nationalgrid

Thomas R. Teehan
Senior Counsel

June 11, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4323 - Application for Approval of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I.G.L. Sections 39-3-10 and 39-3-11
<u>Responses to Division Data Requests - Set 3 - ELEC/GAS</u>

Dear Ms. Massaro:

Enclosed is an original and ten (10) copies of National Grid's[1] responses to the Division's Third Set of Data Requests in the above-captioned proceeding.

The responses to the Third Set included with this filing are listed in the enclosed discovery log.

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

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Docket 4323 Service List
Leo Wold, Esq.
Steve Scialabba, Division

[1] The Narragansett Electric Company d/b/a National Grid (herein referred to as "National Grid" or the "Company").

280 Melrose Street, Providence, RI 02907
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Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, hand delivered and mailed to the individuals listed below.

__/S/________________________ June 11, 2012
Janea Dunne Date

National Grid (NGrid) – Request for Change in Electric & Gas Distribution Rates
Docket No. 4323 – Service List updated on 6/8/12

Name/Address	E-mail Distribution	Phone
Celia B. O'Brien, Esq. National Grid 280 Melrose St. Providence, RI 02907	Celia.obrien@us.ngrid.com	781-907-2153
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Cheryl M. Kimball, Esq. (for NGrid) Keegan Werlin LLP 265 Franklin Street Boston, MA 02110	ckimball@keeganwerlin.com lindas@keeganwerlin.com	617-951-1400
Gerald Petros, Esq. Hinckley, Allen & Snyder	gpetros@haslaw.com aramos@haslaw.com	
Leo Wold, Esq. (for Division) Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov dmacrae@riag.ri.gov Steve.scialabba@ripuc.state.ri.us David.stearns@ripuc.state.ri.us	401-222-2424
Michael J. Morrissey, Esq. (for AG) Dept. of Attorney General 150 South Main St. Providence, RI 02903	Mmorrissey@riag.ri.gov	401-274-4400 Ext. 2357
David Effron Berkshire Consulting 12 Pond Path North Hampton, NH 03862-2243	Djeffron@aol.com	603-964-6526
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Alex Cochis Lee Smith LaCapra Associates One Washington Mall 9th Floor Boston, MA 02108	acochis@lacapra.com lsmith@lacapra.com	

Thomas Catlin Emma Nicholson Exeter Associates 10480 Little Patuxent Parkway Suite 300 Columbia, Maryland 21044	tcatlin@exeterassociates.com enicholson@exeterassociates.com	
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Matthew Kahal c/o Exeter Associates 10480 Little Patuxent Parkway Suite 300 Columbia, MD 21044	mkahal@exeterassociates.com	
File original & 11 copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Lmassaro@puc.state.ri.us Anault@puc.state.ri.us Adalessandro@puc.state.ri.us Nucci@puc.state.ri.us Dshah@puc.state.ri.us Sccamara@puc.state.ri.us	401-780-2107

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
DIVISION SET 1						
Division Set 1	Division 1-1-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 1-1-ELEC	
Division Set 1	Division 1-2-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 1-2-ELEC	
Division Set 1	Division 1-3-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 1-3-ELEC	
Division Set 1	Division 1-4-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 1-4-ELEC	
Division Set 1	Division 1-5-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 1	Division 1-6-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-6-ELEC	
Division Set 1	Division 1-7-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-8-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 1-8-ELEC	
Division Set 1	Division 1-9-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-9-ELEC	
Division Set 1	Division 1-10-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 1	Division 1-11-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-11-ELEC	
Division Set 1	Division 1-12-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-13-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-13-ELEC	
Division Set 1	Division 1-14-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-15-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-16-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-17-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-18-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-19-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-20-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 1	Division 1-21-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-21-ELEC	
Division Set 1	Division 1-22-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-23-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-23-ELEC	
Division Set 1	Division 1-24-ELEC	05/09/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 1	Division 1-25-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-26-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-27-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-27-ELEC	
Division Set 1	Division 1-28-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
Division Set 1	Division 1-29-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme	Att. DIV 1-29-ELEC	
Division Set 1	Division 1-30-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
Division Set 1	Division 1-31-ELEC	05/09/2012	**05/23/2012**	Michael D. Laflamme		
DIVISION SET 2						
Division Set 2	Division 2-1-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-1-GAS	
Division Set 2	Division 2-2-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-2-GAS	
Division Set 2	Division 2-3-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 2	Division 2-4-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-4-GAS	
Division Set 2	Division 2-5-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme		
Division Set 2	Division 2-6-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-6-GAS	
Division Set 2	Division 2-7-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-7-GAS	
Division Set 2	Division 2-8-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-8-GAS	
Division Set 2	Division 2-9-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-9-GAS	
Division Set 2	Division 2-10-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-11-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-12-GAS	05/14/2012	**05/25/2012**	Michael D. Laflamme	Att. DIV 2-12-GAS	
Division Set 2	Division 2-13-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-14-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-15-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-16-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme	Att. DIV 2-16-1-GAS Att. DIV 2-16-2-GAS Att. DIV 2-16-3-GAS	
Division Set 2	Division 2-17-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-18-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-19-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-20-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-21-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme	Att. DIV 2-21-GAS	
Division Set 2	Division 2-22-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme	Att. DIV 2-22-GAS	
Division Set 2	Division 2-23-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme	Att. DIV 2-23-GAS	
Division Set 2	Division 2-24-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		
Division Set 2	Division 2-25-GAS	05/14/2012	**05/29/2012**	Michael D. Laflamme		

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
DIVISION SET 3						
Division Set 3	Division 3-1-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme	Att. DIV 3-1-ELEC/GAS	
Division Set 3	Division 3-2-ELEC/GAS	05/30/2012	*Pending*	Michael D. Laflamme		
Division Set 3	Division 3-3-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-4-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-5-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-6-ELEC/GAS	05/30/2012	*Pending*	Michael D. Laflamme		
Division Set 3	Division 3-7-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme	Att. DIV 3-7-1-ELEC/GAS Att. DIV 3-7-2-ELEC/GAS Att. DIV 3-7-3-ELEC/GAS	
Division Set 3	Division 3-8-ELEC/GAS	05/30/2012	*Pending*	Michael D. Laflamme		
Division Set 3	Division 3-9-ELEC/GAS	05/30/2012	**06/11/2012**	Mustally Husain	Att. DIV 3-9-1-ELEC/GAS Att. DIV 3-9-2-ELEC/GAS Att. DIV 3-9-3-ELEC/GAS Att. DIV 3-9-4-ELEC/GAS Att. DIV 3-9-5-ELEC/GAS Att. DIV 3-9-6-ELEC/GAS Att. DIV 3-9-7-ELEC/GAS Att. DIV 3-9-8-ELEC/GAS Att. DIV 3-9-9-ELEC/GAS	
Division Set 3	Division 3-10-ELEC/GAS	05/30/2012	**06/11/2012**	Mustally Husain	Att. DIV 3-10-ELEC/GAS	
Division Set 3	Division 3-11-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme	Att. DIV 3-11-ELEC/GAS	
Division Set 3	Division 3-12-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme		
Division Set 3	Division 3-13-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme		
Division Set 3	Division 3-14-ELEC/GAS	05/30/2012	*Pending*	Michael D. Laflamme		
Division Set 3	Division 3-15-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme		
Division Set 3	Division 3-16-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme		
Division Set 3	Division 3-17-ELEC/GAS	05/30/2012	**06/11/2012**	Michael D. Laflamme	Att. DIV 3-17-ELEC/GAS	
Division Set 3	Division 3-18-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-19-ELEC	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-20-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-21-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-22-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-23-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-24-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
Division Set 3	Division 3-25-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-26-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		
Division Set 3	Division 3-27-ELEC/GAS	05/30/2012	*Pending*	Robert B. Hevert		

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
COMMISSION SET 1						
Commission Set 1	Commission 1-1-ELEC/GAS	05/24/2012	**06/06/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-2-ELEC/GAS	05/24/2012	**06/07/2012**	Maureen P. Heaphy		
Commission Set 1	Commission 1-3-ELEC/GAS	05/24/2012	**06/07/2012**	Michael D. Laflamme	Att. COMM 1-3-1-ELEC/GAS Att. COMM 1-3-2-ELEC/GAS	
Commission Set 1	Commission 1-4-ELEC/GAS	05/24/2012	**06/07/2012**	Timothy D. Horan		
Commission Set 1	Commission 1-5-ELEC/GAS	05/24/2012	**06/06/2012**	Maureen P. Heaphy		
Commission Set 1	Commission 1-6-ELEC	05/24/2012	**06/07/2012**	Stephen F. Doucette and Maureen P. Heaphy		
Commission Set 1	Commission 1-7-ELEC	05/24/2012	**06/07/2012**	Stephen F. Doucette and Maureen P. Heaphy		
Commission Set 1	Commission 1-8-ELEC	05/24/2012	**06/06/2012**	Stephen F. Doucette		
Commission Set 1	Commission 1-9-ELEC	05/24/2012	**06/07/2012**	Stephen F. Doucette and Maureen P. Heaphy		
Commission Set 1	Commission 1-10-ELEC	05/24/2012	**06/06/2012**	Stephen F. Doucette		
Commission Set 1	Commission 1-11-ELEC	05/24/2012	**06/06/2012**	Stephen F. Doucette		
Commission Set 1	Commission 1-12-ELEC	05/24/2012	**06/06/2012**	Stephen F. Doucette		
Commission Set 1	Commission 1-13-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye		
Commission Set 1	Commission 1-14-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye		
Commission Set 1	Commission 1-15-ELEC/GAS	05/24/2012	**06/06/2012**	Evelyn M. Kaye		
Commission Set 1	Commission 1-16-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye and Michael D. Laflamme		
Commission Set 1	Commission 1-17-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye		
Commission Set 1	Commission 1-18-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye		
Commission Set 1	Commission 1-19-ELEC/GAS	05/24/2012	**06/04/2012**	Evelyn M. Kaye	Att. COMM 1-19-ELEC/GAS	
Commission Set 1	Commission 1-20-ELEC	05/24/2012	**06/06/2012**	Michael R. Hrycin	Att. COMM 1-20-1-ELEC Att. COMM 1-20-2-ELEC	
Commission Set 1	Commission 1-21-ELEC	05/24/2012	**06/06/2012**	Michael R. Hrycin	Att. COMM 1-21-ELEC	
Commission Set 1	Commission 1-22-ELEC	05/24/2012	**06/06/2012**	Michael R. Hrycin	Att. COMM 1-22-ELEC	
Commission Set 1	Commission 1-23-ELEC	05/24/2012	**06/07/2012**	Michael R. Hrycin		
Commission Set 1	Commission 1-24-ELEC	05/24/2012	**06/07/2012**	Michael R. Hrycin		
Commission Set 1	Commission 1-25-ELEC	05/24/2012	**06/06/2012**	Michael R. Hrycin		
Commission Set 1	Commission 1-26-ELEC	05/24/2012	**06/06/2012**	Michael R. Hrycin		
Commission Set 1	Commission 1-27-GAS	05/24/2012	**06/06/2012**	Jeffrey P. Martin		
Commission Set 1	Commission 1-28-GAS	05/24/2012	**06/06/2012**	Jeffrey P. Martin		
Commission Set 1	Commission 1-29-ELEC	05/24/2012	**06/04/2012**	Alfred P. Morrissey		

DATA SET	DATA REQUEST	DATE ISSUED	DATE FILED	WITNESS	ATTACHMENT	CONFIDENTIAL ATTACHMENT
COMMISSION SET 1						
Commission Set 1	Commission 1-30-ELEC	05/24/2012	**06/04/2012**	Alfred P. Morrissey		
Commission Set 1	Commission 1-31-ELEC	05/24/2012	**06/04/2012**	Alfred P. Morrissey		
Commission Set 1	Commission 1-32-ELEC	05/24/2012	**06/04/2012**	Alfred P. Morrissey		
Commission Set 1	Commission 1-33-ELEC	05/24/2012	**06/07/2012**	Alfred P. Morrissey		
Commission Set 1	Commission 1-34-ELEC	05/24/2012	**06/07/2012**	Alfred P. Morrissey		
Commission Set 1	Commission 1-35-ELEC/GAS	05/24/2012	**06/06/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-36-ELEC/GAS	05/24/2012	**06/07/2012**	Michael D. Laflamme	Att. COMM 1-36-ELEC/GAS	
Commission Set 1	Commission 1-37-GAS	05/24/2012	**06/07/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-38-ELEC	05/24/2012	**06/06/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-39-ELEC/GAS	05/24/2012	**06/07/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-40-ELEC/GAS	05/24/2012	**06/07/2012**	Ann E. Leary & Jeanne Lloyd	Att. COMM 1-40-ELEC/GAS	
Commission Set 1	Commission 1-41-ELEC/GAS	05/24/2012	**06/06/2012**	Robert B. Hevert		
Commission Set 1	Commission 1-42-ELEC/GAS	05/24/2012	**06/06/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-43-ELEC/GAS	05/24/2012	**06/06/2012**	Michael D. Laflamme		
Commission Set 1	Commission 1-44-ELEC/GAS	05/24/2012	**06/07/2012**	Maureen P. Heaphy	Att. COMM 1-44-ELEC/GAS	
Commission Set 1	Commission 1-45-ELEC/GAS	05/24/2012	**06/06/2012**	Stephen F. Doucette		
Commission Set 1	Commission 1-46-GAS	05/24/2012	**06/07/2012**	Ann E. Leary		

Division 3-1-ELEC/GAS

Request:

Please provide Narragansett Electric Company's ("NEC's" or "the Company's") balance of short-term debt and interest rate for each month, January 2011 – May 2012. If the Company has projections of short-term debt balances for the remainder of 2012, please provide.

Response:

Please refer to Attachment DIV 3-1-ELEC/GAS for the Company's balance of short-term debt and interest rate for each month, January 2011 through April 2012. The Company will provide the balance of short-term debt and interest rate for May 2012 when that information becomes available.

Projections of short-term debt balances for the remainder of 2012 are not available. The Company will provide monthly updates as this information becomes available.

On April 26, 2012, the Company submitted a financing petition to the Division seeking authorization to issue additional long-term debt, the proceeds from which the Company intends to use to pay down short-term debt.

The Narragansett Electric Company

Short-term Debt Balances ('000s)

	Balance	Rate
Jan-2011	19,625.00	0.25%
Feb-2011	50,000.00	0.25%
Mar-2011	24,000.00	0.25%
Apr-2011	49,600.00	0.19%
May-2011	25,100.00	0.16%
Jun-2011	45,075.00	0.16%
Jul-2011	64,150.00	0.14%
Aug-2011	57,350.00	0.17%
Sep-2011	87,225.00	0.18%
Oct-2011	113,150.00	0.09%
Nov-2011	133,675.00	0.10%
Dec-2011	168,950.00	0.17%
Jan-2012	173,075.00	0.20%
Feb-2012	177,050.00	0.21%
Mar-2012	197,350.00	0.21%
Apr-2012	194,425.00	0.19%

Division 3-7-ELEC/GAS

Request:

Please provide consolidated balance sheets at 12/31/11 for:

(a) National Grid USA;
(b) NEC; and
(c) National Grid PLC.

Response:

(a) Please see Attachment DIV 3-7-1-ELEC/GAS for National Grid USA's consolidated balance sheet.

(b) Please see Attachment DIV 3-7-2-ELEC/GAS for the consolidated balance sheet included in the FERC Form 1 Annual Report for 2011/Q4 FERC Form 1 for December 31, 2011, filed by The Narragansett Electric Company. This balance sheet is prepared in accordance with the FERC Uniform System of Accounts.

(c) Please see Attachment DIV 3-7-3-ELEC/GAS for the consolidated balance sheet of National Grid plc as of March 31, 2012. National Grid plc does not publicly file quarterly results and operates on a fiscal year ending March 31. In addition, National Grid plc prepares its financial statements in accordance with International Financial Reporting Standards in effect at the balance sheet date and with International Financial Reporting Interpretations Committee interpretations, as adopted by the European Union. Please note that National Grid plc reports in British pounds sterling.

Prepared by or under the supervision of: Michael D. Laflamme

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
ASSETS		
NET UTILITY PLANT		
PLANT ASSETS		
Utility Plant in Service	101000	27,858,795,752.23
Utility Plant in Service-ARO	101010	13,037,546.51
Elec Plant Leased to Others	104000	3,426,117.52
Prop Held for Future Use	105000	21,856,519.33
Completed Const not Classified	106000	1,444,374,079.86
Gas Stored Underground	117000	3,403,854.16
Common Plant in Service	118000	343,659,488.10
Utility Plant		29,688,553,357.71
Property Under Cap Leases	101100	14,002,733.78
Property under Capital Leases		14,002,733.78
Accum Deprec of Plant	108000	(10,693,147,849.47)
RWIP Reclass	108001	169,875,314.10
A/D PAM-Beg Bal-Depletion	108002	0.00
COR Accrual	108905	2,040,107.22
Accum Deprec of Plant-Elec/ARO	110000	(8,768,043.18)
Amort Plant-Intangible	111000	(471,497,139.71)
Accum Deprec of Plant-Other	119000	(166,565,544.59)
Accum Prov for Depreciation		(11,168,063,155.63)
Sub Total Plant Assets		**18,534,492,935.86**
Construction in Progress	107000	1,157,257,524.47
Capital Accrual CWIP-Additions	107135	44,660,642.06
Construction in Progress		1,201,918,166.53
TOTAL NET UTILITY PLANT		**19,736,411,102.39**
Goodwill NEES	114100	1,583,940,082.66
Goodwill EUA	114101	387,877,204.93
Goodwill NIMO	114102	1,278,993,645.10
Goodwill NEG	114103	235,058,056.39
Goodwill KeySpan	114104	4,022,375,424.18
Goodwill Rollforward	114900	(216,215,374.00)
GW Accum Amort	115000	(100,828,273.19)
GW Accum Amort Rollforward	115900	0.00
Goodwill, Net of Amortization		**7,191,200,766.07**
OTHER PROPERTY AND INVESTMENTS		
NET NONUTILITY PROPERTY		
Non-Utility Property Misc	121000	193,306,465.68
Non Utility Property		193,306,465.68
Depr Reserve-Non-Utility Plant	122000	(149,764,922.97)
Accum Prov for Depreciation-NU		(149,764,922.97)
Net Nonutility Property		**43,541,542.71**
Inv in Comm Stk-Assoc Co.	123110	(2,350,825.00)
Inv Equity Earn/Loss-Assoc Co.	123120	2,234,256.35
Inv in Sub Company-Divs/Misc	123130	6,894,114.60
Equity Investments		6,777,545.95
Oth Inv-Cash Surr Val-Life Ins	124000	131,034,290.45
Oth Inv-Cash Surr-Policy Loan	124001	(60,985,198.71)
Oth Inv-Miscellaneous	124002	(104,026,260.77)
Other Invest - Warren Land	124008	57,495.00
3rd Party Adds-Steuben	124011	1,513,270.70
3rd Party Adds-Millennium Pipe	124012	80,572,646.92
3rd Party Adds-Iroquois	124014	90,252,999.55
3rd Party Equity Earnings	124015	63,904,200.47
3rd Party Return of Capital	124016	(1,561,011.00)
3rd Party Dividends	124017	(71,349,018.00)
3rd Party Parent Guarantee	124018	(2,059,920.00)
3rd Party Share of OCI	124019	4,146,137.68
Oth Invest - Beg Bal.	124901	121,881,050.50
Other Investments		253,380,682.79
Rabbi Trust Investment	128000	160,891,246.34
EUA-Oth Spcl Fnds-Mndon Rd Lit	128001	(2,546,204.10)
SERP Trust Account	128003	103,381,121.80
Oth Invest-Beg Bal	128901	27,552,383.08
Other		289,278,547.12
Deriv Instr Assets-Long Term	175001	40,049,277.24
Deriv Instr Assets Debt > 1Yr	176002	1,110,548.74
Derivative Instrument Asset-LT		41,159,825.98
TOTAL OTHER PROPERTY AND INVESTMENTS		**634,138,144.55**
CURRENT ASSETS		
Cash-General Funds	131000	(60,877,871.63)
Cash Receipts Misc AR	131001	40,383,008.40
Cash-Outstanding Checks	131010	40,125,305.94
Cash Clearing CSS	131040	11,035,330.15
Cash		30,665,772.86
Special Deposits	134000	204,052,209.09
Other Special Deposits		204,052,209.09
Cash-Working Funds-General	135000	369,445.84
Working Funds		369,445.84
Temporary Cash Investments	136000	1,921,593.95
Temporary Cash Inv-Money Pool	136010	640,422,419.52
Temporary Cash Investments		642,344,013.47

