool pay rates linked to A1/P-1 30-day commercial paper rates. Any remaining cash is typically invested into Aaa rated money funds with same day liquidity. As a measure of additional security, NG USA's parent, the UK-based National Grid plc, has the ability to increase the amount of cash in the pool through direct loans to NG USA. Alternatively, NG USA can also issue commercial paper and medium term notes in lieu of or to supplement direct loans from the UK parent.

As of March 31, 2009, NEC had about US$17.6 million of unrestricted cash on hand and approximately US$129.6 million of short-term debt outstanding to affiliates under the money pool. At the same date, NEC reported long-term debt due in one year of US$1.4 million, related to a sinking fund payment. Aside from similar modest sinking fund payments in the future, NEC's next long-term debt maturity is not until a US$14.5 million first mortgage bond issue matures on April 1, 2018.

NEC also has $20 million of sub-limit availability for letters of credit under a joint credit agreement among NG USA and several other US affiliates, which expires on November 29, 2009. We expect that the need for this facility will be addressed within the context of an ongoing consolidated liquidity planning strategy for the entire National Grid group ahead of the expiration date. We are particularly focused on liquidity for all corporate rated issuers, particularly in light of current bank market conditions, which make it likely that pricing will increase and tenors will be shortened along with the possibility of stricter covenants and other conditionality. The existing facility has a traditional material adverse change clause that applies only at the time of closing and contains no rating triggers. Also, it contains a 65% maximum allowable debt levels that applies to NEC. As of March 31, 2009 there was significant headroom versus the 65% level allowed for NEC and we expect that to remain the case for the foreseeable future.

As alluded to above, capital expenditures for the fiscal year ended March 31, 2009 were about $122 million and are expected to be at least that amount or slightly more for the 2010 fiscal year as the company continues its Reliability Enhancement Program and considers its participation in regional transmission projects with other utilities. Taking this into account and assuming the commencement of a more regular dividend payment to the parent as part of the strategy to realign the utility capital structure, we anticipate that NEC will be free cash flow negative over the next four quarters and probably longer. As a result, we expect NEC's aggregate debt level will increase, albeit while maintaining a degree a balance sheet flexibility appropriate for its current A3 senior unsecured rating.

Rating Outlook

The stable rating outlook for NEC mirrors the stable rating outlook for its ultimate parent National Grid plc and all the other rated entities in the group, largely reflecting the significant interdependencies that exist within the National Grid group of companies and our view that on the whole the National Grid Group's credit quality will strengthen during FY 2010, thereby solidifying ratings for NEC and those of the other rated entities within the family. Under this scenario, we believe that there would be additional headroom within existing ratings, thereby providing a degree of flexibility that does not currently exist.

What Could Change the Rating - Up

Assuming some guidance under the Moody's Rating Methodology for Complex European Holding Company Structures, it is unlikely that the ratings for NEC will go up in the near future, unless there is a change in the view of the overall group rating for the National Grid plc family. While we do not anticipate upward rating pressure in the near to medium term, ratings would become more strongly positioned if the consolidated National Grid performance improves as expected during FY 2010. In addition, if further regulatory ring fencing is introduced that affords additional insulation from the potential need for cash elsewhere within the family, then that would be considered credit positive for NEC, albeit to the potential detriment of creditworthiness elsewhere within the National Grid family.

What Could Change the Rating - Down

NEC's ratings could go down if there is a downgrade to our assessment of the overall group credit quality for National Grid plc or if there is significant change to the standalone financial metrics resulting from the dividend policies of National Grid plc. Ratings could also be pressured if National Grid plc decides to increase the leverage at the company as part of its further expansion in the US. For example, ratings could be pressured down if coverage of interest and debt by cash flow from operations (exclusive of the effects of changes in working capital) falls below 4.5x and 22%, respectively, for a sustained period.

Rating Factors

Narragansett Electric Company

Select Key Ratios for Global Regulated Electric Utilities

Rating	**Aa**	**Aa**	**A**	**A**	**Baa**	**Baa**	**Ba**	**Ba**
Level of Business Risk	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-75	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

S&P

My Credit Profile

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Summary: Narragansett Electric Co.

Publication date:	11-Mar-2009
Primary Credit Analyst:	John Kennedy, New York (1) 212-438-7670; john_kennedy@standardandpoors.com

Rationale

The ratings on Narragansett Electric Co. reflect the consolidated credit profile of its parent National Grid USA which in turn is an indirect, wholly owned subsidiary of its parent, U.K.-based National Grid PLC (NG), and NG's U.S.-based regulated operating unit, the August 2007 acquisition of KeySpan Corp., and its subsidiaries. The corporate credit ratings of the two New York distribution companies KEDNY and KEDLI are rated one notch higher than the consolidated corporate credit rating, reflecting the presence of strong regulatory insulation and their stand-alone financial profiles.

The ratings on NG and its subsidiaries continue to reflect the strong, predictable cash flows generated by the group's low-operating-risk electricity and gas network operations in the U.K. and the U.S.

National Grid USA's operations benefit from a generally supportive regulatory regime. Furthermore, NG has a proven track record in managing large acquisitions, delivering identified cost savings, and successfully managing geographically remote subsidiaries. NG's moderately aggressive financial profile, potential future reductions in regulatory revenue at the U.K. operations, and the challenges of integrating KeySpan offset those strengths. National Grid USA's operations serve about 8 million electric and gas customers in New York, Massachusetts, Rhode Island, and New Hampshire. Also, the acquisition of KeySpan added about 1,700 MW of generation capacity in Long Island, N.Y., after selling the 2,500 MW Ravenswood facility in Queens, N.Y. to TransCanada for $2.9 billion. The sale of this plant was a condition of the regulatory approval.