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Customer AR	142000	1,199,250,439.86
Customer AR-Misc Billing	142001	735,515.32
Customer AR-Reserve	142002	(6,600,859.74)
Cust AR-Energy Non Assoc Co	142003	23,967,005.18
Cust AR-Accrued NEPOOL Trans	142004	34,264,096.81
Merchandise Jobbing Rec	142005	76,596.29
A/R Undr Collect-Default/LR Sv	142008	1,912,184.71
AR Under Collect-Transmission	142009	0.00
AR Under Collect-Access Charge	142010	491.01
AR Gift Certificates	142013	(6,023.12)
A/R NSF Chargeback	142015	1,029,837.57
A/R Cust CSS Shared Mtr Transf	142016	(215,375.21)
A/R-Under Collect-Basic Serv	142017	3,807,283.94
A/R-Inter Co Rcpts-Nimo	142018	85,980.57
Cust A/R-Service Work Orders	142020	7,933.57
Cust A/R Clear-Ref Chck Writer	142021	(5,167.84)
Oth A/R-Liheap DAC Contrib	142023	1,427,192.90
Oth A/R-DAC Coll-Syst Pressure	142024	40,145.53
A/R-Inter Co Rcpts-RI Gas	142026	(229,585.36)
A/R-Inter Co Rcpts-Keyspan	142027	0.00
Oth A/R-Lost Revenue Adj DAC	142028	0.00
Attorney General Consultant Ex	142031	230,137.91
Revenue Decoupling	142032	9,490,632.27
Basic Service Admin	142033	745,967.72
A/R REC Obligation	142035	46,078,176.19
NIMO-Gas Receivable	142305	1,204,566.56
NEP MA Yankee Decom Current	142307	3,525,000.00
NEP CT Yankee Decom Current	142308	6,495,900.00
NEP ME Yankee Decom Current	142309	1,555,600.00
EUA MA Yankee Decom Current	142404	528,750.00
EUA CT Yankee Decom Current	142405	1,948,770.00
EUA ME Yankee Decom Current	142406	311,120.00
KS R/A-GAC Imbalance	142500	12,073,997.95
KS R/A-LDAC Working Capital	142501	319,071.81
KS R/A-CGAC Working Capital	142502	(138,655.07)
KS R/A-Lost Margins	142503	632,319.00
Customer Accounts Receivable		1,344,549,046.33
Oth AR-Misc	143004	284,432,550.39
Misc AR-Hwy & Emp	143005	3,099,644.39
Oth A/R-Misc Srv Co	143007	313,025.76
Oth A/R-Union Billable Labor	143008	41,090.29
Oth A/R-LPI Reserve	143009	(826,705.42)
Commodity Settlement Rec <1Yr	143014	6,156,972.00
Sundries	143017	29,040.30
Oth A/R-Emp Ins Advance	143211	(63,545.26)
Oth A/R-Depndnt Care Odd Yr	143214	51,545.37
Oth A/R-Non Assoc	143215	170,132.93
Oth A/R-Health Care Spend Acct	143216	(239,969.84)
Transit&Park fund Legacy Grid	143218	(976.83)
Purch Pwr Reimbursed By USGen	143220	3,461,667.00
Oth A/R-AT&T Broadband	143223	16,030.27
Energy Supply	143225	3,391,618.92
A/R-Property Damage	143230	12,223,331.07
A/R Gas Sale for Resale	143231	4,209,863.30
A/R Wholesale Transmission	143232	9,087,940.13
A/R REMVAC	143233	439.53
A/R AC Reinforcement	143234	13,992.84
Employee Cash Advances	143342	128,070.09
A/R-Empl Home Conversion Loan	143343	684,150.16
Other A/R-Power Cr Disc-Cust	143351	(29,968.00)
Other A/R-NYPA Power Cr Disc	143352	705,800.81
Reclass-AR from Assoc-Non MP	146012	12,905.54
Other Accounts Receivable		327,068,645.74
Notes Receivable	141000	72,976.12
Notes Receivable-NGHI	141164	9,060,000.00
Customer Notes Receivable		9,132,976.12
Prov Uncoll Cust Accts	144000	(276,187,550.71)
Settlemnt Written-off Acct Exp	144001	858,047.30
LIPA Uncollectible Reserve	144002	21,722,047.60
Accum Bad Debt-Non-Gas	144005	(63,763.07)
Accum Bad Debt-PIPPs	144006	(1,858,855.73)
Bad Debt Exp - Misc Billing	144007	(8,224,082.55)
Reserve for Bad Debt Accrual	144010	(94,548,479.11)
Accum Prov for Uncoll Acc-Cr		(358,302,636.27)
Notes Rec NGUSA (Parent)	145001	(100,000,000.00)
Notes Rec MA Hydro-NEF	145006	0.00
Notes Rec NH Hydro-NEF	145008	0.00
Notes Rec from NM Holdings,Inc	145035	0.00
Notes Rec NMPC	145036	0.00
Notes Rec Narr Gas	145048	0.00
Notes Rec Assoc Co-MPool	145099	0.00
Notes Rec-Gas Portfolio Co	145423	0.22
Notes Rec-KS Corporation	145460	0.00
AR Assoc Co-MP-Nantucket	146204	0.00
AR Assoc Co-MP-MECO	146205	0.00

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
AR Assoc Co-MP-MA Hydro	146206	0.00
AR Assoc Co-MP-NH Hydro	146208	0.00
AR Assoc Co-MP-NEP	146210	0.00
AR Assoc Co-MP-NEET	146220	0.00
AR Assoc Co-MP-NMPC	146236	0.00
AR Assoc Co-MP-NARR	146249	0.00
NR From Associated Companies		(99,999,999.78)
AR Assoc Co-NGUSA (Parent)	146001	0.00
AR Assoc Co-Nantucket	146004	0.00
AR Assoc Co-MECO	146005	0.00
AR Assoc Co-MA Hydro	146006	0.00
AR Assoc Co-NH Hydro	146008	0.00
AR Assoc Co-NEP	146010	0.00
AR Assoc Co-NEET	146020	0.00
AR Assoc Co-NG Trans Serv	146021	0.00
AR Assoc Co-NiMo Holdings Inc	146035	0.00
AR Assoc Co-NMPC	146036	148.02
AR Assoc Co-Opinac NA	146037	0.00
AR Assoc Co-Default	146040	505.75
AR Assoc Co-Granite St. Elec	146041	0.00
AR Assoc Co-Narr Gas	146048	0.00
AR Assoc Co-Narr Elec	146049	0.00
AR Assoc Co-Wayfinder	146070	0.00
AR Assoc Co-Valley Appliance	146071	821,612.40
AR Assoc Co-Grid UK Billing	146072	31,550,938.33
AR Assoc Co-GridCom Cons	146079	1,564.14
AR Assoc Co-GridAmerica Hold	146082	0.00
AR Assoc Co-NEES Energy	146085	0.00
AR Assoc Co-EUA Energy Inv	146086	0.00
AR Assoc Co-AllEnergy	146090	0.00
AR Assoc Co-Prudence	146092	0.00
AR Assoc Co-Patience	146093	0.00
AR Assoc Co-Newport America	146094	0.00
AR Assoc Co-Metrowest Realty	146095	0.00
AR Assoc Co-NGUSA Service Co	146099	122,657.72
A/R Assoc Co-Boston Gas Co	146401	0.00
A/R Assoc Co-Essex Gas Co	146402	0.00
A/R Assoc Co-Colonial-Lowell	146403	0.00
A/R Assoc Co-Colonial-Cape Cod	146404	0.00
A/R Assoc Co-EnergyNorth Gas	146406	0.00
A/R Assoc Co-KS New Eng, LLC	146407	336,000.00
A/R Assoc Co-KS Money Pools	146429	9,159.58
A/R Assoc Co-KS Corp Services	146431	782,363.11
A/R Assoc Co-KS Utility Srvcs	146432	0.00
A/R Assoc Co-KS Eng Services	146433	0.00
A/R Assoc Co-KS Electric Srvcs	146434	0.00
A/R Assoc Co-KS Generation LLC	146435	0.00
A/R Assoc Co-KEDC HoldingsCorp	146436	0.00
A/R Assoc Co-Gas East-KEDLI	146437	402.62
A/R Assoc Co-BUG-KEDNY	146438	0.00
A/R Assoc Co-Ravenswood Inc.	146441	0.00
A/R Assoc Co-Ravenswood Srvcs	146442	0.00
A/R Assoc Co-KS Energy Trading	146444	0.01
A/R Assoc Co-Glenwood Energy	146446	0.00
A/R Assoc Co-Port Jeff Energy	146448	(0.01)
A/R Assoc Co-KS Energy Service	146457	0.00
A/R Assoc Co-KS Energy Supply	146458	0.00
A/R Assoc Co-KS Services, Inc.	146459	0.00
A/R Assoc Co-KS Corporation	146460	0.00
A/R Assoc Co-Seneca-Upshur	146471	0.00
A/R Assoc Co-NEast Trans Co	146551	0.01
A/R Assoc Co-KS NEast Ventures	146553	0.01
A/R Assoc Co-KS LNG LP Reg Ent	146554	0.00
A/R Assoc Co-Transgas Inc	146559	0.00
A/R Assoc Co-Northeast GasMrkt	146568	0.00
A/R Assoc Co-KS Insurance Co	146575	(0.10)
A/R Assoc Co-KS My Home Key	146578	0.01
AR Assoc Co-NGHI	146701	60.30
AR Assoc Co-NGUSLLC	146703	11.61
Accounts Rec Assoc Companies		33,625,423.51
Fuel Stock Oil Diesel	151000	63,633.20
Allowance Inventory	158100	31,844,556.63
Gas Stored Underground-Current	164000	416,655,196.67
Fuel Stock - Propane	164101	1,754,178.54
UG Storage-Liquefied Nat Gas	164200	50,284,889.85
Fuel		500,602,454.89
Materials & Supplies	154000	171,752,366.95
Materials&Supplies In Transit	154001	12,345.49
Obsolete Inventory Reserve	154005	(1,541,339.87)
Stores Clearing-Debit	163000	143,505.53
Stores Clearing Db Bill Pool	163010	12,788,761.79
Stores Clearing-Credit	163100	(12,777,368.86)
Plant Materials & Supplies		170,378,271.03
Prepaids	165000	192,632,759.19
Prepaid Insurance	165001	8,392,088.96

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Prepaid Employee Insurance	165002	1,297,383.99
Prepaid Taxes-Other	165003	8,937,262.12
Prepd Taxes-Mun-Property-Oper	165300	1,928,408.74
Prepd Taxes-NY-St/Cnty/Twn-Op	165301	0.00
Prepd Taxes-NY-City Tax-Op	165302	0.00
Prepayments		213,187,903.00
Interest Receivable-NGUSA-Elim	143001	0.00
Div Receiv-Assoc Co-MA Hydro	171006	0.00
Div Receiv-Assoc Co-NH Hydro	171008	0.00
Div Receiv-Assoc Co-NEET	171020	0.00
Int Rec Assoc Co-MPool	171210	0.00
Int Rec Assoc Co-MPool-NGUSA	171211	0.00
Int Rec Assoc Co-MPool-NMPC	171236	0.00
Int Rec-MA Hydro-NEF	171306	0.00
Int Rec-NH Hydro-NEF	171308	0.00
Int & Div Rec-Assoc Companies		0.00
Int Rec-NGG (US)	143003	2,609,161.00
Int & Div Rec-Non Assoc	171300	5,225.68
Interest & Dividends Rec		2,614,386.68
Rents Receivable	172000	17,433,993.40
Rentals - NEG	172001	413.01
Rents Receivable		17,434,406.41
Unbilled Revenue-Electric	173000	682,804,419.06
Unbilled Revenue-Gas	173001	18,741,000.00
Access Unbilled Revenue	173002	(15,000.00)
Commodity Unbilled Revenue	173003	68,639,308.00
DSM Unbilled Revenue	173004	10,053,316.00
Transmission Unbilled Revenue	173005	23,495,108.00
Unbilled Revenue		803,718,151.06
Misc Curr and Accrued Assets	174000	10,852,182.03
Curr and Accrued Assets-Deriv	174001	0.00
Deferred Global ERP	174002	(57,869.62)
Solar REC Accrual	174003	875,560.00
Misc. Curr and Accrued Assets		11,669,872.41
Deriv Instr Assets-Current	175000	(0.01)
Deriv Instr Assets- Gas Supply	175005	2,207,838.96
Deriv Instr Assets Hedges-Curr	176000	3,240,870.80
Current Asset-Derivatives	176003	32,107,163.71
Deriv Instr Assets Debt < 1Yr	176005	1,893,396.21
Derivative Instrument Assets		39,449,269.67
Asset Held for Sale	179000	0.00
Assets Held for Sale		0.00
TOTAL CURRENT ASSETS		**3,892,559,612.06**
REGULATORY ASSETS		
Non-approved Storm Costs	182300	133,733,079.54
Lease Income	182303	783,332.44
Environmental Response Fund	182305	668,342,480.41
Storm Costs	182306	19,125,486.07
Contract Termination Chg Fixed	182310	23,624,931.68
Def Pension/FAS 106 Amort	182316	(36,226,526.00)
Post 12/1/98 Stranded Invest	182317	3,468,170.97
EUA-Mendon Rd Litigation-RI	182320	0.00
GSE DSIT Deficiency	182322	0.00
Std Offer Undr Coll LT Portion	182323	407,698.00
Enhanced Severance Plan	182324	0.00
AML Reg Asset	182326	(13,794,704.57)
Hazardous Waste Sites Reserve	182327	6,099,651.47
Pension Settlement Loss FY2003	182328	0.00
NECO 2003 VERO Deferral	182330	5,022,349.00
Pch Pwr Pymnt Oblig-Saugus	182334	50,100,863.98
Pch Pwr Pymnt Oblig-Millbury	182335	121,068,382.02
Pch Pwr Pymnt Oblig-Lawrence	182336	0.00
MA Dflt/Dist Rev Adj Var	182339	312,497.66
Retro Discount - R2	182342	0.00
Asset Ret Oblig Reg Asset	182343	49,672,643.48
Residential Assist Adj Factor	182344	4,919,672.10
Y2K Expense	182348	1,215,432.55
Nantucket 2nd Cable Deferral	182351	357,778.95
KS-ESCO HEFPA	182352	6,086,452.66
KS-Deferred Property Taxes	182354	(26,522,656.38)
KS-TBA - Special Franchise	182355	8,715,183.54
KS-Exp Related to Prop Sales	182357	459,456.73
KS-Income Taxes	182359	1,062,109.66
KS-Derivative MTM Reg Asset	182360	82,739,910.00
KS-Deriv Settlement Reg Asset	182361	22,923,097.00
KS-Deriv-Gas Contract-RegAsset	182362	43,015,412.17
KS-MGP Insurance Cost Recovery	182364	1,117,105,875.55
NEG & KeySpan CTA	182365	41,435,925.31
KS-Special Franchise Post 07	182366	7,412,869.68
KS-Interest on Def Reg Assets	182367	148,164,160.51
KS-Def Property Taxes Post 07	182368	27,497,937.60
KS-Rate Mitigation	182369	30,001,089.12
Gas Futures - Gas Supply	182370	78,354,236.77
Elec Swaps-Elec Supply	182371	20,254,433.00

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
KS-MA AG Costs	182372	20,250.00
KS-Capital Tracker	182374	41,004,000.00
Temp State Assessment 18-A	182375	19,102,702.31
Storm Recovery 2008 Ice Storm	182377	22,233,336.27
Rate Case Expense	182378	2,398,210.68
Cost to Achieve	182380	(856,202.73)
KS-Colonial Merger Savings	182382	225,655,092.00
Medicare Act tax benefit defer	182385	11,468,755.82
FAS158-Pension	182458	796,690,982.14
FAS158-OPEB	182459	347,662,808.16
NIMO Debt True up - Electric	182488	423,884.97
EUA - McNeil Unit Obligation	182490	3,605,877.93
NIMO Def Sum Case 10-E-0050	182492	236,145,959.58
NIMO MFC - Electric	182494	949,637.97
NIMO-Fuel Costs Deferred	182501	924,400.00
NIMO-GAC Surchrg/Refnd Adj Def	182502	26,944,998.88
NIMO-RPS Program Cost Deferred	182503	0.00
NIMO-Excs AFDC Elec Plt in Srv	182504	196,258.38
NIMO-Oth Postretire Benef-Elec	182510	3,250,638.81
NIMO-Oth Postretire Benef-Gas	182511	0.00
NYAFUDC-Elec Plnt in Sv(91-96)	182514	518,002.31
PFJ Tax Credit	182515	0.00
NIMO Case 08-G-0609 JP Amort	182519	8,104,522.90
NIMO-Customer Serv Backout Cr	182521	0.00
NY-NYPA Tran Access Chrg(NTAC)	182525	0.00
NIMO-NYISO Tariff Sched 1 Cost	182526	0.00
NIMO-NYISO Tariff Sched 2 Cost	182527	0.00
NY-Fssl/Hyd Auctn Incent(Dist)	182529	0.00
80/20 Rev Sharing Mechanism	182533	575,765.53
SIR Expenditures Def-Gas	182537	0.00
NIMO-Transm Revenue Adj Clause	182541	0.00
Elevated Voltage Deferral	182545	0.00
Low Income Allow Discount Prog	182546	0.00
NY-Cust Sv Bckout Cr 9/01-8/03	182547	0.00
NY-Electr Data Interchnge Cost	182549	0.00
Pension/FAS106 Purch Acctg Adj	182550	33,666,169.58
NY Merger Empl Separation Cost	182551	0.00
NY Merger Rate Plan Strnd Cost	182552	0.00
Pension Exp Deferred-Electric	182553	21,026,893.03
OPEB Exp Deferred-Electric	182554	0.00
Religious Rate Revenue	182555	0.00
NIMO City of Buffalo Settlemnt	182556	0.00
SC7 Standby Service Lost Rev	182558	0.00
SIR Expenditures Deferred Elec	182559	0.00
Generation Stranded Cost Adj	182560	1,161,790.18
OPEB Expense Deferred-Gas	182561	177,573,419.66
Pension Exp Deferred-Gas	182562	76,432,712.12
Incent Return on Ret Funding	182563	122,490.25
NIMO-Amort of Defer Recoveries	182565	0.00
Gas Millenium Fund Deferral	182566	171,834.15
Reserve Pension/FAS 106 amort	182567	17,623,257.00
RDM Revenue Decoupling	182573	23,139,676.76
NIMO-Low Income Program	182574	2,601,524.07
Misc Regulatory Assets		4,747,478,361.38
KS R/A-LDAC Costs	175002	(1,198,549.64)
KS R/A-CGAC Costs - Peak	175003	37,865,012.72
KS R/A-CGAC Costs - Off Peak	175004	12,529,877.52
KS R/A-Environmental-Materials	186201	100,881,169.14
KS R/A-Environmental-Purch Gas	186203	18,748,147.49
KS R/A-Energy Efficiency Prog	186208	(30,411,152.73)
KS R/A-Transition Obligation	186209	8,067,985.99
KS R/A-Interest Sys Benefit Ch	186211	(4,910,703.47)
KS R/A-OffSys Sales-Profit Def	186212	(2,938,166.58)
KS R/A-Def GRI Surcharge/Exp	186213	703,347.07
KS R/A-Deferred Gas Cost	186214	(5,636,274.92)
KS R/A-Def Int GAC/MrktPenalty	186215	(2,880,638.27)
KS R/A-MerchantFunction Charge	186216	827,622.34
KS R/A-TC IT Sharing LI	186217	(13,274,719.53)
KS R/A-PowerPlant VAC Trsp Rev	186218	(6,982,450.05)
KS R/A-LIPA Transp Credits	186219	(1,038,665.06)
KS R/A-FAS 109	186220	(26,174,549.92)
KS R/A-Pension & Ben Res Def	186221	2,426,227.97
KS R/A-FAS 106 Reg Asset	186222	(2,429,112.04)
KS R/A-Low Income Subsidy	186241	(8,133,600.34)
KS R/A-Interest LowInc Subsidy	186242	(2,548,541.85)
KS R/A-Deferred TC Penalty Chg	186243	(49,297.71)
Other KeySpan Reg Assets		73,442,968.13
MA Yankee-Decommissioning	182307	16,936,541.00
CT Yankee-Decommissioning	182308	22,480,586.70
ME Yankee-Decommissioning	182309	10,124,354.73
EUA-Yankee Atomic Decomm	182404	2,540,481.15
EUA-Conn Yankee Decomm	182405	6,744,176.01
EUA-Maine Yankee Decomm	182406	2,024,870.95
Yankee Decomm Costs		60,851,010.54
Extraordinary Property Losses		0.00

Regulatory Consolidating Balance Sheet

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NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
FAS 109	182302	264,718,033.51
NIMO-SFAS 109-State Reg Asset	182530	(76,330,661.18)
FAS 109-Reclass	254001	(87,025,857.00)
FAS 109		101,361,515.33
Unamort Loss Reacquired Debt	189000	35,211,386.65
Loss on Reacquired Debt		35,211,386.65
TOTAL REGULATORY ASSETS		**5,018,345,242.03**
OTHER DEFERRED DEBITS		
Unamortized Debt Expense	181000	54,728,785.49
Unamortized Debt Expense		54,728,785.49
Prelim Survey & Investigation	183000	6,428,269.87
PrelimSurvey&Investigation-Gas	183100	118,235.66
Prelim Survey & Investigation		6,546,505.53
CLEARING ACCOUNTS		
COMMUNICATION EXPENSES		
Communication Expenses-Debit	184030	250,036.82
Communcation Exp-Debit		250,036.82
Communication Exp-Credit	184329	(152,291.13)
Communication Expense-Credit		(152,291.13)
SUBTOTAL COMMUNICATION EXPENSES		97,745.69
Other Clearing	184000	551,563.29
Building Service Expense	184010	0.00
Pymts TNW-Vacation	184101	44,164,004.25
Pymts TNW-Holiday	184102	18,976,838.21
Pymts TNW-Sickness	184103	12,220,530.50
Pymts TNW-Personal	184104	402,008.45
Pymts TNW-Military Duty	184106	113,139.99
Pymts TNW-Jury Duty	184107	164,328.42
Pymts TNW-Rest Time	184108	4,772,821.20
Pymts TNW-Weather	184110	1,196,399.23
Pymts TNW-Funeral	184111	783,897.43
Pymts TNW-Employ Related Injur	184112	1,615,803.49
TNW-Clearing Operating	184118	(91,854,801.15)
Inventory Clearing	184501	(2,525.35)
Pay for Time Not Worked		(6,895,992.04)
TRANSPORTATION EXPENSES		
Transp Exp-DR-Clearing Only	184020	67,898,985.65
Transportation Exp-Debit	184200	1,070,909.90
Transportation Expenses-Debit		68,969,895.55
Transportation Exp-Credit	184230	(64,951,180.95)
Transportation Expenses-Credit		(64,951,180.95)
SUBTOTAL TRANSPORTATION EXPENSES		4,018,714.60
SUBTOTAL CLEARING ACCOUNTS		**(2,779,531.76)**
Temporary Facilities	185000	237,214.17
Def Dr-Prop Investment	186200	530,847.70
KS-Deriv Gas Cont-Reg-LT	186223	44,101,672.53
KS-Deriv MTM Non Reg-LT	186224	0.17
KS-Deriv MTM Regulated-LT	186225	0.00
KS-Deferred Charges - DDE	186227	7,857,065.72
KS-Energy&AreaDev Loan Inv	186228	1,714,016.34
Def Dr-99 FAS158-Pension-Tax	186358	0.00
Def Dr-99 FAS158-OPEB-Tax	186359	0.00
Prov Tx Settle-Amort 2007-2012	186400	875,135.20
Def Dr-99 FAS158-Pension-Gross	186458	0.00
Def Dr-99 FAS158-OPEB-Gross	186459	0.00
NIMO-NYPA TriLakes	186504	0.00
NYPA Breakers Agreement	186506	7,000,000.00
Def Dr-Cash Overs & Shorts	186610	(4,054,370.67)
Def Dr-Payroll Suspense	186611	1,740.43
Def Dr-Misc	186612	102,024,357.77
Def Dr-Construction Advance	186613	614,623.03
Suspense-KeySpan	186647	44,303.90
Suspense-KeySpan EPM Mapping	186648	673,443.84
Suspense-EX	186652	(133.45)
Suspense-ONL	186656	0.73
Suspense-AP	186658	64,861.23
Suspense-Allocations	186664	(3,901.89)
Suspense-Consolidations	186665	(3,741.25)
IT Projects - Banker's Lease	186712	56,881.50
SvcCo Equity Assoc Co-ClrAcct	186800	38.66
SvcCo Oper Costs-ClrAcct	186802	387,731.63
SvcCo Payroll Taxes-ClrAcct	186803	1,843,654.31
SvcCo Group Insurance-ClrAcct	186804	97,157.32
SvcCo Health Care-ClrAcct	186805	(249,763.41)
SvcCo Pensions-ClrAcct	186806	345,395.77
SvcCo Post-Ret Health-ClrAcct	186807	(1,079,485.58)
SvcCo Post Employment-ClrAcct	186808	1,203,848.59
SvcCo Thift-ClrAcct	186809	(69,441.49)
SvcCo Injuries&Damages-ClrAcct	186810	159,847.66
Pension Prov - Beg Bal	186901	0.00
Goodwill - Start of Period	186921	0.00
Goodwill - At Acquis	186924	0.00
Goodwill - Other Movements	186926	(39,111,040.00)
Goodwill AA - Start of Period	186928	0.00

Regulatory Consolidating Balance Sheet

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NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Other Intangibles-Beg Bal	186934	445,427.82
Oth Intan Amort-Beg Bal	186938	(72,830.77)
Oth Intan Amort-Additions	186940	(266,581.11)
Other Intangibles-Prior Yr Adj	186942	(2,561,920.45)
Oth Intan Amort-Prior Yr Adj	186943	1,447,770.04
Misc Def Dr-Exp Property Sales	186970	188,053.73
Research & Development	188000	219,080.42
Miscellaneous Deferred Debits		124,660,960.14
ACCUMULATED DEFERRED INCOME TAX		
ADFIT-Hedging	190113	21,482,082.37
ADFIT-EUA-Prop Tax Disallowed	190115	0.00
ADFIT-EUA-Def Revenue	190123	0.00
ADFIT-Pension-OCI	190158	164,468,828.71
ADFIT-OPEB-OCI	190159	(49,421,587.29)
ADFIT-OCI-Investments	190161	12,067,574.77
ADFIT-OCI-Hedging	190162	479,182.20
ADIT- FIT on SIT	190300	174,971,563.50
ADFIT-Reserve-State FIN 48	190301	50,882,109.22
ADIT-FIT on SIT-OCI	190302	(12,121,475.18)
ADFIT-NIMO-Statutory Rate	190350	0.00
ADFIT-NIMO-FAS 109	190353	(1,003,100.00)
ADFIT-FAS 109	190400	11,223,565.22
ADFIT-Lib Depreciation	190401	0.00
ADFIT-Vacation Accrual	190405	772,842.00
ADFIT-Bad Debt Reserve	190407	125,514,028.31
ADFIT-Unbilled Revenue	190408	36,850,555.50
ADFIT-Pension Liability	190412	266,167,627.20
ADFIT-Reserve-Environmental	190416	497,427,891.23
ADFIT-Deferred Compensation	190419	38,721,618.90
ADFIT-Employee Comp & Benefits	190423	68,711,749.72
ADFIT-SalesTax Disposition	190424	392,242.00
ADFIT-Decomm/Nuclear Cost Prov	190425	22,541,929.98
ADFIT-Supplemental Pension	190426	(48,767.00)
ADFIT-Emissions Allowance	190430	(1,538,127.17)
ADFIT-ITC Amortization	190434	(11,475.74)
ADFIT-Reg Liability-Other	190435	123,488,402.04
ADFIT-Goodwill and Intangibles	190438	11,356,690.96
ADFIT Seabrook AFDC Reserve	190455	3,326,675.00
ADFIT-Reserves-Other	190456	30,386,585.04
ADFIT-Def Comp Pensions	190462	(3,558,408.00)
ADFIT-Other	190466	(24,394,849.48)
ADFIT-OPEB Liability	190470	549,568,770.58
ADFIT-Net Operating Loss	190473	161,040,732.18
ADFIT-ARO Accretion Income	190476	(0.26)
ADFIT-Accrued Interest	190480	29,394,969.81
FIT on SIT	190481	0.00
Accum Deferred Fed Income Tax		2,309,140,426.32
ADSIT-Hedging	190213	(4,224,648.24)
ADSIT-Pension-OCI	190258	36,302,940.73
ADSIT-OPEB-OCI	190259	(3,864,709.81)
ADSIT-OCI-Hedging	190262	(139,540.00)
ADSIT-FAS 109	190700	2,803,696.00
ADSIT-Lib Depreciation	190701	0.00
ADSIT-Goodwill and Intangibles	190702	58,472.00
ADSIT-MA Unitary Def Tax Asset	190705	306,088.00
ADSIT-Bad Debt Reserve	190707	24,268,790.46
ADSIT-Unbilled Revenue	190708	3,348,139.60
ADSIT-Cont in Aid of Construct	190709	0.00
ADSIT-Pension Liability	190712	31,672,787.96
ADSIT-Reserve-Environmental	190716	100,749,263.79
ADSIT-Deferred Incent Comp	190718	0.00
ADSIT-Deferred Compensation	190719	1,577,920.12
ADSIT-Employee Comp & Benefits	190723	12,953,089.68
ADSIT-Decomm/Nuclear Cost Prov	190725	3,765,145.33
ADSIT-Emissions Allowance	190730	(391,124.19)
ADSIT-Reg Liability-Other	190735	28,740,159.07
ADSIT-Goodwill and Intangibles	190738	165,932.26
ADSIT-ITC Amortization	190744	(2,131.57)
ADSIT-Reserve-Other	190756	636,816.12
ADSIT-OPEB Liability	190770	89,677,661.99
ADSIT-Net Operating Loss	190773	681,572.21
ADSIT-Valuation Allowance	190774	0.00
ADSIT-Other	190776	(6,002,479.44)
ADSIT-Accrued Interest	190780	5,835,386.79
Deferred Tax Rllfrwrd-Contra	190900	129,584.80
Deferred Tax Prov-Beg Balance	190901	1,942,520.00
Deferred Tax Prov-Chrg to P&L	190902	(129,584.80)
Deferred Tax Prov-Oth Movement	190907	(1,942,520.00)
Accum Deferred State Income Tx		328,919,228.86
SUBTOTAL ACCUM DEF FIT & SIT		**2,638,059,655.18**
TOTAL DEFERRED DEBITS		**2,821,216,374.58**
TOTAL ASSETS		**39,293,871,241.69**

CAPITALIZATION & LIABILITIES
CAPITALIZATION

Regulatory Consolidating Balance Sheet

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NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
COMMON EQUITY		
Comm Stk Issued	201000	0.00
Comm Stk-Issued	201001	0.00
Comm Stk-MA Hydro-NEF	201006	0.00
Comm Stk-NH Hydro-NEF	201008	0.00
Comm Stk-NGUSA Parent	201009	155.60
Comm Stk Cl A-NGUSA	201010	0.00
Common Stock-Niagara Companies	201100	0.00
Minority Int-Beg Bal	201191	(26.70)
Minority Int-Other Movement	201192	(64.80)
Common Stock		64.10
Prem on Capital Stock-Common	207021	0.00
Prem on Cap Stk-Common	207200	0.00
Prem Com Stk-Cl A-NGUSA	207210	0.00
Share Premium-Beg Bal	207291	(2,091,136,965.30)
Share Premium-Other Movement	207292	(5,505,909,616.00)
Premium on Capital Stock		(7,597,046,581.30)
Surp Donation from Stkholders	208000	0.00
Donation Rec from Stockholders	208001	0.00
Surp Donatn Cl A-NEES	208010	0.00
Gain on Capital Stock	210100	0.00
Surp-Misc Paid in Capital	211000	(899.38)
Surp-Misc Pd in Cap-NGUSA Prnt	211001	6,008,499,678.55
Misc Pd in Cap-NGHI/Ravenswood	211002	15,000,000.00
APIC-MA Hydro-NEF	211006	0.00
APIC-NH Hydro-NEF	211008	0.00
Surp-Misc Paid in Cap-Niagara	211100	0.00
Other Reserve Rollfrwrd-Contra	211190	(7,099,045,386.15)
Other Reserve - Beg Bal	211191	7,099,045,386.15
OPIC Pref-Beg Balance-NGUSA	211941	2,091,136,965.30
OPIC Pref-Oth Movements-NGUSA	211947	5,505,909,616.00
OPIC-Beg Balance-NGHINCD	211951	7,019,980,000.00
Other Paid-in Capital		20,640,525,360.47
Appropriated Retained Earnings		0.00
Approp Ret Earn-Amort Res Fed		0.00
Unappropriated Retained Earn		3,886,640,419.25
Unapprop Undistr Sub Earn	216100	(296,690.07)
Unapprop Undistr Sub Earn	216101	(1,499,208,262.59)
P&L Reserve Rollfrwrd-Contra	216190	(648,166,747.77)
P&L Reserve-Beg Bal	216191	648,463,437.54
Unapprop Retained Earnings		(1,499,208,262.89)
OCI Unreal App/Dep Invst NGUSA	219000	(7,696,737.70)
OCI Unreal Apprec on Inv-Elim	219001	(28,795,452.98)
OCIUnreal Apprec on Inv-ElimNY	219008	0.00
OCI Investments-Taxation	219161	10,241,068.52
OCI Unreal Apprec Inv-Beg Bal	219291	(1,440,309.77)
OCI Unrealzd Apprec/Depr Inv		(27,691,431.93)
OCI Hedging - Gain/Loss-NGUSA	219004	(0.02)
OCI Hedging-Gain/Loss-Elim	219005	3,901,673.03
OCI Hedging-Taxation	219162	1,449,444.42
OCI Hedge Gain Loss-Beg Bal	219391	2,699,121.43
OCI Hedge G/L-CFHedge FVGain	219393	13,652,348.53
OCI Hedging - Gain/Loss		21,702,587.39
OCI Additional Min Pens Liab	219010	5,183,729.87
OCI Add Min Pens Liab-Elim	219011	0.00
OCI Add Min Pens Liab-Elim NY	219012	0.00
OCI FAS158-Pension	219058	(411,820,157.45)
OCI FAS158-OPEB	219059	(154,828,515.59)
OCI FAS158-Pension-Taxation	219158	(83,525,606.47)
OCI FAS158-OPEB-Taxation	219159	(16,386,030.83)
OCI Min Pens Liab - Beg Bal	219191	(1,258,811.66)
OCI-Pensions/OPEBs		(662,635,392.13)
TOTAL COMMON EQUITY		**14,762,286,762.96**
Notes Payable-NGUSA	223000	0.00
Notes Payable to NGUSA		0.00
Comm Stk Issued-Reclass	201002	424,260.10
Prem on Cap Stock-Com-Reclass	207022	12,686,826.74
Donation Rec Stkhldrs-Reclass	208002	(4,474,730.35)
Minority Interest-Reclass	214001	1,738,599.65
Minority Int Div - Reclass	438008	(1,025,078.40)
Minority Interests		9,349,877.74
Preferred Stk	204000	34,809,350.00
Preferred Stk-GSSH	204001	3.00
Pref Stock-Beg Bal-NGUSA	204941	26.70
Pref Stock-Oth Movements-NGUSA	204947	64.80
Preferred Stock		34,809,444.50
LONG TERM DEBT		
LTD-Bonds	221100	5,230,694,000.00
LTD-NE Hydro Finance	221101	11,630,000.00
Notes Payable-NEF	223007	3,360,000.00
NP-Advance from NIMO Holdings	223035	0.00
Long Term Debt	224000	2,550,724,779.46
Long Term Debt		7,796,408,779.46

Regulatory Consolidating Balance Sheet

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NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Unamortized Discount on LTD	226000	1,188,168.78
Unamort Prem&Disc on LTD		1,188,168.78
TOTAL LONG TERM DEBT		**7,797,596,948.24**
TOTAL CAPITALIZATION		**22,604,043,033.44**
CURRENT LIABILITIES		
LTD Due in One Yr	221200	12,804,615.68
LTD Due in One Yr-Hydros	221201	0.00
LTD Due in One Yr-NE Hydro Fin	221202	5,520,000.00
Long Term Debt Due in One Yr	224100	200,385.64
LTD Due in One Year		18,525,001.32
Commercial Paper	231000	154,488,899.42
Commercial Paper		154,488,899.42
A/P-Customer Overpayments	232030	4,039,702.62
A/P-Customer Refunds	232031	772,170.50
A/P-Audited Vouchers	232100	121,902,806.44
A/P-Bank Checks Outstanding	232102	53,338,298.54
A/P-M & S Receipts	232103	43,424,633.48
A/P-Audited Voucher-Payroll	232104	10,679,121.52
A/P-Wheeling Accrual	232105	338,350.00
A/P-Clear Cash Receipt Disburs	232108	(0.01)
A/P-Exceptional Payments	232110	(11,934,990.75)
A/P Exceptional Payments-NGG	232111	63,013,110.23
A/P-NonAssocCo-Energy Supplier	232117	17,673,005.60
A/P-Gas Supply	232118	23,740,975.50
A/P-Purchased Power	232119	178,065,326.72
A/P-Liab Control Acct for CSS	232120	25,345.10
A/P-Staples	232121	(580,085.63)
A/P-Bank1	232122	(4,642,965.71)
A/P-Empl Deduct-Union Dues	232300	172,714.57
A/P-Empl Deduct-Savings Bonds	232301	131.08
A/P-Empl Deduct-Cred Union	232302	6,938.34
A/P-Empl Deduct-Charity Org	232303	6,525.55
A/P-Empl Deduct-Uniform Serv	232304	(2,647.76)
A/P-Empl Deduct-Thrift Plan	232305	674,178.35
A/P-Empl Deduct-Empl Assoc	232306	1,442.61
A/P-Empl Deduct-Auto Ins	232308	514.67
A/P-Thrift Loan	232309	176,666.83
A/P-Misc Employee Withholding	232311	6,389,485.81
A/P-Gym	232312	596.31
A/P-Empl Deduct-Stock Purchase	232314	485,925.43
A/P Power Cr Dist-Communities	232353	199,491.67
A/P-Other Cash Receipts	232401	273,632.16
A/P-Commit Fee-Line of Cr	232402	492,877.25
A/P-Group Insurance	232405	460,000.00
A/P-Work Comp Claims	232406	8,140,925.44
A/P-Current Reserve	232408	(11,500.00)
A/P-Escheat-Msc Exp&Dr Trm Sls	232412	216,110.34
A/P-As Agent for STN	232414	0.00
A/P-Escheat-Unclaimed Cust Cr	232415	(18,273.06)
A/P-Employee Expense Liab	232430	20,834.84
A/P-Purch Power Accrl	232431	9,606,042.72
ISO NE AP	232437	60,438,970.71
A/P-Unpaid Invoice Accrual	232438	521,750,615.59
A/P-Unpaid Legal Invoice Accrl	232440	1,301,951.05
A/P-UK Inpats Accrual	232444	28,915,218.93
AR Corporate Center Cost Rchrg	232446	0.00
A/P-Renewables	232450	15,519,002.25
A/P-System Benefit Charge	232451	24,245,301.03
A/P-Ravenswood Divestiture	232458	(37,864,955.80)
A/P Gas Purchases	232700	62,549,180.12
A/P Derivatives	232710	0.00
Current Liab-Derivatives	232711	0.41
A/P-Assoc Co Cust-Reclass	234200	575.92
Accounts Payable		1,204,003,277.51
N/P Assoc Co-NGUSA	233001	0.00
N/P Assoc Co-NEP	233010	0.00
N/P Assoc Co-NEET	233020	0.00
N/P Assoc Co-NiMo Holdings	233035	0.00
N/P Assoc Co-Granite St. Elec	233041	0.00
N/P Assoc Co-Narr Elec	233049	0.00
N/P Assoc Co - Wayfinder	233070	0.00
N/P Assoc Co-Grid Billing	233072	1,000,000,000.00
N/P Assoc Co-Unit 40	233073	0.00
N/P Assoc Co-EUA Energy Inv	233086	0.00
N/P Assoc Co - Metrowest	233095	0.00
N/P Assoc Co-M Pool	233099	(100,000,000.00)
Notes Payable to NGHI	233164	0.00
N/P Assoc Co-KS Corp Hold Co	233460	(45.63)
N/P to Assoc Companies		899,999,954.37
A/P Assoc Co-NGUSA (Parent)	234001	0.00
A/P Assoc Co-Nantucket Elec	234004	0.00
A/P Assoc Co-MECO	234005	336,000.00
A/P Assoc Co-MA Hydro	234006	0.00
A/P Assoc Co-NH Hydro	234008	0.00