National Grid USA's excellent business position is characterized by:

- A focus on low-risk electric and natural gas transmission and distribution operations;
- Supportive and long-term regulatory agreements reached with the regulators in Massachusetts, Rhode Island, New Hampshire, and New York;
- Some regulatory and operating diversification; and
- Robust economic conditions, which provide for modest customer and load growth on a total basis.

National Grid USA's consolidated business risk profile is excellent, although slightly weaker with the acquisition of KeySpan due to its significant riskier nonregulated generation operations. The Massachusetts, New York, and Rhode Island regulatory environments generally support credit quality, as the restructuring framework has allowed for full recovery of stranded costs and the elimination of exposure to commodity prices, while allowing a reasonable ROE. In Massachusetts and Rhode Island, restructuring laws allow utilities to recover through surcharge mechanisms all purchased-power costs that they incur as providers of last resort, although with some lag. In New York, utilities pass power costs through to retail ratepayers, removing any commodity exposure.

Narragansett Electric distributes electricity to about 477,000 customers and gas to about 245,000 customers in Rhode Island. Narragansett's excellent business position reflects its low operating risk electricity distribution operations, a supportive regulatory environment, a largely residential and commercial customer base (about 90% of revenues) without any significant customer concentration, and robust economic conditions in the service territory, which should ensure modest load and customer growth. Narragansett Electric's business risk profile is excellent.

The regulatory agreement between the Rhode Island Public Utility Commission and Narragansett Electric is generally supportive of credit quality, because it allows for the recovery of all costs incurred as the provider of last resort, although with some delay, insulating the company from exposure to commodity prices. Narragansett Electric's distribution rates are frozen through 2009, and it operates under an earnings-sharing plan that provides for equal sharing with ratepayers of earnings between a 10.5% and 11.5% ROE and the company's retention of 25% of earnings above an 11.5% ROE. The ratepayer portion of the earnings sharing will be flowed through rates after 2009, unless the ratepayer portion exceeds $8 million that would result in an earlier customer sharing.

Strong cash flows from NG's regulated electricity and natural gas utilities in the U.K. and U.S. support credit quality, with the U.S. utilities expected to contribute about 55% of consolidated cash flow. Offsetting the business's strong cash flow is a moderately aggressive financial risk profile, potential future reductions in regulatory revenue at the U.K. operations, and the challenges of integrating KeySpan into the group. Debt associated with the KeySpan acquisition and ongoing large capital-expenditure programs will likely weaken NG's credit ratios.

Standard & Poor's expects FFO interest coverage to remain above 3.0x and FFO to total debt of at least 13% following the KeySpan acquisition, despite the increase in debt. Partly due to NG's strategy of issuing debt at the holding company level, National Grid USA's credit measures remain stronger than those of its parent.

Liquidity/short-term factors

The short-term rating on NG and its subsidiaries is 'A-2'. National Grid USA's liquidity is managed by NG. Expectations of continued strong cash flow generation over the near term, benefits from the collection of stranded costs, and favorable regulatory treatment of power cost deferrals in Massachusetts and New York support the short-term rating.

NG has adequate liquidity in the form of committed backup lines, which enable it to repay any commercial paper it might issue and fund maturing bond issues during the next 12 months. NG has completed its funding for the KeySpan acquisition, and the group's funding requirements for the remainder of the year are covered by NG's committed backup facilities of £2.4 billion. We expect, however, that virtually all of NG's remaining funding requirements will be met through additional debt issuance from its medium-term note programs and through CP, and that the backup facilities will remain undrawn.

The group's debt-maturity profile is relatively long, with more than 50% of debt maturing after March 2011.

Outlook
The stable outlook reflects our expectations of continued solid operational and financial performances by the consolidated group. In addition, Standard & Poor's expects NG to maintain its strategy of focusing on regulated gas and electricity network businesses in the U.K. and the U.S. and to achieve funds from operations (FFO) to debt of at least 13%.

The ratings would move upward only if NG were to materially improve its financial profile and there were no prospect of a major acquisition. Downward rating pressure could occur if NG were to undertake a further significant acquisition, if its financial performance were to deviate significantly from expectations, or if it were to make a meaningful investment in nonregulated activities. Standard & Poor's acknowledges, however, NG's stated target of maintaining ratings in the 'A' range at the U.K. operating companies, which we view as consistent with the group's new FFO interest coverage target of 3.0x-3.5x.

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Division Data Requests 1-19

Request:

Please explain why the Company requires hedging instruments for volatility of foreign exchange rates. (Lynch testimony, page 9) Does the Company intend to issue dollar denominated debt or debt denominated in foreign currencies? Please explain.

Response:

The Company is requesting the ability to issue in various currencies where doing so would provide its customers with benefit through lower interest rates or market appetite when the domestic market is not receptive. The Company is a US dollar based company, so exposure to any other currencies would expose the Company to risks due to fluctuations in foreign exchange rates. For example if the Company borrowed in Canadian dollars without any hedging, the value of the liability would be volatile as the CAD/USD exchange rate moved. Transacting a cross currency swap to leave the Company with a net USD liability would remove the overall currency risk and so reduce the volatility faced by the Company.

Prepared by or under the supervision of: Lorraine Lynch