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
A/P Assoc Co-NEP	234010	0.00
A/P Assoc Co-NEET	234020	0.00
A/P Assoc Co-NG Trans Services	234021	0.00
A/P Assoc Co-NiMo Holdings Inc	234035	0.00
A/P Assoc Co-NMPC	234036	0.00
A/P Assoc Co-Opinac NA	234037	0.00
A/P Assoc Co-Default	234040	906.10
A/P Assoc Co-Granite St. Elec	234041	0.00
A/P Assoc Co-Narr Gas	234048	0.00
A/P Assoc Co-Narr Elec	234049	0.00
A/P Assoc Co-Wayfinder	234070	0.00
A/P Assoc Co-Valley Appliance	234071	444,206.95
A/P Assoc Co-Grid UK Billing	234072	1,988,602.60
A/P Assoc Co-GridAmerica Hold	234082	0.00
A/P Assoc Co-NEES Energy	234085	0.00
A/P Assoc Co-EUA Energy Inv	234086	0.00
A/P Assoc Co-Prudence	234092	0.00
A/P Assoc Co-Patience	234093	148.02
A/P Assoc Co-Newport America	234094	0.00
A/P Assoc Co-Metrowest Realty	234095	0.00
A/P Assoc Co-NGUSA Service Co	234099	0.00
A/P Assoc Co Cust-Nant Elec	234204	0.00
A/P Assoc Co Cust-MECO	234205	0.00
A/P Assoc Co Cust-Granite St	234241	0.00
A/P Assoc Co Cust-NARR	234249	0.00
A/P Assoc Co-Boston Gas Co	234401	0.00
A/P Assoc Co-Essex Gas Co	234402	0.00
A/P Assoc Co-Colonial-Lowell	234403	0.00
A/P Assoc Co-Colonial-Cape Cod	234404	0.00
A/P Assoc Co-Colonial Admin	234405	0.00
A/P Assoc Co-EnergyNorth Gas	234406	0.00
A/P Assoc Co-KS New Eng, LLC	234407	0.00
A/P Assoc Co-KS Corp Services	234431	724,514.19
A/P Assoc Co-KS Utility Srvcs	234432	5,066.20
A/P Assoc Co-KS Eng Services	234433	5,927.29
A/P Assoc Co-KS Electric Srvcs	234434	0.00
A/P Assoc Co-KS Generation LLC	234435	42,701.90
A/P Assoc Co-KEDC HoldingsCorp	234436	0.31
A/P Assoc Co-Gas East-KEDLI	234437	45,312.55
A/P Assoc Co-BUG-KEDNY	234438	12.76
A/P Assoc Co-KS Energy Trading	234444	0.00
A/P Assoc Co-Glenwood Energy	234446	846.46
A/P Assoc Co-Port Jeff Energy	234448	1,192.14
A/P Assoc Co-KS Services, Inc.	234459	11,683.90
A/P Assoc Co-KS Corporation	234460	117,627.45
A/P Assoc Co-KSE Corp-WestHold	234461	(0.01)
A/P Assoc Co-Seneca-Upshur	234471	2,695.09
A/P Assoc Co-Home Energy Srvcs	234502	0.00
A/P Assoc Co-KSEnergy Solution	234504	0.00
A/P Assoc Co-Fritze LLC	234506	(1,213.10)
A/P Assoc Co-KS LNG LP Reg Ent	234554	0.00
A/P Assoc Co-Transgas Inc	234559	0.00
A/P Assoc Co-KS C.I. I, LTD	234564	8,640.83
A/P Assoc Co-KS LNG LP, LLC	234570	0.00
A/P Assoc Co-Nicodama Beheer	234573	518.75
A/P Assoc Co-KS My Home Key	234578	0.00
AP to Associated Companies		3,735,390.38
Customer Deposits	235000	116,055,442.92
Customer Deposits		116,055,442.92
TAXES ACCRUED-FIT & SIT		
Taxes Accr-Federal Inc-Curr Yr	236100	59,521,305.70
Taxes Accr-Federal Inc-Curr Yr	236101	(35,695,367.00)
Taxes Accr-Federal Inc-PriorYr	236200	(65,039,083.32)
Taxes Accrued - Fed Inc		(41,213,144.62)
Tx Accr-St Franch-MA	236401	7,271,845.85
Tx Accr-St Franch-NH	236402	(475,315.85)
Tx Accr-St Franch-RI	236403	(93,768.42)
Tx Accr-St Franch-VT	236404	90,337.69
Tx Accr-St Franch-CT	236405	(1,371,329.12)
Tx Accr-St Franch-ME	236406	(155,573.95)
Tx Accr-St Franch-Wash DC	236407	(12,657.23)
Tx Accr-St Franch-PA	236408	(5,479.00)
Tx Accr-St Franch-WV	236410	(40,000.00)
Tx Accr-St Franch-MA Pr Yr	236411	(11,056,370.13)
Tx Accr-St Franch-MD	236412	(8,547.44)
Tx Accr-St Franch-OH	236414	(9,836.55)
Tx Accr-St Franch-NC	236415	(1,049.30)
Tx Accr-St Franch-GA	236416	(7,800.00)
Tx Accr-St Franch-NY	236417	32,630,006.89
Tx Accr-St Franch-OR	236419	(20.00)
Tx Accr-St Franch-UT	236420	(10,000.00)
Tx Accr-St Franch-SC	236422	(500.00)
Tx Accr-St Franch-IN	236431	0.01
Tx Accr-Bus Profits Tax	236650	884,585.94
State Franchise Tax		27,628,529.39

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
SUBTOTAL TAXES ACCRUED-FIT & SIT		(13,584,615.23)
TAXES ACCRUED-OTHER		
Tx Accr-Municipal Property	236300	62,338,922.59
Tx Accr-NY State/Cnty/Town	236301	0.00
Tx Accr-NY Village Taxes	236303	0.00
Tx Accr-NY School Taxes	236304	3,346.48
Tx Accr-Muni-Motor Veh Excise	236310	(6,329.70)
Municipal Taxes		62,335,939.37
Tx Accr-State Unemployment	236500	12,004.29
State Unemployment Comp		12,004.29
Tx Accr-St Gross Inc Tax	236428	5,937,607.67
Tx Accr-Fed Unempl Comp	236501	(56,177.85)
Tx Accr-Mass Medical	236502	3,780.60
Tx Accr-Severance Tax	236503	0.20
Tx Accr-FICA Company Portion	236550	9,853,555.71
Tx Accr-State Gross Earn Tax	236600	8,026,709.61
Tx Accr-State Inc (NMPC)	236617	0.00
Tx Accr-Misc	236700	5,020,512.90
Tx Accr-Personal Taxes-G&A	236702	555,844.39
Tx Accr-Foreign Currency Adj	236704	0.00
Tx Accr-SOLEX	236705	0.00
Tx Accr-Luxembourg	236706	0.00
Tx Accr-Canadian Withholding	236707	0.00
Tx Accr-Euros	236708	0.00
Tx Accr-Netherlands	236709	0.00
Tx Accr-TransportationMobility	236710	(1,816.60)
Tx Accr-Sales and Use Tax	236750	12,956,664.88
Tx Accr-Use Tax from STS	236751	2,347,505.93
Other Accr Taxes		44,644,187.44
SUBTOTAL TAXES ACCRUED-OTHER		106,992,131.10
Interest Payable-Hydro Finance	237000	0.00
Int Accr-Notes NGUSA	237001	0.00
Int Accr-LTD	237002	67,722,819.07
Int Accr-Customer Deposits	237003	4,873,708.44
Int Accr-M Pool-Assoc	237004	0.00
Int Accr-Misc	237006	17,114,625.37
Int Accr-NGPLC	237008	11,082,641.59
Int Accr-Tax	237010	48,447,860.51
Int Accr-Swaps	237011	(9,231,621.17)
Int Accr-NM Holdings Inc.	237035	0.00
KS R/L-Interest Deferred GAC	237200	88,848.89
KS R/L-Interest PipelineRefund	237201	170,795.13
KS R/L-Interest Deferred TAC	237202	(144,607.78)
Interest Accrued		140,125,070.05
Divs Decl-Common Stk	238000	0.00
Divs Decl-Open Mrkt Purch	238001	(462.68)
Divs Decl-Preferred	238010	334,481.77
Dividends Declared		334,019.09
NGUSA Dividends Declared		0.00
Tx Coll Pay FICA	241000	(47,450.32)
Hypothetical UK Tax Withholdng	241001	1,363,482.51
Tx Coll Pay MA Sales & Use Tax	241002	1,416,375.84
Tx Coll Pay-RI Sales&Use Tax	241003	1,618,962.75
NY-St Tx Importation Gas Serv	241005	(1,307.42)
Tx Coll Pay-NY Sales&Use Tax	241006	23,026,109.89
Tx Coll Pay-RI Temp Dis Fund	241007	52,278.69
Tx Coll Pay-Fed Inc Withholdng	241008	657,126.72
Tx Coll Pay-St Inc Withholding	241009	501,611.21
Tx Coll Pay MA Sls Tx Abt C&I	241010	(3,419,369.21)
Tx Coll Pay-Consumption Tax	241030	39,658.94
Tax Collected Pay-Fed Excise	241040	117,575.11
Tx Pay Sales&Use Tax Default	241050	(767.41)
Tax Collections Payable		25,324,287.30
Curr&Accr Liab-Miscellaneous	242000	96,850,914.57
Curr&Accr Liab-Pole Attch Rntl	242001	0.02
NIMO-Liab & Prop Dmg Ins-Reloc	242003	0.00
Curr&Accr Liab-Regul Comm Exps	242005	1,294,289.04
Misc Billable WO's-Contra	242009	(11,470,873.42)
TCC Auction Revenue	242018	36,456,012.72
Curr&Accr Yankee Atomic Decomm	242020	4,053,750.00
Curr&Accr Conn Yankee Decomm	242021	8,444,670.00
Curr&Accr Maine Yankee Decomm	242022	1,866,720.00
Curr&Accr REP/VMP Provision	242031	696,385.65
Revenue Decoupling	242032	1,301,309.17
Basic Service Admin	242033	10,733,878.49
Curr&Accr Liab-REC Obligation	242035	46,953,736.19
CurrAccrLiab-Cust Contrib-IFRS	242036	0.00
RGGI Funds I - General EE	242045	87,934.47
RGGI Funds II - EE Financing	242046	1,290,707.70
Curr&Accr Liab-Res Ov Bill-O&M	242100	991,648.00
Curr&Accr Liab-Metrowst Escrow	242102	379,681.27
Misc Curr Liab-FT2 Storage Bal	242120	979,851.60
Curr&Accr Liab-Payroll	242200	1,494,540.11
Curr&Accr Liab-Healthcare Accr	242201	7,971,000.00
Curr&Accr Liab-Workers' Comp	242202	3,239,639.29

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Curr&Accr Liab-Vac Accrual	242203	105,129,360.79
Curr&Accr Liab-NGUSA Goals	242204	68,171,027.48
Goals II (Union)	242206	(235.00)
Separation Pay Benefits	242209	31,935,246.74
Curr&Accr Liab-TDI Reimb	242210	353,954.74
Curr&Accr Liab-Health Dental	242212	2,408,669.34
Curr&Accr Liab-FAS106 Recovery	242213	(2,206,902.69)
Curr&Accr Liab-Acct Pay Accrl	242215	4,566,729.96
Accrued Nonqual Pension-Curr	242258	53,334,835.00
Curr&Accr Liab-R Ref-C&LM	242300	43,585,477.95
Curr&Accr Liab-R Ref SO	242301	1,630,001.44
Curr&Accr Liab-Transm O/U	242303	16,780,005.59
Curr&Accr Liab-Access Chrg O/U	242304	6,995,823.77
NIMO-Gas Refund	242305	12,410,232.81
Curr& Accr Liab-Basic Serv O/U	242307	44,769,937.58
Renewable Energy Standard	242315	4,495,042.04
Cust Refund Prov-Comm Lg Dist	242320	141,751.57
Misc Curr Liab-Defd Rev-GCC	242333	(5,663,875.11)
Misc Curr Liab-Df Rev-Weather	242336	2,269,336.15
Oth Def Cr-Reconcile Factor	242355	(352,301.15)
EUA - McNeil Current Liability	242490	0.00
KS R/L-Pipeline Refunds	242500	3,889,694.67
KS R/L-Marketer Penalty Refund	242502	28,524.44
KS R/L-GAC Imbalance Refund	242503	24,386,246.79
Misc Curr & Accr Liab		632,674,379.77
Prop Und Cap Lease-Curr-Elim	243000	998,203.00
Prop Und Cap Lease-NH Hydro	243001	1,185,600.00
Prop Cap Lease-Curr-Non Elim	243003	0.00
Explore & Dev Prop Cap Lease		2,183,803.00
Deriv Instr Liab-Current	244000	54,662,916.52
Deriv Instr Liab Hedges-Curr	245000	129,027,467.63
Deriv Instr Liab Debt < 1Yr	245005	584,565.39
Commodity Settlement Pay <1Yr	245006	22,923,097.00
Derivative Instrument Liab		207,198,046.54
TOTAL CURRENT LIABILITIES		**3,498,055,087.54**
DEFERRED CREDITS		
ACCUMULATED DEFERRED INCOME TAX		
OTHER PROPERTY		
Deferred Tax Prov-Beg Balance	281901	0.00
ADFIT-Property Related	282201	3,875,806,897.01
ADFIT-NY-Lib Depr Statutory Rt	282250	18,784,232.00
ADFIT-Unfunded Tax Liab	282404	0.00
ADFIT-FAS 109	282466	668,161,072.50
ADFIT-NIMO-FAS 109	282471	(2,324,749.70)
ADFIT-NIMO-FAS 109 Gross up	282472	(1,251,788.30)
Other Property FIT		4,559,175,663.51
ADSIT-Property Related	282601	554,597,149.48
ADSIT-NY-Lib Depr Statutory Rt	282650	0.00
ADSIT-Unfunded Tax Liab	282804	0.00
ADSIT-FAS 109	282866	(123,491,336.19)
ADIT-Prev Flow Thru Gross Up	282872	(273,341.44)
Deferred Tax Prov-Beg Balance	282901	(717,541,628.03)
Deferred Tax Prov-Chrg to P&L	282902	103,549.32
Deferred Tax Prov-Oth Movement	282907	0.00
Other Property SIT		(286,605,606.86)
SUBTOTAL OTHER PROPERTY		4,272,570,056.65
OTHER ADIT		
ADFIT-EUA-Refinancing	283003	202,570,164.00
ADFIT-R/A-Merger Rate Stranded	283006	0.00
ADFIT-R/A-OPEB	283016	(147,094,290.06)
ADFIT-Unamrt Debt Disc or Prem	283049	17,873,440.09
ADFIT-R/A-Property Taxes	283067	(14,890,758.47)
ADFIT-R/A-Decommissioning	283086	21,129,626.87
ADFIT-FAS 109	283100	24,177,573.57
ADFIT-Investments-OCI	283111	16,706,986.30
ADFIT-R/A-Pensions	283112	110,616,700.51
ADFIT-Additional Min Pens Liab	283117	(0.40)
Acc Def SIT- USGEN proceeds	283130	(0.31)
ADFIT-FAS 106 Contributions	283145	(0.02)
ADFIT-Property Taxes	283149	62,311,297.27
ADFIT-R/A-Other	283152	177,288,121.03
ADFIT-R/A-Environmental	283154	653,031,461.01
ADFIT-FAS158-Pension	283158	49,877,857.39
ADFIT-FAS158-OPEB	283159	37,829,856.09
ADFIT-OCI-Investments	283161	11,609,180.72
ADFIT-OCI-Hedging	283162	(1,372.91)
ADFIT-R/A-X Rate Base	283163	342,069,740.19
ADFIT-R/A-Storm Cost	283166	14,478,439.12
ADFIT-Char Contrib Limitations	283199	(171,956.75)
ADFIT-NIMO-Oth Statutory Rate	283400	(3,447,538.00)
ADFIT-NIMO-Oth FAS 109	283403	750,172.35
ADFIT-NIMO-Oth FAS 109 Grossup	283404	(0.04)
ADFIT-Fin48-DFIT	283450	345,761,298.30
Other FIT		1,922,475,997.85

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
ADSIT-FAS 109	283200	6,510,432.80
ADSIT-Investments-OCI	283211	353,615.91
ADSIT-R/A-Pension	283212	30,069,069.35
ADSIT-Property Taxes	283249	12,317,526.87
ADSIT-R/A-Other	283252	23,359,330.60
ADSIT-R/A-Environmental	283254	136,074,296.19
ADSIT-FAS158-Pension	283258	9,882,647.56
ADSIT-FAS158-OPEB	283259	20,268,461.44
ADSIT-OCI-Investments	283261	(720,975.52)
ADSIT-R/A-X Rate Base	283263	60,954,993.21
ADSIT-R/A-Storm Cost	283266	2,223,227.35
ADSIT-Reserve	283267	0.46
ADSIT-Char Contrib Limit	283299	0.00
ADSIT-R/A-Merger Rate Stranded	283306	(9,783,559.52)
ADSIT-R/A-OPEB	283316	(24,656,474.79)
ADSIT-Unamrt Debt Disc or Prem	283349	2,880,314.64
ADSIT-R/A-Property Taxes	283367	(3,853,569.84)
ADSIT-R/A-Decommissioning	283386	3,525,054.22
ADSIT-NIMO-Oth Statutory Rate	283500	(752,807.00)
ADSIT-NIMO-Oth FAS 109 Grossup	283502	0.44
ADSIT-Fin48-DSIT	283550	24,585,757.34
Deferred Tax Prov-Beg Balance	283901	0.00
Deferred Tax Prov-Chrg to P&L	283902	0.00
Other SIT		293,237,341.71
SUBTOTAL OTHER ADIT		2,215,713,339.56
Oil and Gas		0.00
SUBTOTAL ACCUM DEF INCOME TAX		**6,488,283,396.21**
Accumulated Deferred ITC	255000	47,184,527.99
Accum Def Inv Tax Credit		47,184,527.99
Prop Und Capital Leases	227000	2,882,783.00
Prop Und Cap Lse-Hydro license	227001	1,531,967.51
Prop Und Cap Lse-NHH/NEESEnrgy	227002	9,694,255.02
Prop Und Cap Leases-Non Elim	227003	0.00
Injuries & Damages Reserve	228200	81,948,665.89
Inj&Dam Res-Unwind InsCap Disc	228201	6,236,052.06
Inj&Dam Res-Ins Captive Pymts	228202	(17,181,643.04)
Pension/FAS106-Benefit Reserve	228300	1,722,484,706.87
Misc Operating Reserves	228400	864,243,459.96
Asset Retirement Obligation	230000	119,418,313.03
Deriv Instr Liab-Long Term	244001	136,760,762.48
Deriv Instr Liab Debt > 1Yr	245002	39,115,147.52
Other Non Current Liab		2,967,134,470.30
Construction Advances	252000	20,088,182.35
CIAC Tax Gross Up	252040	106,544.24
Cust Adv for Construction		20,194,726.59
Def Cr-Miscellaneous	253000	47,525,909.04
Def Cr-Sales Tax Accrual	253001	8,610,615.49
Def Cr-Highway Reloc Billed	253002	3,936,964.88
Def Incentive Comp	253003	24,111,542.01
EUA-Key Exec Pension Liability	253005	(177.93)
Def Cr-Hazardous Waste	253006	213,784,436.33
Oth Def Cr-Def Inc-Prepd Lease	253008	783,332.44
Def Cr-Def Inc-Attach Fee	253009	1,216,747.50
EUA-Mendon Road Litigation	253011	0.00
NY-CapReim-Sterling Pwr-Oneida	253014	6,777,694.67
NY-Cap Reim-City of Salamanca	253015	705,693.34
NY-Energy Serv Company Dep	253021	1,697,925.40
NY-Def Gain UMICO Demutualzatn	253023	1,114,057.10
NY-Nucl Fuel Disposal Costs	253025	167,586,930.59
Nucl Empl Settlement Liability	253026	160,715.51
Pension Costs	253027	(124,994,039.75)
Def Incentive Comp-Pensions	253031	116,347,531.97
Def Rev-Customer Contrib-IFRS	253036	0.00
Def Cr-Facilities Leases	253044	3,803,420.88
Oth Def Cr-Dsm Rebate(Res&C/I)	253045	1,814,254.67
Def Cr-Yankee Atomic Decomm	253050	19,477,022.15
Def Cr-Conn Yankee Decomm	253051	29,224,762.71
Def Cr-Maine Yankee Decomm	253052	12,149,225.68
Def Cr-Emissions	253070	30,158,675.60
FAS 106 Recovery	253106	1,080,148,909.31
FAS 112	253112	89,218,957.39
Additional Minimum Pens Liab	253117	0.00
New England Salvage - Wire	253201	8,835,536.91
NE Salvage - Transformers	253202	3,653,137.81
Large Project Salvage	253203	741,812.61
NIMO-NYPA TriLakes	253230	0.28
Long-Term Interest Payable	253480	29,535,758.27
FIN48 FIT -Timing Issues	253481	4,340,319.00
FIN48 SIT -Timing Issues	253482	0.08
FIN48 FIT - Permanent Issues	253483	5,567,603.66
FIN48 SIT - Permanent Issues	253484	10,815,991.54
EUA - McNeil Liability	253490	3,605,877.93
KS R/L-FAS 109 Reg Liab DFIT	253502	566,850.57
KS R/L-Def Net Nrmlztn Surplus	253503	4,015,250.95
KS R/L-Concord Street Amort	253504	40,876.00

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
KS R/L-Deferred RCS-Recov/Exp	253506	1,063,276.53
KS-Deriv Gas Cont-Reg-LT	253508	29,700,550.91
KS-Deriv MTM Regulated-LT	253509	31,795,069.00
KS-Deriv Gas Cont-NonRegLT	253511	(0.01)
Pension Prov - Beg Bal	253911	1.00
PR Health Prov - Beg Bal	253921	(1.00)
Nuc Cost Prov - Beg Bal	253930	0.00
Nuc Cost Prov - Chrg to P&L	253931	0.00
Nuc Cost Prov - Unwind Disc	253936	0.00
Hazwaste Prov - Beg Bal	253941	456,599,216.23
Hazwaste Prov - Chrg to P&L	253942	17,284,061.00
Hazwaste Prov - Rel to P&L	253943	0.00
Hazwaste Prov - Utilization	253944	(11,743,686.66)
Hazwaste Prov - Unwind Disc	253947	0.00
Other Prov - Beg Bal	253991	286,378,766.68
Other Prov - Chrg to P&L	253992	0.00
Other Prov - Utilization	253994	(31,966,398.87)
Other Prov - Unwind Disc	253995	13,132,213.08
Other Prov - At Disposal	253996	0.00
Other Deferred Credits		2,599,323,190.48
NEES Pens OPEB-Purch Acct Adj	254010	102,812,275.00
EUA Pens OPEB-Purch Acct Adj	254011	14,723,021.00
Low Inc Discount Program	254022	0.00
Solar Generation Program	254023	277,375.32
Prov/E. Prov Cust Credit	254025	8,040,774.30
NEEWS Project Reg Liability	254030	2,089,178.05
Def Cr-Environ Response Fund	254033	70,073,528.26
Def Rev-Nonfirm Margin Sharing	254034	660,201.42
Service Quality Penalties	254070	7,188,831.32
Miscellaneous Liabilities	254080	5,520,519.18
Littleton Regulatory Deferral	254090	1,991,907.00
Groveland Regulatory Deferral	254091	873,876.00
Merrimac Regulatory Deferral	254092	761,660.00
RPS Program Cost Deferred	254095	723,263.40
Excess Earnings	254105	79,656,463.39
KS-TBA-Merchant Backout CR	254200	(33,756,757.59)
KS-TBA-Meter Testing	254201	13,271,792.00
KS-TBA-Late Payment Charges	254202	8,714,676.01
KS-TBA-Consumer Outreach & Edu	254203	(1,818,351.50)
KS-Deferred Rate Case True Up	254204	3,113,225.00
KS-Interest on Deferred Items	254205	59,026,838.46
KS-TBA-Marketer's Incentive	254206	(8,965,024.71)
KS-TBA-Newtown Property	254207	6,896,902.38
KS-TBA-Delivery Service Charge	254208	(40,288,200.00)
KS-TBA-KIAC Settlement	254209	1,500,000.00
KS-TBA Amortization-LI	254210	(16,000,000.00)
KS-TBA-EDI,VCC,SBO,Enhncd Tran	254211	(9,945,819.16)
KS-TBA-Transition Charges	254212	55,590,680.41
KS-GEBA-BNYCP Mgmt Fee	254213	41,750,000.00
KS-TBA-Daily Balancing Account	254215	(221,719.55)
KS-BenRes-OPEBLiabPost05/28/98	254216	29,301.94
KS-Environmental Recoveries	254217	31,752,916.55
KS-TBA-Avoided Costs	254218	76,000.00
KS-TBA-Transport Service Adj	254219	557,011.14
KS-Exp Related to Prop Sale	254220	3,626,395.12
KS-CC Imbalance Old Vs New SIT	254221	(2,030,925.95)
KS-MTA Gross Income	254222	(1,748,835.05)
KS-Deriv-Gas-Contract-Reg Liab	254223	68,585,230.33
KS-Derivative MTM-Reg Liab	254224	16,732,624.00
KS-Property Tax Exp-ServCo	254225	25,788,239.88
KS-NYPA Holtsville LNG	254227	5,364,135.07
KS-SOP Buyback Pension/OPEB	254228	26,613,000.00
KS-Property Tax Litigation Ref	254229	12,400,000.00
KS-Alliance Profit-Reg Liab	254230	15,661,428.89
KS-Delivery Rate Adjustment	254231	79,400,915.42
Capital Tracker	254232	31,907,366.04
KS-Coney Island Prop Sale	254234	0.00
KS-Gas Safety	254235	5,606,000.00
KS-Pension/OPEB Reserve Liab	254236	38,935,729.07
Storage Deferral	254237	(3,655,801.00)
KS-Gain Disposition Property	254238	113,985.00
Excess Storm Reserve	254314	0.00
Misc Def Cr Storm Costs	254315	(787,250.82)
Def Pension/FAS 106 Amort	254316	2,556,402.00
Medicare Act tax benefit defer	254325	0.00
Electric R&D Ventures Deferral	254350	0.00
BVE-Int on Reconcil Acct	254404	4,647,634.00
BVE-Variable CTC Overrecovery	254442	20,280,842.46
EECO-Variable CTC Overrecovery	254452	55,892,151.69
EECO-Int on Reconcil Acct	254453	7,235,934.00
NPT-Variable CTC Overrecovery	254462	12,501,194.31
NPT-Int on Reconcil Acct	254463	3,211,635.00
EUA-Rec Acct Refund-BVE	254476	(18,365,866.31)
EUA-Rec Acct Refund-EECO	254477	(34,908,057.35)
EUA-Rec Acct Refund-NPT	254478	(14,147,631.11)

Regulatory Consolidating Balance Sheet

nationalgrid

NGUSA Consolidated
As of: December 31, 2011
Run Date/Time: January 13, 2012 at 02:33

	Reg Acct	NGUSA Cons US GAAP Current Month This Year
Vermont Yankee Sale-NEP	254485	1,759,477.26
FIT Repair Costs	254487	0.00
Consumer Service Advocate	254490	117,499.97
Deferral Carry Chrg 10-E-0050	254493	1,606,022.15
NIMO RDM - Electric	254495	25,366,173.17
NIMO Rate Subject to Refund	254497	50,000,000.00
NIMO-Proc-Sale of Allow-Albany	254500	1,985,135.37
NIMO-ClnAirAct Auct Proc-Rsetn	254501	186,280.00
NIMO-Purch ERC'S-Economic Dev	254502	0.00
NIMO-Gain-Redmpt-8.35% Bonds	254504	240,465.71
NIMO-CSS Conv Savings DIST	254506	0.00
NIMO-CSS Conv Savings GAS	254507	244,593.25
NIMO-IRS Audit Refund (83-84)	254510	0.00
NIMO-Accr Unbilled Rev Def-Gas	254511	18,093,000.00
NIMO-Gas Non-Core Rev Sharing	254512	2,046,662.93
NIMO-Electric Cust Svc Penalty	254513	1,998,912.68
NIMO-Gas Contingency Reserve	254514	1,434,945.96
NIMO-Environ Ins Recovery-Net	254516	4,741,378.80
NIMO-Gas Customer Srvc Penalty	254517	83,745.16
NIMO-Pwrchoice Appx E Net Prop	254518	0.00
NIMO Elec Rev Property Tax Cr	254519	0.00
NIMO-Loss on Sale of Building	254520	2,269.28
NIMO-SBC Program Cost Deferred	254521	1,491,652.78
NIMO-MRA Debt Int Rate Savings	254522	0.00
NIMO-Petr BusTax Aud Ref 90-96	254524	0.00
NIMO-Exit Fees Deferred	254525	0.00
NIMO-Affil Rule EmployTrnsf CR	254526	0.00
NIMO-Pension/OPEB Curtail Gain	254528	0.00
NIMO-IRS Audit Ref Liab 89-90	254529	0.00
NIMO-Diana-Dolgeville Settlmnt	254531	4,922,128.24
NIMO-Elec Serv Re-Estab Charge	254532	0.00
NIMO-Merchant Function Charge	254536	185,972.98
SIR Expenditure Def-Gas	254537	1,505,514.87
Nimo-SBC Prog Cost Def-Elec	254538	25,639,560.41
Nimo-SBC Prog Cost Def-Gas	254539	6,665,947.18
NIMO-Transm Revenue Adj Clause	254541	286,720.42
NIMO-Commodity Adj Clause	254543	19,202,571.62
NIMO-Merger Rate Plan Delay	254544	0.00
OPEB Exp deferred-Gas	254546	5,579,324.82
NYS Sales Tax Refund 92-98	254547	0.00
Economic Development Fund	254548	6,648,247.97
Curr Prov Incidental Svc Revs	254549	0.00
GRT Cust Refund 2000-Gas	254551	54,385.97
Meter Read Cnct/Discnt Svc Chg	254552	0.00
NYPA Res HydroPwr Beneft Recon	254554	2,300,088.65
NYPA ISO Memo of Understanding	254557	0.00
Bonus Depreciation Adjustment	254559	77,897.16
NIMO-Pens/OPEB Int on Recovery	254560	0.00
NIMO-Sta Srvc Sales Growth Def	254561	0.00
NIMO-GRT Aud Ref (91-94)-Elec	254562	0.00
NIMO-MHP Program Deferral	254564	0.00
NIMO-Serv Aggreg Lost Revenue	254565	0.00
NIMO-NEG Merger Savings	254567	0.00
NIMO-KS Merger Savings-Elec	254568	0.00
Gas Futures - Gas Supply	254569	2,086,886.96
NIMO-KS Merger Savings-Gas	254570	220,805.79
Elec Swaps-Elec Supply	254571	40,338,101.24
Voltage Migration Fee Deferred	254572	15,712.00
NIMO-Long Term Debt True-Up	254575	18,836,908.91
NIMO-Gratwick Park Prop Transf	254576	0.00
NIMO-Fed Tax Refund 1991-1995	254577	9,329,142.54
Curtailment	254578	836,359.00
Pension Exp deferred-Electric	254583	1,070,613.96
OPEB Exp deferred-Electric	254584	30,780,363.08
Low Income Allow Discount Prog	254585	395,837.73
SIR Expenditures Deferred Elec	254586	13,182,375.77
Other Regulatory Liab		1,069,652,501.45
FAS 109	254000	307.69
NIMO-FAS109-St Regulatory Liab	254530	0.00
FAS 109-CR		307.69
TOTAL DEFERRED CREDITS		**13,191,773,120.71**
TOTAL LIABILITIES		**39,293,871,241.69**

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	3,034,002,951	2,945,050,527
3	Construction Work in Progress (107)	200-201	294,928,459	111,110,961
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		3,328,931,410	3,056,161,488
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	975,349,557	942,187,304
6	Net Utility Plant (Enter Total of line 4 less 5)		2,353,581,853	2,113,974,184
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
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)		2,353,581,853	2,113,974,184
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		1,242,562	1,240,484
19	(Less) Accum. Prov. for Depr. and Amort. (122)		25,783	18,160
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	0	0
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		2,556,121	2,405,069
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		3,716,257	4,019,187
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		7,489,157	7,646,580
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		5,052,470	7,956,777
36	Special Deposits (132-134)		58,762,408	63,013,206
37	Working Fund (135)		500	500
38	Temporary Cash Investments (136)		0	0
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		146,247,479	171,317,594
41	Other Accounts Receivable (143)		11,726,251	11,864,680
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		33,301,419	33,678,219
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		8,509,356	21,999,434
45	Fuel Stock (151)	227	0	0
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	9,589,943	7,117,561
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

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

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	-57,086	493,751
55	Gas Stored Underground - Current (164.1)		19,073,566	19,023,231
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,780,667	5,414,405
57	Prepayments (165)		67,037,002	20,485,536
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	592
60	Rents Receivable (172)		179,357	365,737
61	Accrued Utility Revenues (173)		65,660,154	88,064,527
62	Miscellaneous Current and Accrued Assets (174)		2,100,391	783,140
63	Derivative Instrument Assets (175)		398,271	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	1,516,185
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		365,759,310	385,738,637
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		3,516,248	3,751,711
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	294,515,535	298,113,396
73	Prelim. Survey and Investigation Charges (Electric) (183)		1,267,078	3,417,356
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		118,236	25,303
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		454,098	-194,526
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	805,418	2,135,542
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		4,742,527	5,326,285
82	Accumulated Deferred Income Taxes (190)	234	125,032,744	144,261,752
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		430,451,884	456,836,819
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		3,157,282,204	2,964,196,220

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
The Narragansett Electric Company	(1) [x] An Original (2) [ ] A Resubmission	(mo, da, yr) / /	end of 2011/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (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)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,353,559,018	1,353,559,018
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	71,252,955	32,011,294
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	0	0
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	-84,214,432	-103,400,941
16	Total Proprietary Capital (lines 2 through 15)		1,399,676,341	1,341,248,171
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	604,339,000	605,714,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		0	0
24	Total Long-Term Debt (lines 18 through 23)		604,339,000	605,714,000
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		6,752,946	6,105,000
29	Accumulated Provision for Pensions and Benefits (228.3)		0	0
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		14,410,802	0
34	Asset Retirement Obligations (230)		3,956,587	3,942,606
35	Total Other Noncurrent Liabilities (lines 26 through 34)		25,120,335	10,047,606
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		131,128,428	124,473,688
39	Notes Payable to Associated Companies (233)		168,950,000	21,250,000
40	Accounts Payable to Associated Companies (234)		8,961,187	8,880,721
41	Customer Deposits (235)		10,405,545	7,996,177
42	Taxes Accrued (236)	262-263	2,231,641	3,692,167
43	Interest Accrued (237)		10,203,261	10,932,480
44	Dividends Declared (238)		27,613	27,613
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
The Narragansett Electric Company	(1) [x] An Original (2) [ ] A Resubmission	/ /	end of 2011/Q4

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

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		2,345,907	1,908,087
48	Miscellaneous Current and Accrued Liabilities (242)		47,400,431	63,694,179
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		37,441,447	33,015,344
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		419,095,460	275,870,456
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		5,687,216	2,598,926
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,376,903	1,870,382
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	260,098,641	312,102,841
60	Other Regulatory Liabilities (254)	278	42,153,816	60,947,096
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		294,988,715	303,120,233
64	Accum. Deferred Income Taxes-Other (283)		104,745,777	50,676,509
65	Total Deferred Credits (lines 56 through 64)		709,051,068	731,315,987
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		3,157,282,204	2,964,196,220

National Grid
2011/12 Full Year Financial Information

Consolidated balance sheet
as at 31 March

	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill		**4,776**	4,776
Other intangible assets		**546**	501
Property, plant and equipment		**33,701**	31,956
Other non-current assets		**95**	135
Pension assets		**155**	556
Financial and other investments		**592**	593
Derivative financial assets	9	**1,819**	1,270
Total non-current assets		**41,684**	39,787
Current assets			
Inventories and current intangible assets		**376**	320
Trade and other receivables		**1,971**	2,212
Financial and other investments	9	**2,391**	2,939
Derivative financial assets	9	**317**	468
Cash and cash equivalents	9	**332**	384
Total current assets		**5,387**	6,323
Assets of businesses held for sale	11	**264**	290
Total assets		**47,335**	46,400
Current liabilities			
Borrowings	9	**(2,492)**	(2,952)
Derivative financial liabilities	9	**(162)**	(190)
Trade and other payables		**(2,685)**	(2,828)
Current tax liabilities		**(383)**	(503)
Provisions		**(282)**	(353)
Total current liabilities		**(6,004)**	(6,826)
Non-current liabilities			
Borrowings	9	**(20,533)**	(20,246)
Derivative financial liabilities	9	**(1,269)**	(404)
Other non-current liabilities		**(1,921)**	(1,944)
Deferred tax liabilities		**(3,738)**	(3,766)
Pensions and other post-retirement benefit obligations		**(3,088)**	(2,574)
Provisions		**(1,449)**	(1,461)
Total non-current liabilities		**(31,998)**	(30,395)
Liabilities of businesses held for sale	11	**(87)**	(110)
Total liabilities		**(38,089)**	(37,331)
Net assets		**9,246**	9,069
Equity			
Called up share capital		**422**	416
Share premium account		**1,355**	1,361
Retained earnings		**12,297**	12,153
Other equity reserves		**(4,835)**	(4,870)
Shareholders' equity		**9,239**	9,060
Non-controlling interests		**7**	9
Total equity		**9,246**	9,069

Division 3-9-ELEC/GAS

Request:

Please provide copies of all NEC and National Grid credit rating reports issued since January 1, 2010.

Response:

Please refer to Attachments DIV 3-9-1-ELEC/GAS to DIV 3-9-9-ELEC/GAS for the Company and National Grid credit rating reports issued since January 1, 2010.

Prepared by or under the supervision of: Mustally Hussain

MOODY'S
INVESTORS SERVICE

Credit Opinion: Narragansett Electric Company

Global Credit Research - 19 May 2010

Providence, Rhode Island, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	A1
Senior Unsecured	A3
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

Narragansett Electric Company

	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	**9.4x**	**8.6x**	**11.0x**
(CFO Pre-W/C) / Debt	**27.5%**	**63.5%**	**52.9%**
(CFO Pre-W/C - Dividends) / Debt	**27.5%**	**63.5%**	**24.4%**
(CFO Pre-W/C - Dividends) / Capex	**72.4%**	**93.1%**	**67.0%**
Debt / Book Capitalization	**15.8%**	**9.3%**	**11.6%**
EBITA Margin %	**3.4%**	**4.8%**	**6.8%**

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

Opinion

Corporate Profile

Narragansett Electric Company (NEC) is an energy distribution company that provides electric and natural gas distribution services to 38 cities and towns in Rhode Island. The company provides electricity to approximately 486,000 customers through a network which includes 122 substations, 278 pole miles of overhead and underground transmission lines, 5,300 miles of overhead distribution lines and 1,175 miles of underground distribution cables. Narragansett's natural gas distribution system comprises approximately 3,100 miles of gas mains and around 186,000 gas service lines serving around 254,000 customers. (Data as at December 2009.)

In addition to distributing gas and electricity, NEC also acts as a supplier although it is permitted to recover the cost of the energy that it supplies on a pass-through basis. For the year ended March 31, 2009, NEC reported operating revenues for electricity of USD1,128 million and for gas of USD464 million.

NEC is a wholly owned subsidiary of National Grid USA (NG USA rated A3, stable) whose ultimate parent is National Grid plc (rated Baa1, stable), a holding company for a range of largely regulated businesses, including transmission and distribution networks in the UK and the Northeastern US.

SUMMARY RATING RATIONALE

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

The following factors influence Narragansett's ratings:

FACTOR 1: REGULATORY FRAMEWORK

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

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

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

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

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

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

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

In a verbal decision delivered in February 2010, the RIPUC allowed an increase in revenues of USD23.5 million, based on a return on equity of 9.8%, and disapproved several of NEC's other proposals including decoupling and the capital tracker adjustment. The new rates came into effect on 1 March 2010. NEC is considering its options and has asked the Rhode Island Supreme court to review the legality and reasonableness of the RIPUC's order. Following the rate case decision, NEC has reduced planned investments in Rhode Island from USD79.5 million to USD48.3 million and has also taken action to reduce its operating costs.

Moody's notes that the deferral of elements of the investment programme and planned repair work may affect the reliability of the network, resulting in a reduced ability to address load constraints and ultimately increasing the risk of future network failures. This may in turn impair the company's ability to earn the allowed return as RIPUC is able to impose annual penalties of up to USD2.2 million if NEC fails to deliver the required levels of service.

In November 2008, the RIPUC approved a new rate plan which provided for a 10.9% increase in gas distribution revenues based on a 10.5% allowed ROE together with a full reconciliation of pension and postretirement benefits other than pensions and a capital investment reconciliation. As for electricity, the RIPUC denied NEC's revenue decoupling proposal on the grounds that full revenue decoupling was not considered appropriate at that time. We note, however, that NEC has a weather normalization adjustment mechanism for its gas distribution operations which helps to largely neutralise the net revenue impacts due to abnormal weather conditions.

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

FACTOR 3: DIVERSIFICATION

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

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

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

For the past financial years covering 2007 through 2009, we observe that NEC has enjoyed steady increases in its revenue, growing from US$1.3 billion to US$1.6 billion over the period; however, earnings have trended downward during this period due to regulatory lag associated with the previous rate plans and a steadily increasing amount of capex (increasing from $77 million in FY'07 to $122 million in FY'09). The June 2009 electric rate case filing was intended to provide increased revenues and to support the historic and planned levels of investment but we note the RIPUC decision discussed above. The steps that NEC is taking to reduce operating costs and capex will go some way toward mitigating the impact of the decision but it is clearly a disappointment for the company.

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.

Our ratings for NEC acknowledge the historical strength of NEC's key financial metrics as it has operated under its performance based rate structure and funded its previously increasing capex program. Going forward, we anticipate that NEC will likely be free cash flow negative due to a combination of capital investment (noting however the recently reduced scope of the programme) and dividend payments. Under this scenario, and noting recent debt issuance (see below), 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, 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, we expect the adjusted capitalization ratios will remain well within the level appropriate for its A3 rating.

Based on its historic financial metrics, NEC maps to a score of Aa for financial strength and liquidity.

Liquidity

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

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

We note the sale by NEC in March 2010 of USD550 million of 10 and 30-year bonds. According to the company, proceeds are to be used to (i) retire short-term debt, (ii) to finance future capital expenditure and/or (iii) for general corporate purposes, including the payment of dividends. Capital expenditures for the fiscal year ended March 31, 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. We anticipate that, given the group strategy to migrate debt to the operating company subsidiaries, a proportion of the proceeds of the new notes will be used to fund dividend payments and that 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. The change in rating outlook for National Grid plc and its rated subsidiaries to stable from negative July 2009 incorporated an expectation that the group's credit quality would strengthen during FY 2010, thereby solidifying ratings for NEC and those of the other rated entities within the family.

What Could Change the Rating - Up

Given Moody's rating approach, it is unlikely that the ratings for NEC will go up unless there is a change to the overall group rating for the National Grid plc family. On this basis, we do not anticipate upward rating pressure in the near to medium term. However, any regulatory changes that provided further ring fencing and so insulated NEC from the potential need for cash elsewhere in the group would be considered credit positive for the company albeit to the potential detriment of creditworthiness elsewhere within the National Grid family.

What Could Change the Rating - Down

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

Rating Factors

Narragansett Electric Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to recover Costs and Earn returns (25%)				X		
Factor 3: Diversification (10%)						
a) Market Position (10%)					X	
b) Generation and Fuel Diversity (0%)						
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)				X		
a) Liquidity (10%)						
b) (CFO pre-WC + Interest) / Interest (7.5%)	X					
c) CFO pre-WC / Debt (7.5%)	X					
d) (CFO pre-WC - Dividends) / Debt (7.5%)	X					
e) Debt / Capitalisation or Debt / RAV (7.5%)				X		
Rating:						
a) Methodology Implied Senior Unsecured rating			A3			
b) Actual Senior Unsecured Rating			A3			

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September 22, 2010

Narragansett Electric Co.

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Table Of Contents

Narragansett Electric Co.

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Consistent focus on low-risk electricity and natural gas transmission and distribution operations;
- Predictable revenues and cash flows from regulated activities, which account for 95% of operating profits;
- Operating, market, and regulatory diversity;
- Relatively supportive regulatory environments; and
- Parent National Grid PLC's proven track record of managing large acquisitions.

Weaknesses:

- Parent's high consolidated financial leverage as a result of previous acquisitions;
- Substantial capital expenditures and dividends that will likely result in negative free cash flows over the medium term;
- Rate relief needs during time of economic weakness; and
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures.

Rationale

The ratings on Narragansett Electric Co. are based on the consolidated credit profile of its ultimate parent, U.K.-based National Grid PLC (NG) and its family of companies. Narragansett Electric is a wholly owned subsidiary of U.S. –based utility holding company, National Grid USA, a wholly owned subsidiary of NG. Its main U.S.-based operating subsidiaries include Narragansett Electric, Niagara Mohawk, KeySpan Corp. and its units, New England Power, Massachusetts Electric, Boston Gas, and Colonial Gas. The corporate credit ratings of the two New York distribution companies KeySpan Delivery New York (KEDNY) and KeySpan Delivery Long Island (KEDLI) are rated one notch higher than the consolidated corporate credit rating, reflecting the presence of regulatory insulation and their healthier stand-alone financial profiles.

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

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

NG's business risk has not materially changed during the past 12 months, in our view. The group remains focused on owning and operating regulated network assets in the U.K. and U.S., which account for about 95% of consolidated operating profit. NG faces some regulatory reset risk in the U.S. because about 35% of regulated revenues are derived from rate plans that are currently pending decisions. In addition, U.S. revenues remain subject to an element of volume risk, although we expect this to diminish over time as rate plans are renewed that protect NG from fluctuations in volumes sold.

NG's consolidated robust performance in 2009-2010 has resulted in strengthened credit metrics for the group, which in 2008-2009 fell below the level we consider commensurate for the 'A-' long-term corporate credit rating. Reported net operating cash flow in the 12 months to March 31, 2010, increased by 24% to £4.1 billion, while reported net debt was broadly flat at £22.1 billion. Consequently, NG's adjusted funds from operations (FFO)-to-debt ratio increased to 12.8%, which compares with the rating threshold of 12%. In 2008-2009, this ratio had fallen below 11%, mainly due to adverse foreign exchange movements and an increase in the U.S. pension deficit.

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

Short-term credit factors

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

NG's funding requirements are substantial, at about £3 billion each year, due to ongoing debt maturities and annual negative discretionary cash flows (after capex and dividends) of £1.0 billion-£1.5 billion. The group was, however, able to maintain full access to the bond markets during the financial crisis, and its recent £3.2 billion rights issue was fully underwritten. The rights issue will in our view significantly strengthen NG's liquidity position in 2010-2011.

As of June 30, 2010, NG has approximately £3.94 billion of unrestricted cash, and undrawn committed facilities of £2.7 billion. Against these sources of cash (totaling about £6.6 billion), NG has about £1.7 billion of debt maturing in the next 12 months, and the company expects discretionary cash flow to be negative by about £1.35 billion.

Looking forward over a 24-month horizon, we expect debt maturities and negative prefinancing cash flows to be about £3.3 billion and £2.9 billion, respectively. NG aims to keep its committed credit lines undrawn, since they provide backup for commercial paper, the issuance of which is limited to the undrawn committed lines available.

Outlook

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

A downgrade could occur if NG's financial performance were to deviate materially from our forecasts without the implementation of offsetting measures, or if the group were to undertake a significant acquisition. In that regard, if consolidated FFO to total debt were to decline to 10%-11% due to higher capital outlays and acquisitions and associated debt financing, we could lower the ratings. Although we view the May 2010 rights issue as providing a more comfortable degree of headroom than existed previously at the current rating level, we continue to view an upgrade as unlikely because of NG's ambitious growth plans and expected financial performance.

Related Research

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

Table 1.

National Grid PLC -- Peer Comparison*

Industry Sector: Electric Utility

	--Fiscal year ended March 31, 2010--						
	National Grid PLC¶	**Elia System Operator S.A./N.V.**	**Terna SpA¶**	**Red Electrica Corporacion S.A.**	**Bord Gais Eireann¶**	**Fingrid Oyj¶**	**N.V. Nederlandse Gasunie**
Rating as of Aug. 24, 2010	A-/Stable/A-2	A-/Negative/A-2	A+/Stable/A-1	AA-/Negative/A-1+	A-/Stable/A-2	A+/Stable/A-1	AA-/Stable/A-1+
(Mil. mix curr.)	£	€	€	€	€		
Revenues	13,988.0	733.7	1,360.7	1,212.9	1,349.2	361.2	1,668.7
Net income from cont. oper.	1,386.0	84.3	354.0	330.4	104.2	24.7	121.8
Funds from operations (FFO)	3,212.5	230.3	1,032.7	595.8	235.1	73.9	963.7
Capital expenditures	3,141.8	138.2	833.7	684.0	275.7	127.5	1,071.2
Debt	25,164.1	2,698.9	4,402.5	3,139.5	1,903.4	857.9	4,179.5

Table 1.

National Grid PLC -- Peer Comparison* (cont.)							
Equity	4,235.5	1,412.1	2,501.5	1,439.2	1,401.7	447.8	5,309.7
Adjusted ratios							
Oper. income (bef. D&A)/revenues (%)	33.0	47.4	75.0	66.7	24.2	31.9	65.1
EBIT interest coverage (x)	2.7	1.9	4.4	4.9	2.7	2.1	4.4
EBITDA interest coverage (x)	3.6	2.5	6.1	7.1	4.3	4.5	5.2
Return on capital (%)	10.6	6.3	10.8	11.9	6.7	3.9	9.3
FFO/debt (%)	12.8	8.5	23.5	19.0	12.4	8.6	23.1
Debt/EBITDA (x)	5.5	7.9	4.3	3.9	5.7	7.6	3.9

*Fully adjusted (including postretirement obligations). ¶Excess cash and investments netted against debt.

Table 2.

National Grid PLC -- Financial Summary*					
Industry Sector: Electric Utility					
	--Fiscal year ended March 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A/Watch Neg/A-1	A/Watch Neg/A-1
(Mil. £)					
Revenues	13,988.0	15,624.0	11,423.0	8,778.0	9,273.0
Net income from continuing operations	1,386.0	919.0	1,572.0	1,308.0	1,327.0
Funds from operations (FFO)	3,212.5	2,548.3	2,575.6	2,127.3	2,457.7
Capital expenditures	3,141.8	3,290.8	2,839.2	2,037.0	1,542.5
Cash and short-term investments	0	0	0	0	0
Debt	25,164.1	24,919.1	18,589.1	13,615.2	13,700.0
Preferred stock	0	0	0	0	0
Equity	4,235.5	4,006.3	5,372.6	4,103.8	3,482.5
Debt and equity	29,399.6	28,925.5	23,961.7	17,719.0	17,182.5
Adjusted ratios					
EBIT interest coverage (x)	2.7	2.0	2.9	2.9	3.3
FFO int. cov. (x)	3.3	2.8	3.3	3.2	4.0
FFO/debt (%)	12.8	10.2	13.9	15.6	17.9
Discretionary cash flow/debt (%)	(0.8)	(5.3)	(5.6)	(4.1)	(14.6)
Net Cash Flow / Capex (%)	80.4	52.0	62.3	67.3	(15.8)
Debt/debt and equity (%)	85.6	86.1	77.6	76.8	79.7
Return on common equity (%)	33.9	19.7	33.2	34.4	45.3
Common dividend payout ratio (un-adj.) (%)	68.6	94.3	52.9	59.5	53.4

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

Table 3.

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

	--Fiscal year ended Mar. 31, 2010--									
National Grid PLC reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	25,124.0	4,199.0	14,007.0	4,487.0	4,487.0	3,293.0	919.0	4,516.0	4,516.0	3,111.0
Standard & Poor's adjustments										
Operating leases	652.3	--	--	86.5	39.6	39.6	39.6	46.9	46.9	30.8
Postretirement benefit obligations	1,919.0	24.5	--	57.0	57.0	57.0	212.0	258.5	258.5	--
Surplus cash and near cash investments	(1,760.0)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	--	99.0	--	--	--
Share-based compensation expense	--	--	--	--	25.0	--	--	--	--	--
Asset retirement obligations	69.8	--	--	--	--	--	2.0	1.4	1.4	--
Reclassification of nonoperating income (expenses)	--	--	--	--	--	26.0	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	--	(964.0)	(964.0)	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	--	(431.0)	--
Reclassification of other non operating expenses	--	--	(19.0)	(19.0)	(19.0)	(19.0)	--	--	--	--
Minority interests	--	12.0	--	--	--	--	--	--	--	--
Value of Principal Hedges on Currency Derivatives	(841.0)	--	--	--	--	--	--	--	--	--
Reclassification of replacement expenditure (repex; 50% as operating cost)	--	--	--	--	--	--	--	(215.3)	(215.3)	--

Table 3.

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

Indexation on inflation linked debt								(17.2)	--	--
Total adjustments	40.1	36.5	(19.0)	124.5	102.6	103.6	352.6	(889.7)	(1,303.5)	30.8

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	25,164.1	4,235.5	13,988.0	4,611.5	4,589.6	3,396.6	1,271.6	3,626.3	3,212.5	3,141.8

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of September 22, 2010)*

Narragansett Electric Co.	
Corporate Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (1 Issue)	A
Senior Unsecured (2 Issues)	A-
Corporate Credit Ratings History	
24-Aug-2007	A-/Stable/A-2
24-Feb-2006	A/Watch Neg/A-1
04-Dec-2001	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Boston Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Unsecured (20 Issues)	A-
Colonial Gas Co.	
Issuer Credit Rating	A-/Stable/--
Senior Secured (5 Issues)	A
KeySpan Corp.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (7 Issues)	A-
KeySpan Energy Delivery Long Island	
Issuer Credit Rating	A/Stable/--
KeySpan Energy Delivery New York	
Issuer Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	A
Senior Secured (1 Issue)	A/Developing
Senior Unsecured (6 Issues)	A
Senior Unsecured (1 Issue)	AAA

Ratings Detail (As Of September 22, 2010)*(cont.)	
KeySpan Generation LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A
Lattice Group PLC	
Issuer Credit Rating	A-/Stable/--
Massachusetts Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (1 Issue)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (4 Issues)	A-/A-2
National Grid Electricity Transmission PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (26 Issues)	A-
Senior Unsecured (1 Issue)	BBB+
National Grid Gas Holdings PLC	
Issuer Credit Rating	A-/Stable/--
National Grid Gas PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (43 Issues)	A-
National Grid Holdings One PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (1 Issue)	BBB+
National Grid PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (14 Issues)	BBB+
National Grid USA	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (2 Issues)	BBB+
New England Power Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (4 Issues)	A-/A-2
Niagara Mohawk Power Corp.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (3 Issues)	BBB
Senior Secured (5 Issues)	A
Senior Unsecured (5 Issues)	A-

Ratings Detail (As Of September 22, 2010)***(cont.)**	
Providence Gas Co.	
Senior Secured (2 Issues)	A

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

MOODY'S INVESTORS SERVICE

Credit Opinion: Narragansett Electric Company

Global Credit Research - 28 Jun 2011

Providence, Rhode Island, United States

Ratings

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

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Key Indicators

Narragansett Electric Company[1]

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

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

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

Opinion

Corporate Profile

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

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

Recent Developments

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

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

- Pre-tax profit up 25%

- Operating profit up 15%

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

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

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

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

Rating Rationale

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

DETAILED RATING CONSIDERATIONS

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

FACTOR 1: REGULATORY FRAMEWORK

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

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

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

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

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

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

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

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

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

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

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

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

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

FACTOR 3: DIVERSIFICATION

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

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

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

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

Liquidity

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

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

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

Rating Outlook

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

What Could Change the Rating - Up

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

What Could Change the Rating - Down

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

Rating Factors

Narragansett Electric Company
525500

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

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

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September 26, 2011

Narragansett Electric Co.

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Table Of Contents

Narragansett Electric Co.

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

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

Weaknesses:

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

Rationale

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

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

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

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

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

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

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

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

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

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

Key business and profitability developments

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

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

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

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

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

Key developments in consolidated cash flow and capital structure

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

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

Liquidity

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

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

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

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

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

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

Recovery analysis

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

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

Outlook

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

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

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

Business Description

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

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

Rating Methodology

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

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

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

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

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

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

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

These strengths are mitigated by the following constraints:

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

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

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

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

from FFO in accordance with our criteria.

These weaknesses are partially mitigated by:

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

Financial Statistics/Adjustments

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

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

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

Table 1

National Grid PLC -- Peer Comparison

Industry Sector: Electric Utility

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

Table 1

National Grid PLC -- Peer Comparison (cont.)

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

Table 2

National Grid PLC -- Financial Summary

Industry Sector: Electric Utility

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

Table 3

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

	--Fiscal year ended March 31, 2011--									
National Grid PLC reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	23,198.0	9,060.0	14,343.0	4,997.0	3,745.0	1,140.0	4,858.0	4,858.0	858.0	2,958.0
Standard & Poor's adjustments										
Operating leases	593.3	--	--	37.4	37.4	37.4	49.6	49.6	--	--
Postretirement benefit obligations	1,198.0	35.3	--	33.0	33.0	--	280.1	280.1	--	--
Surplus cash and near cash investments	(2,938.0)	--	--	--	--	--	--	--	--	--

Table 3

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

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Capitalized interest	--	--	--	--	--	129.0	--	--	--	--
Share-based compensation expense	--	--	--	25.0	--	--	--	--	--	--
Asset retirement obligations	86.4	--	--	--	--	2.0	(20.9)	(20.9)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	32.0	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	(930.0)	(930.0)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(185.0)	--	--
Minority interests	--	9.0	--	--	--	--	--	--	--	--
Debt -- other	(1,130.0)	--	--	--	--	--	--	--	--	--
Working capital -- other	--	--	--	--	--	--	248.0	--	--	--
FFO -- other	--	--	--	--	--	--	(486.0)	(486.0)	--	--
Total adjustments	(2,190.3)	44.3	--	95.4	102.4	168.4	(859.2)	(1,292.2)	--	--

Standard & Poor's adjusted amounts

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

Related Criteria And Research

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

Ratings Detail (As Of September 26, 2011)	
Narragansett Electric Co.	
Corporate Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (3 Issues)	A

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

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

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

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September 22, 2010

National Grid PLC

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Table Of Contents

National Grid PLC

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

- Consistent focus on low-risk electricity and natural gas transmission and distribution operations.
- Predictable revenues and cash flows from regulated activities, which account for 95% of operating profits.
- Operating, market, and regulatory diversity in the U.K. and the U.S.
- Supportive regulatory environments.
- Proven track record of managing large acquisitions.

Weaknesses:

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

Rationale

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

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

Key business and profitability developments

NG reported a robust set of results for the 12 months ending March 31, 2010, with operating profit before exceptional items up by 7% year on year to £3.1 billion. This increase was supported by high inflation in 2008, which determined NG's inflation-linked regulated revenues. Pretax profit increased by 12% over the same period, benefiting from lower financing costs due to lower interest rates, and the effect of deflation in the U.K., which reduced indexation on inflation-linked debt.

We believe that NG's results will return to more moderate levels of growth in the financial year ending March 31, 2011. This is because revenues will be determined by relatively low inflation during calendar 2009, while indexation will likely increase based on prevailing inflation that we expect will be higher than in 2009.

NG's business risk has not materially changed over the past 12 months, in our view. The group remains focused on owning and operating regulated network assets in the U.K. and U.S., which account for about 95% of consolidated operating profit. NG faces some regulatory reset risk in the U.S. because about 35% of regulated revenues are derived from rate plans that are currently being renewed. In addition, U.S. revenues remain subject to an element of volume risk, although we expect this to diminish over time as rate plans that protect NG from fluctuations in volumes sold are renewed.

Key cash flow and capital-structure developments

NG's robust performance in 2009/10 resulted in strengthened credit metrics for the group, which in 2008/09 fell below the level that we consider commensurate for the 'A-' long-term corporate credit rating.

Reported net operating cash flow in the 12 months to March 31, 2010, increased by 24% to £4.1 billion, while reported net debt was broadly flat at £22.1 billion. Consequently, NG's adjusted funds from operations (FFO)-to-debt ratio exceeded 13%, which compares positively with the rating threshold of above 12%. In 2008/09, this ratio fell below 11%, mainly due to adverse foreign exchange movements and an increase in the U.S. pensions deficit.

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

Short-term credit factors

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

NG's funding requirements are substantial, at about £3 billion each year, due to ongoing debt maturities and annual negative discretionary cash flows (after capex and dividends) of £1 billion-£1.5 billion. The group was, however, able to maintain full access to the bond markets during the financial crisis, and its recent £3.2 billion rights issue was fully underwritten. The rights issue will, in our view, significantly strengthen NG's liquidity position in 2010/11.

As of June 30, 2010, NG had approximately £3.94 billion of unrestricted cash, and undrawn committed facilities of £2.7 billion. Against these sources of cash (totaling about £6.6 billion), NG has approximately £1.7 billion of debt maturing in the next 12 months, and the company expects discretionary cash flow to be negative by about £1.35 billion. For the next 24 months, we expect debt maturities and negative prefinancing cash flows to be about £3.3 billion and £2.9 billion, respectively. NG aims to keep its committed credit lines undrawn, since they provide backup for commercial paper, the issuance of which is limited to the undrawn committed lines available.

There are no material covenants on the debt.

Outlook

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

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

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

Business Description

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

NG directly serves around 19 million customers in both markets, and employs more than 28,000 people. In the financial year ending March 31, 2010, NG reported revenues of £13.98 billion, cash flow from operations of £4.37 billion.

Rating Methodology

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

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

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

- NG's credit quality, which is underpinned by the strong, stable economies in which the group operates and the favorable regulation that offsets demand volatility. Virtually all of NG's operating profits come from the U.K. and the U.S.

- The contribution from stable and predictable cash flows derived from regulated networks, which generate about 95% of the group's earnings. Although the regulation varies between U.K. and U.S., the regulatory regimes are transparent and generally supportive of credit quality.
- NG's solid operating performance and frequent outperformance of efficiency targets. Furthermore, it has a good track record of cost reduction and successful integration following acquisitions or mergers. NG met or exceeded most of its operational targets in 2009/10. Under the U.K. regulatory framework, it achieved system reliability of 99.99% in electricity and 100% in gas transmission, as in previous years. Similarly, there were no reliability issues in U.K. gas distribution. In U.S. transmission and distribution, NG fully met its targets for network reliability.
- The fact that the U.K.'s remuneration is cost-plus based and not a function of electricity or gas demand. This has been a supporting factor in the past few years' recessionary environment. Future operating profit margins are, however, mostly reliant on NG's ability to control costs while managing capital projects required to sustain or improve network quality and match performance requirements.

These are mitigated by the following constraints:

- Substantial capex of about £22 billion over the next five years. This is likely to increase operational challenges in the short term, but should lead to operational improvements in the medium to long term. The capex, of which £15.1 billion is to be used in the U.K. regulated business, is driven by the need to reconfigure the electricity transmission network to handle large quantities of intermittent renewable power and to remodel the gas network to accommodate an increase in imports, especially liquefied natural gas.
- NG's highly acquisitive strategy, including in nondomestic markets. In our opinion, acquisitions generally impair a company's financial risk profile if leverage increases, or if the financial profiles of the acquired businesses are comparatively weaker, despite the potentially positive effect on revenue growth and profitability. The group has so far demonstrated a good track record of cost reduction and successful integration following acquisitions or mergers.
- Regulatory reset risk and volume risk in the U.S. Historically, regulation has been reasonably supportive of creditworthiness, but long-term rate plans, rate moratoriums, and regulatory lag have resulted in earned returns that are below the national average in most jurisdictions. U.S. revenues also remain subject to an element of volume risk, although we anticipate that this will diminish over time as rate plans are renewed that protect NG from fluctuations in volumes sold. Various commissions will be reviewing prospective rate requests at a time of unusual economic weakness, so the subsidiaries' ability to manage regulatory risk will be critical to credit quality.

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

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

- High consolidated financial leverage as a result of previous acquisitions.
- Negative cash flow generation, anticipated over the next five years, due to the company's large capex program (£22 billion to 2015) and dividend payments. However, we anticipate FFO to debt to maintain a cushion with respect to our 12% target for the rating level.

- An aggressive policy of raising dividends by about 8% annually, resulting in a pay-out ratio of about 68% as of March 31, 2010.
- Exposure to foreign exchange risk and inflation, which add volatility to adjusted credit measures. NG mitigates currency risk on its cash flows by matching the currency of its debt; however, it remains exposed to translation risk. A high Retail Price Index increases the amount of inflation-linked debt indexation that we deduct from FFO in accordance with our criteria.

These weaknesses are partially mitigated by:

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

Financial Statistics/Adjustments

NG's last full, consolidated accounts, for the fiscal year to March 31, 2010, were prepared according to International Financial Reporting Standards.

We make a number of adjustments to NG's reported figures. The adjustments for fiscal 2010 are shown in table 1. The most important are as follows:

- We add to debt operating lease liabilities of £652.3 million, representing the present value of future operating lease obligations.
- We also add to debt postretirement benefit obligations of £1.9 billion. We view pension deficits as debt-like obligations.
- We subtract from debt surplus cash of £1.8 billion. This comprises unrestricted cash and marketable securities, and investments in short-term money market funds.
- We subtract from debt a positive value of principal hedges on currency derivatives of £841 million. This amount reflects the difference between reported debt and the value of foreign currency debt that has been locked in to maturity through currency derivatives.
- We subtract from cash flow from operations £232.5 million replacement expenditure (repex) representing the reclassification of 50% of repex from capex to operating expenditure. This adjustment reflects the regulatory treatment.
- We subtract from FFO indexation of £17.2 million, in line with our criteria for inflation-linked debt (see "New Methodology For Inflation-Linked Debt Has No Immediate Effect On Ratings On U.K. Regulated Utilities," published April 8, 2009, on RatingsDirect).

Table 1

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

	--Fiscal year ended March 31, 2010--									
National Grid PLC reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	25,124.0	4,199.0	14,007.0	4,487.0	4,487.0	3,293.0	919.0	4,516.0	4,516.0	3,111.0
Standard & Poor's adjustments										
Operating leases	652.3	--	--	86.5	39.6	39.6	39.6	46.9	46.9	30.8
Postretirement benefit obligations	1,919.0	24.5	--	57.0	57.0	57.0	212.0	258.5	258.5	--
Surplus cash and near-cash investments	(1,760.0)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	--	99.0	--	--	--
Share-based compensation expense	--	--	--	--	25.0	--	--	--	--	--
Asset retirement obligations	69.8	--	--	--	--	--	2.0	1.4	1.4	--
Reclassification of nonoperating income (expenses)	--	--	--	--	--	26.0	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--	--	(964.0)	(964.0)	--
Reclassification of working capital cash flow changes	--	--	--	--	--	--	--	--	(431.0)	--
Reclassification of other nonoperating expenses	--	--	(19.0)	(19.0)	(19.0)	(19.0)	--	--	--	--
Minority interests	--	12.0	--	--	--	--	--	--	--	--
Value of principal hedges on currency derivatives	(841.0)	--	--	--	--	--	--	--	--	--
Reclassification of replacement expenditure (50% as operating cost)	--	--	--	--	--	--	--	(232.5)	(232.5)	--
Indexation on inflation-linked debt	--	--	--	--	--	--	--	--	17.2	--

Table 1

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

Total adjustments	40.1	36.5	(19.0)	124.5	102.6	103.6	352.6	(889.7)	(1,303.5)	30.8

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	25,164.1	4,235.5	13,988.0	4,611.5	4,589.6	3,396.6	1,271.6	3,626.3	3,212.5	3,141.8

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization.

Table 2

National Grid PLC Peer Comparison*

	National Grid PLC¶§	Elia System Operator S.A./N.V.	Terna SpA¶	Red Electrica Corporacion S.A.	Bord Gais Eireann¶	Fingrid Oyj¶	N.V. Nederlandse Gasunie
Rating on Sept. 22, 2010	A-/Stable/A-2	A-/Negative/A-2	A+/Stable/A-1	AA-/Negative/A-1+	A-/Stable/A-2	A+/Stable/A-1	AA-/Stable/A-1+
(Mil. €)	**--Fiscal year ended March 31, 2010--**			**--Fiscal year ended Dec. 31, 2009--**			
Revenues	13,988.0	733.7	1,360.7	1,212.9	1,349.2	361.2	1,668.7
Net income from continuing operations	1,386.0	84.3	354.0	330.4	104.2	24.7	121.8
Funds from operations (FFO)	3,212.5	230.3	1,032.7	595.8	235.1	73.9	963.7
Capital expenditures	3,141.8	138.2	833.7	684.0	275.7	127.5	1,071.2
Debt	25,164.1	2,698.9	4,402.5	3,139.5	1,903.4	857.9	4,179.5
Equity	4,235.5	1,412.1	2,501.5	1,439.2	1,401.7	447.8	5,309.7
Adjusted ratios							
Operating income (before D&A)/revenues (%)	33.0	47.4	75.0	66.7	24.2	31.9	65.1
EBIT interest coverage (x)	2.7	1.9	4.4	4.9	2.7	2.1	4.4
EBITDA interest coverage (x)	3.6	2.5	6.1	7.1	4.3	4.5	5.2
Return on capital (%)	10.6	6.3	10.8	11.9	6.7	3.9	9.3
FFO/debt (%)	12.8	8.5	23.5	19.0	12.4	8.6	23.1
Debt/EBITDA (x)	5.5	7.9	4.3	3.9	5.7	7.6	3.9

*Fully adjusted (including postretirement obligations). ¶Excess cash and investments netted against debt. §Mil. £. D&A--Depreciation and amortization.

Table 3

National Grid PLC Financial Summary*

	--Fiscal year ended March 31--				
(Mil. £)	**2010**	**2009**	**2008**	**2007**	**2006**
Rating history	A-/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2	A/Watch Neg/A-1	A/Watch Neg/A-1
Revenues	13,988.0	15,624.0	11,423.0	8,778.0	9,273.0
Net income from continuing operations	1,386.0	919.0	1,572.0	1,308.0	1,327.0
Funds from operations (FFO)	3,212.5	2,548.3	2,575.6	2,127.3	2,457.7
Capital expenditures	3,141.8	3,290.8	2,839.2	2,037.0	1,542.5
Cash and short-term investments	0.0	0.0	0.0	0.0	0.0
Debt	25,164.1	24,919.1	18,589.1	13,615.2	13,700.0
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	4,235.5	4,006.3	5,372.6	4,103.8	3,482.5
Debt and equity	29,399.6	28,925.5	23,961.7	17,719.0	17,182.5
Adjusted ratios					
EBIT interest coverage (x)	2.7	2.0	2.9	2.9	3.3
FFO interest coverage (x)	3.3	2.8	3.3	3.2	4.0
FFO/debt (%)	12.8	10.2	13.9	15.6	17.9
Discretionary cash flow/debt (%)	(0.8)	(5.3)	(5.6)	(4.1)	(14.6)
Net cash flow/capex (%)	80.4	52.0	62.3	67.3	(15.8)
Debt/debt and equity (%)	85.6	86.1	77.6	76.8	79.7
Return on common equity (%)	33.9	19.7	33.2	34.4	45.3
Common dividend payout ratio (unadjusted; %)	68.6	94.3	52.9	59.5	53.4

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

Related Criteria And Research

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

Ratings Detail (As Of September [illegible], 2010)*

National Grid PLC	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (14 Issues)	BBB+
Corporate Credit Ratings History	
24-Aug-2007	A-/Stable/A-2
24-Feb-2006	A/Watch Neg/A-1

Ratings Detail (As Of September 22, 2010)* (cont.)	
31-Jan-2002	A/Stable/A-1
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Debt Maturities	
On March 31, 2010: One year or less: £0.7 bil. Between one and three years: £3.3 bil. Between three and five years: £3.6 bil. More than five years: £14.5 bil.	
Related Entities	
Boston Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Unsecured (20 Issues)	A-
Colonial Gas Co.	
Issuer Credit Rating	A-/Stable/--
Senior Secured (5 Issues)	A
KeySpan Corp.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (7 Issues)	A-
KeySpan Energy Delivery Long Island	
Issuer Credit Rating	A/Stable/--
KeySpan Energy Delivery New York	
Issuer Credit Rating	A/Stable/NR
Senior Secured (2 Issues)	A
Senior Secured (1 Issue)	A/Developing
Senior Unsecured (6 Issues)	A
Senior Unsecured (1 Issue)	AAA
KeySpan Generation LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured (1 Issue)	A
Lattice Group PLC	
Issuer Credit Rating	A-/Stable/--
Massachusetts Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (1 Issue)	A
Senior Unsecured (1 Issue)	A-
Senior Unsecured (4 Issues)	A-/A-2
Narragansett Electric Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Secured (1 Issue)	A
Senior Unsecured (2 Issues)	A-

Ratings Detail (As Of September 22, 2010)*(cont.)	
National Grid Electricity Transmission PLC	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured (26 Issues)	A-
Senior Unsecured (1 Issue)	BBB+
National Grid Gas Holdings PLC	
Issuer Credit Rating	A-/Stable/--
National Grid Gas PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (43 Issues)	A-
National Grid Holdings Inc.	
Issuer Credit Rating	A-/Stable/--
National Grid Holdings One PLC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured (1 Issue)	BBB+
National Grid USA	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured (2 Issues)	BBB+
New England Power Co.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (1 Issue)	BBB
Senior Unsecured (4 Issues)	A-/A-2
Niagara Mohawk Power Corp.	
Issuer Credit Rating	A-/Stable/A-2
Preferred Stock (3 Issues)	BBB
Senior Secured (5 Issues)	A
Senior Unsecured (5 Issues)	A-
Providence Gas Co.	
Senior Secured (2 Issues)	A

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

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DECEMBER 8, 2010

GLOBAL INFRASTRUCTURE FINANCE

MOODY'S
INVESTORS SERVICE

CREDIT ANALYSIS

National Grid Plc

London, United Kingdom

Table of Contents:

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This Credit Analysis provides an in-depth discussion of credit rating(s) for National Grid Plc and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Corporate Profile

A diversified regulated utility group operating in the UK and US

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

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

In the US, National Grid distributes electricity to approximately 3.4 million electricity customers in New England and upstate New York. Owning 4.1 GW of electricity generation, the group is the largest power producer in New York State – carrying power to over one million customers on Long Island. It is also the largest distributor of natural gas in the northeastern US, delivering gas to 3.5 million customers in New York, Massachusetts, New Hampshire and Rhode Island.

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

The outlook on all of the group's ratings is stable.

FIGURE 1

Financial Highlights (as reported 31 March 2010)

£ millions	Revenue		Operating Profit	
Transmission UK	3,460	24%	1,311	42%
Transmission US	405	3%	153	5%
Gas Distribution UK	1517	11%	723	23%
Gas Distribution US	3708	26%	414	13%
Electricity Distribution & Generation	4339	31%	374	12%
Other activities	738	5%	146	5%
Sub-total	14167	100%		100%
Less: intra-group sales	(179)		-	
Total	13,988		3,121	

Source: Annual Report and Accounts 2009/10. Operating profit stated before exceptional items, remeasurements and stranded cost recoveries

Recent Developments

In May 2010, National Grid Plc announced a £3.2 billion rights issue intended, in the company's words, to enable the group to continue its growth strategy in the UK and maintain single-A credit ratings for the UK operating companies.

Following the announcement, Moody's affirmed the group's ratings noting that the rights issue strengthened National Grid's balance sheet, provided financial flexibility to pursue the planned £22 billion capital investment programme and established a degree of headroom in the current rating categories that had been lacking in recent years.

National Grid is continuing to pursue rate case settlements for its US operations. In November 2010, the Massachusetts Department of Public Utilities (MADPU) announced its decision on the group's rate case filing for its gas distribution businesses in Massachusetts (which together account for around 10% of the US rate base). The decision approved an increase in revenues together with revenue decoupling, full reconciling recovery (true-up) of non-controllable cost items and a capital investment tracker as requested by the group. Both the revenue increase and allowed return on equity fell some way below what was requested although Moody's notes that this is not an unusual result.

A rate case for the Niagara Mohawk (NiMo) electric business, which accounts for around 25% of National Grid's US rate base, is continuing with a decision expected from the New York Public Service Commission (NYPSC) in late January. Again it seems that the allowed increase in revenue and return on equity will fall some way short of what was requested although the company is likely to be more successful in other areas, including revenue decoupling.

In October 2010, the UK energy regulator, the Office of Gas and Electricity Markets (Ofgem) published a final decision document introducing its proposed new regulatory framework for the UK's gas and electricity transmission and distribution networks. The key features of this new regulatory framework, known as RIIO (which stands for Revenues = Incentives + Innovation + Outputs), are generally aligned with the proposals made by Ofgem during the consultation period and which Moody's has commented upon in its Special Comment on RPI-X@20 dated June 2010 (see Related Research).

In its results for the six months to 30 September 2010, National Grid reported a 31% increase in operating profit and 45% increase in pre-tax profit.[1] Whilst the headline numbers are attractive, Moody's notes that a significant part of the increase was due to timing effects, in particular the under-recovery of revenues in the prior year. Nevertheless, the group is seeing growth in its regulated income as recently agreed rate cases come into effect.

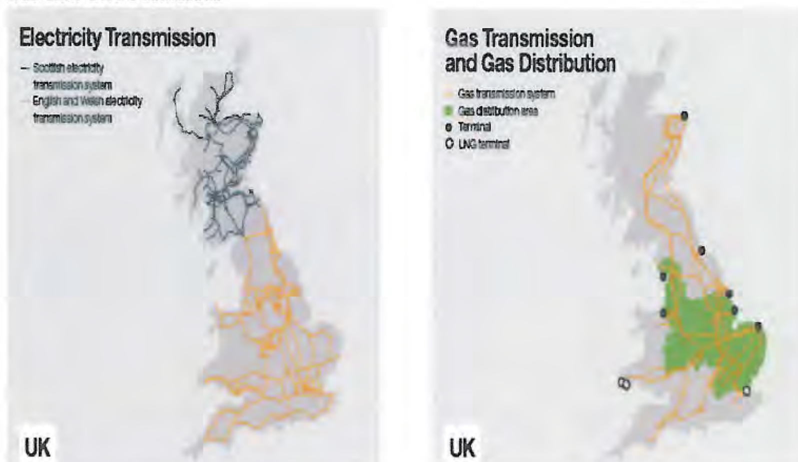
Management Strategy

Focused on core regulated gas and electricity businesses

National Grid sees itself as an asset based network provider, focusing on the construction and operation of a portfolio of largely regulated assets in the gas and electricity sectors.

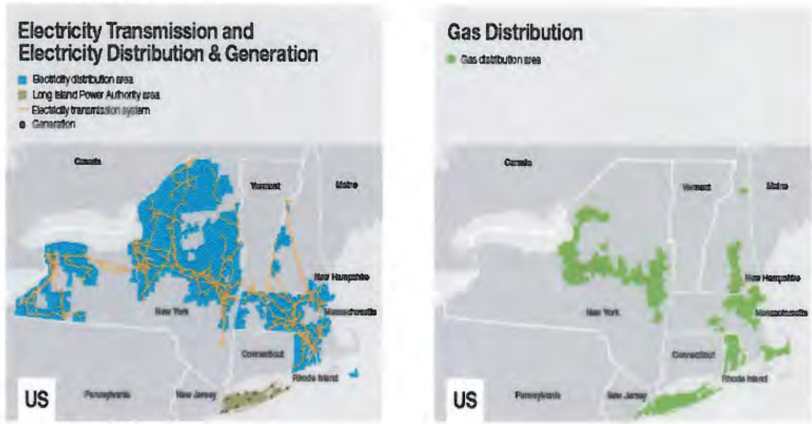
Around 95% of National Grid's activities are in regulated monopoly businesses, with predictable revenues and cash flows, and the portfolio of circa 20 regulatory agreements provides broad diversification of risk. The group has limited demand exposure: there is no volume risk in the UK and whilst there is some in the US, it is increasingly limited as new rate cases are generally agreed with demand decoupling. As at November 2010, 67% of National Grid's US rate base benefitted from decoupling as compared to just 11% in December 2007.

FIGURE 2
National Grid Businesses



1 Based on National Grid's preferred measure of "business performance results" being the results for continuing operations before exceptional items, remeasurements and stranded cost recoveries.

FIGURE 2
National Grid Businesses



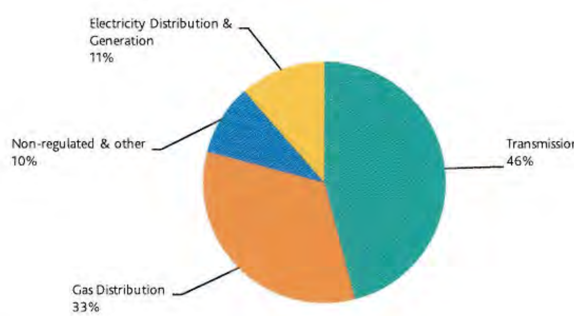
Source: National Grid

Activities outside of electricity and gas transmission and distribution are limited to related businesses and typically offer stable returns under long-term contracts or similar arrangements.

With strong organic growth

National Grid is enjoying strong organic growth due to its large capital investment programme. The group invested a total of £3.3 billion in the year to March 2010, in line with the target of £3.4 billion and increasing the UK and US asset bases by 8% and 3% respectively. Planned capital expenditure for 2010/11 is around £3.7 billion and almost all of the spending (99% in FY 2009) is supported by regulatory arrangements or long-term contracts.

FIGURE 3
2009/10 Capital Investment Programme (£ millions)



Source: National Grid

Solid growth is expected to continue with the group planning investment of around £22 billion to 2014/15. Three quarters of this total is anticipated to be spent in the UK, where the group says it has indentified significant investment requirements. In electricity transmission, for example, NGET needs to replace ageing infrastructure, reinforce the network to accommodate changing sources of supply and connect new generation.

National Grid has also identified other potential opportunities including offshore transmission networks and carbon capture and storage. According to the company, these investments are discretionary and will be subject to further evaluation, including establishing suitable remuneration regimes, before funds are allocated. Some of the opportunities including, for example, offshore transmission are likely to be subject to competitive processes.

FIGURE 4

Planned Capex 2010/11 to 2014/15

Business	
UK regulated onshore electricity transmission	£9 billion
UK gas transmission	£2 billion
UK gas distribution	£3 billion
US transmission	£2 billion
US gas distribution	£2 billion
US electricity distribution	£2 billion
Other	£2 billion
Total	£22 billion

Source: National Grid Half Year Results Presentation

Given the very significant investment that will be required in the UK energy sector, it seems unlikely that the scale of National Grid's UK capital investment programme will do anything but increase over the next decade. We further note that the US faces very similar challenges, as it moves to decarbonise generation and develop smart grids, and there is scope for National Grid to make significant additional investments in its asset base there. The group says that it will not increase investment unless, or until, it is able to achieve satisfactory returns.

National Grid has made a number of significant acquisitions in recent years including, most recently, KeySpan Corporation in 2007. Further acquisitions are possible, most likely in the group's core markets of electricity and gas delivery in the UK and US, or generation assets where the exposure to commodity price fluctuations is limited. However, whilst National Grid's ratings are considered to be well positioned in their rating categories, the group has limited headroom to fund its current capital investment plans and material acquisitions without further balance sheet strengthening.

... and an emphasis on improving returns

Key to the group's strategy is using its operational and regulatory expertise to control costs, extract synergies, improve returns and so outperform benchmarks.

The scale of National Grid's business provides significant scope for efficiencies. For the last financial year, the group reported that it had made procurement savings of more than £160 million, much of which was related to the purchase of new fixed assets for the capital investment programme. The group reduced real controllable costs by 2% in the year and reported that, as at March 2010, it had realised synergy savings of $159 million following the acquisition of KeySpan.

Operating returns from the UK businesses for the year to March 2010 were good. The group reported real vanilla returns of 6.6% for electricity transmission and 7.6% for gas transmission, as compared to the regulatory allowed return of 5.05% for both businesses. In gas distribution, the achieved return was 6.3% as compared to the allowed 4.94% and the company estimates that it achieves a nominal return on equity for the three main UK businesses in excess of 14%.

Returns from the US businesses are improving but, for the last financial year, fell a long way short of those for the UK. For the 40% of its US rate base where new rate plans are delivering returns, National Grid reported achieved equity returns of 11.3% as compared to the allowed 10.2%. For the 35% of the rate base where decisions were pending (as at 31 March 2010), the achieved return was just 4.5%.

FIGURE 5
US Rate Case Decisions

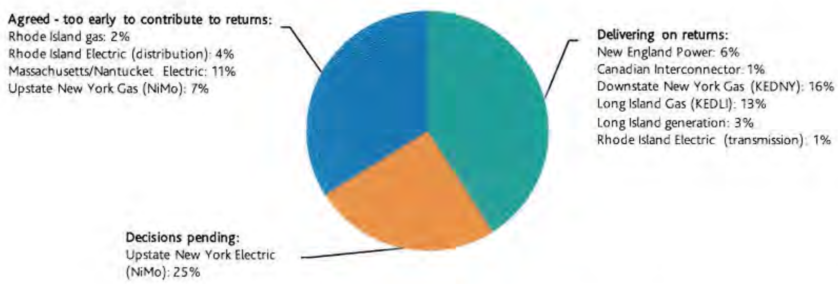
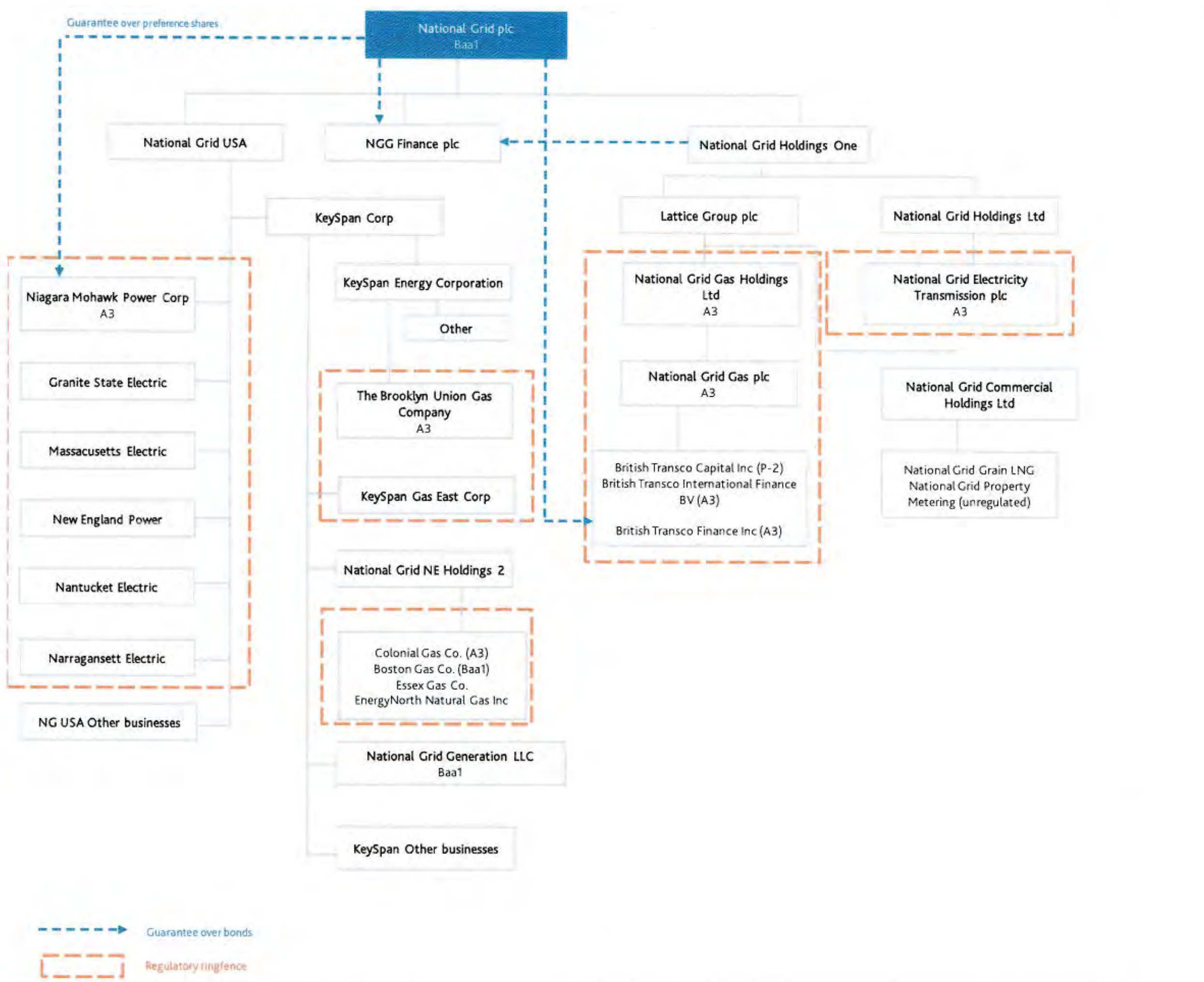


FIGURE 6
Corporate Structure



Key Rating Considerations

In rating companies within the National Grid group, Moody's considers the credit standing of the rated entity on a stand-alone basis but also the consolidated rating of the group as a whole in accordance with the rating agency's methodology for complex European utility groups. [2]

The Baa1/Prime-2 ratings of National Grid Plc are underpinned by the relatively low-risk businesses of the group, the vast majority of which operate within stable and transparent regulatory frameworks. However the ratings also reflect the weaker position of its structurally subordinated debt holders as compared to those at the operating companies, given that the latter benefit from protection afforded by a comprehensive set of regulatory ring-fence provisions as well as closer proximity to assets and cash flows. The A3 ratings of the principal operating subsidiaries reflect their low business risk profile, the regulatory frameworks within which they operate and the moderate leverage, reflected by the debt protection metrics that are in line with the parameters required for such businesses to achieve at least A3 ratings. Ratings are however constrained by the high and, in Moody's view, growing demand on operating company cash flows to service debt at the holding company and the group's dividend policy.

National Grid's management has been very focused on shareholder returns. There have been significant share buy-backs, ordinary dividends grew by 62% over the five years to March 2010 and the group is targeting further increases of 8% per annum to 2012. Moody's does not consider that these returns have been justified by the underlying performance of the business, or that planned returns are consistent with the scale of the capital investment programme.

It may be that future outperformance in the UK together with growing returns from the US businesses will be sufficient to fund both dividends and the group's capital investment programme. Alternatively, if National Grid is to avoid reducing dividend growth and/or capital investment, whilst maintaining its credit standing, then it seems further balance sheet strengthening will be required in the medium term. We note that the group is not presently entertaining the possibility of a broad review of its US operations but this may, over time, become more attractive than a rights issue.

Financial performance for the year to March 2010 was strong. Under the regulatory regime, revenue for NGET and NGG benefitted from the relatively high inflation during 2008, whilst low inflation and deflation during 2009 limited cost increases and low interest rates reduced funding costs. The US business further benefitted from accelerated tax depreciation under the Obama stimulus package.

As mentioned, half year results for 2010/11 showed solid increases in operating profit albeit this was, to a significant degree, due to timing issues. With low inflation/deflation during 2009 depressing allowed price increases for the current year, we anticipate that underlying growth in revenues from the regulated UK businesses will be modest for 2010. However, earnings from the US should continue to increase as the group realises the benefit of recent rate cases and we further note the reported increases in (i) gas distribution income due to an increase in customer numbers; and (ii) regulated electricity distribution and generation income due to hot weather during the summer. Key financial metrics will additionally benefit from the reduction in debt due to the rights issue and debt buyback programme.

In August 2009, Moody's published its global rating methodologies for Regulated Electric and Gas Utilities and for Regulated Electric and Gas Networks. These methodologies provide guidance as to our analytical approach and map the key factors used in determining the ratings for electric and gas utility companies and electric and gas networks worldwide, whose credit profile is influenced to a large

[2] Please see European Regulated Utility Groups: Methodology Update (101671) January 2007

degree by the presence of regulation. The Regulated Electric and Gas Utilities methodology is considered in rating both National Grid Plc and the US operating subsidiaries whilst the Regulated Electric and Gas Networks methodology is used in Moody's evaluation of the principal UK operating companies, NGET and NGG.

The different group entities fall under different rating methodologies due to the different business models. However, we are mindful of the fact that National Grid is a single group and also that the operating risk profile of the various regulated operations is similar. There are of course some differences and, for example, the regulatory regime and ability to recover costs is considered to be moderately stronger in the UK.

We discuss below how National Grid Plc and its subsidiaries score under the main rating factors within the two methodologies and also outline the additional considerations particularly with regard to Moody's analysis of the consolidated financial risk profile of the group. The scores for the individual factors and sub-factors under the methodology are included in Appendix 2.

1. Regulatory Framework and Cost Recovery

Ratings benefit from generally well defined and supportive regulatory regimes with predictable cost recovery

UK Operations

Transmission

In the UK, NGET and NGG are subject to regulation by Ofgem. The operators' revenues are determined using a 'RPI-X' formula which is intended to cover operating costs and capital depreciation in addition to providing a return on the regulatory asset value (RAV).

The regulator reviews prices every five years and the current price control period for both electricity and gas transmission covers the period from April 2007 to March 2012.[3] Under the terms of this regulatory settlement, NGET and NGG are allowed to earn a 5.05% (vanilla) return on their RAV of £7.5 billion and £4.5 billion respectively (as at March 2010). Various regulatory incentive schemes have however enabled both companies to achieve higher returns in 2009/10, 6.6% in the case of NGET (2008/09: 4.7%) and 7.6% for NGG (2008/09: 6.9%).

Moody's views the regulatory framework in the UK as supportive and assigns a score of Aaa for the stability and predictability of the regulatory regime under the Regulated Electric and Gas Networks methodology. Both NGG and NGET are scored Aa for the asset ownership model reflecting the fact that their assets are held outright but under the terms of a license that can be terminated for gross underperformance. We further assign a score of single-A for cost and investment recovery as the tariff formulae allow for the recovery of efficient operating expenditure and depreciation based on allowances set at frequent intervals and a fair return on efficient investment.

We assign a score of Aa for revenue risk as the group has little exposure to volume risk.

[3] The next regulatory period, RIIO-T1 will start from 1 April 2013, and there will be a one year 'adapted roll-over' of the current price control (TPCR4) for the period from 1 April 2012 to 31 March 2013

Gas Distribution

In the UK, NGG's gas distribution activities are again regulated by Ofgem.

Each of the four regional networks are subject to separate price controls that regulate the charges that NGG can impose on gas shippers for the use of the respective network. These maximum prices are based on the regulator's allowances for operating, capital and replacement expenditure, together with depreciation of and a return on the RAV (£7.0 billion as at March 2010). Charges are set by the company broadly to allow it to recover the allowed revenue but in any year the amount collected may be more or less than permitted and any difference is carried forward to the following year.

The current five-year regulatory period began in April 2008 and ends in March 2013. The regulator has allowed for £1.6 billion of operating expenditure over the five years and £2.5 billion of baseline capital expenditure of £1.8 billion for maintenance capex and £0.7 billion for new assets. Based on an assumed cost of capital of 4.94% (vanilla return), NGG is allowed to increase its prices each year at a rate up to a maximum of 2% above RPI.

NGG is required to meet service standards set by the regulator in relation to, for example, dealing with customers and attending reported gas leaks. Failure to meet these standards can result in the company having to pay compensation. Conversely, there are a number of regulatory incentive schemes that allow NGG to increase its revenue; under the mains replacement incentive mechanism the company retains 36% of any out-performance against Ofgem's annual cost targets but must also bear 36% of any overspend if it underperforms.

Moody's assigns the same scores for NGG's gas distribution business as for transmission (see above).

US Operations

Transmission

Revenue for National Grid's transmission businesses in New York and New England is collected from the operators' customers, including National Grid's own Electricity Distribution and Generation business pursuant to tariffs approved by state utility commissions and by the Federal Energy Regulatory Commission (FERC).

In New York, the rates allow for capital expenditure on the transmission network based on historic levels, which are significantly lower than the company believes are required to maintain a safe and reliable network. Over recent years, the level of investment has been three to four times higher than the levels allowed in the rate plan. In January 2010, National Grid filed to establish new rates in line with forecast investment levels. If approved, the new rates would take effect from February 2011. In addition, National Grid has petitioned for additional revenues with respect to incremental capital expenditure for 2008 and anticipates also petitioning for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

In New England, the transmission tariff allows for recovery of, and a return on, capital expenditure as new investment enters service, bringing immediate revenue benefits.

The New York rate plan is intended to promote efficient operation. To the extent that National Grid performs the necessary activities and spends less than the allowed operating costs, the company enjoys higher returns. The current plan also however exposes National Grid to volume risk with revenue adjusted according to the volume of electricity transmitted.

In New England, efficient operations are also key but the regime is generally more favourable than that in New York as network availability, energy delivery and operational expenditure are all pass-through items.

Gas Distribution

The prices that National Grid's subsidiaries may charge are set by the respective regulators, based on a cost of service model designed to allow recovery of the costs incurred in providing the services to customers together with a return on equity invested. Customer bills typically comprise a commodity rate to recover the cost of gas delivered and a delivery rate to cover the gas delivery service. The delivery rate is split between a flat connection charge and a volume charge reflecting the amount of gas taken although the split between these components varies by company and customer type.

Depending on the jurisdiction, gas costs are set monthly, semi-annually or annually based on estimated gas prices and volumes. The cost of gas purchased by the National Grid subsidiaries, which represents a significant proportion of overall costs, is a direct pass through and prices are adjusted to ensure that any over- or under recovery of these costs is returned to or recovered from customers with interest. As a consequence, National Grid has no economic exposure to (prudently incurred) commodity costs but there may be timing differences between the group incurring and recovering costs, particularly during period of significant price volatility.

The rate plans agreed with the different regulators set out various service standards in relation to *inter alia* reliability, dealing with customers and responding to gas leaks and a failure to meet these standards can result in financial penalties. Conversely, and subject to sharing arrangements, National Grid benefits from any efficiency improvements in excess of those built into the rate plan assumptions.

National Grid has, or is in the process of agreeing new rate plans for all of its US gas distribution businesses. These typically provide for revenue decoupling, timely recovery of costs, pension and benefit true-ups, bad debt recovery and competitive returns. With some notable exceptions (specifically in New Hampshire), the group considers that it has been successful in its rate case filings.

As mentioned, MADPU released its decision on the Mass. Gas[4] filing in November 2010, approving a $58 million annual revenue increase based on a 9.75% return on equity (ROE) with a 50:50 debt equity capital structure. The allowed increase was some way below company's request for $104 million of additional revenue and a 11.3% ROE, although the latter was based on a slightly different capital structure and the company was successful in achieving revenue decoupling and annual reconciliation of controllable costs.

In New Hampshire, and following a series of what the group considers to be disappointing decisions by the New Hampshire Public Utilities Commission, National Grid filed a new rate case for Energy North in February 2010. The group is seeking a revenue increase of $11 million and a return on equity of 11.2%. A decision on the new filing is expected in early 2011 and, in the meantime, National Grid says that it is evaluating options to exit its gas and electricity businesses in the state (which together account for less than 3% of the rate base).

Whilst achieved returns for the downstate New York and Long Island gas businesses are, as shown below, in double digits the same is not true elsewhere. Even when new rate cases are agreed, it takes time for the benefit of the increase in allowed revenues to be seen.

[4] Mass. Gas comprises three companies, Boston Gas, Essex Gas and Colonial Gas which together account for around 10% of National Grid's US rate base

FIGURE 7

Summary of US Gas Rate Plans

Regulatory Entity	Rate base		Return on equity		Allowed return
	2009	2008	2009	2008	
KEDNY	2,350	2,294	11.2%	11.9%	9.8%
KEDLI	1,899	1,795	10.5%	11.1%	9.8%
Mass. Gas	1,536	1,488	2.9%	8.3%	10.6%
Energy North	193	191	3.8%	4.4%	9.5%
Narragansett	337	337	6.7%	7.6%	10.5%
Niagara Mohawk Gas	1,103	1,067	3.8%	4.8%	10.2%

Source: National Grid Annual Report and Accounts 2009/10

Electricity Distribution and Generation

The rates that National Grid can charge its customers are set by various regional regulators and the regulatory model is intended to ensure that the operator can cover the costs that it incurs in providing the service and earn a return on the capital invested.

Customer bills typically comprise a commodity charge, covering the cost of the electricity delivered, and a delivery rate, covering the operator's electricity delivery service. Delivery rates comprise a combination of a per customer charge, a demand charge and a price per additional kWh of electricity delivered.

As is the case for National Grid's US gas distribution businesses, a substantial proportion of the costs are commodity costs which are pass-through items. Customer tariffs are adjusted on a regular basis to ensure that over- or under-recovery of these costs is returned to, or recovered from, customers. National Grid is not therefore exposed to these items although there may be timing differences.

National Grid's Long Island generation plants sell electricity to the Long Island Power Authority (LIPA) a municipal subdivision of the State of New York under a contract, approved by FERC, which provides a similar economic effect to the cost of service rate regulation.

As previously mentioned, the most notable pending rate case is that for the NiMo electric business. This case was filed in January 2010 with the company requesting a $361 million revenue increase and a return on equity of 10.8%. In the latest round of the process, the Administrative Law Judge has recommended National Grid gets $99 million and a 9.3% ROE. Whilst there will undoubtedly be some movement before the final decision is made in January, a double digit return looks unlikely given low risk free rates, the economic backdrop and the noise generated by the corporate expenses that National Grid mistakenly included in the filing.

The new rates for NiMo will come into effect in February 2011 and, following the move from a three year to a one year case, National Grid will be free to re-file later in the year.

FIGURE 8

Summary of Electric Rate Plans

Regulatory Entity	Rate base		Return on equity		Allowed return current
	2009	2008	2009	2008	
Niagara Mohawk Electric	4,375	4,609	5.1%	6.7%	10.6%
Massachusetts (Electric)	1,494	1,495	4.7%	7.0%	10.35
Narragansett Electric (Distribution only)	584	564	(2.9%)	2.3%	9.8%
Long Island Generation	503	574	13.5%	7.1%	10.75%

Source: National Grid Annual Report and Accounts 2009/ 2010

Methodology Scoring

Moody's assigns a weighted score of Baa/A for the regulatory framework and ability to recover costs and earn returns for National Grid's US operations. This reflects the well developed nature of the regulatory framework and largely predictable nature of rate/tariff reviews but also an element of unpredictability in the application of the framework and the sometimes political drivers amongst regulators.

2. Efficiency and Execution Risk

Efficiency and execution risk is a factor in the Regulated Electric and Gas Networks methodology applied to NGG and NGET; it is assessed by reference to the operators' cost efficiency and the scale and complexity of the required capital programme.

National Grid measures the financial performance of its UK regulated businesses using an operational return metric comparable to the vanilla rate of return in the regulatory price controls. In its electricity transmission operations, National Grid reported that it had achieved a 6.6% operational return (2008/09: 4.7%), some way above the regulators' allowed rate of return (5.05%) due to strong performance under incentive schemes. In its gas transmission operations the company achieved a 7.6% return in 2009/10 (2008/09: 6.9%) again significantly outperforming regulatory assumptions as a result of strong performance under incentive schemes.

Moody's assigns NGG and NGET a score of Baa for cost efficiency as we consider their performance across regulatory periods to be broadly in line with the regulator's assumptions.

As previously mentioned, NGG and NGET have very significant capital investment programmes. Capital investment in the replacement, reinforcement and extension of the UK electricity and gas transmission systems in 2009/10 was £1,254 million (2008/09: £1,259 million) and the group invested a further £670 million (2008/09: £598 million) in its UK gas distribution networks.

Moody's assigns NGG and NGET a score of Ba for the scale and complexity of the capital programme reflecting largely the absolute quantum of anticipated expenditure over coming years but also a degree of complexity.

Efficiency and execution risk is not a factor in the Regulated Electric and Gas Utilities Methodology that applies to National Grid Plc and the US subsidiaries: however, the rating agency notes that the

US operations are also making significant investments in renewing and developing infrastructure. National Grid reported capital investment in the replacement, reinforcement and extension of its US electricity transmission networks of £240 million in 2009/10 (2008/09: £182 million) and investment of £781 million (2008/09: £776 million) in its electricity and gas distribution networks.

The increased investment in electricity transmission in the US relates mainly to reliability projects in New England and New York. National Grid expects increasing investment in New England to deliver regional system enhancement projects, including the $2.1 billion (National Grid's share - $0.6 billion) New England East-West Solution project, designed to address reliability problems in the Southern New England transmission systems. Transmission projects in New England and New York are expected to contribute around $1.7 billion towards National Grid's investment programme over the next five years.

3. Stability of Business Model & Financial Structure

The ability and willingness to pursue corporate activity and the ability and willingness to increase leverage are factors in the Regulated Networks Methodology applied to NGG and NGET.

National Grid has a portfolio comprising largely regulated assets that generate predictable, stable, long-term cash flows with a significant capacity to support debt financing and potentially to invest in related businesses. This credit strength is however offset by the group's demonstrated willingness to pursue corporate M&A activity and maximise shareholder returns at the expense of higher leverage. Moody's notes however the recent rights issue and that whilst the group has made a number of acquisitions in recent years the ability of NGG and NGET to pursue corporate activity is limited by the terms of the subsidiaries' licences. Moody's thus assigns NGG and NGET a score of Aa for this rating sub-factor.

Investments outside of the core regulated activities of the group as a whole have been limited to related activities and these have not been made by NGG and NGET, we therefore assign a score of Aaa for NGG and NGET in respected of targeted proportion of operating profit outside of core regulated activities.

4. Diversification

Diversification is a factor in the Regulated Electric and Gas Utilities Methodology applied to National Grid Plc and to the US operating subsidiaries.

Recognising the geographic diversification of the group, Moodys assigns National Grid Plc a score of Aa for market position. The US operating subsidiaries are assigned a lower score of Baa recognising that they operate in a single economic region with some concentration in terms of markets and regulatory regimes.

National Grid and its subsidiaries do not have a meaningful exposure to generation risk or commodity prices and we do not there assign a score for this sub-factor.

5. Financial Strength and Liquidity

The credit metrics for National Grid Plc and its subsidiaries result in scores under the two rating methodologies in the Baa range. However, in analysing the financial risk profile of National Grid and its subsidiaries Moody's considers a number of further credit ratios and, as was the case prior the introduction of the methodologies, we will continue to focus on the RCF/Net Debt and FFO Interest Cover ratios for the group as a whole. Moody's considers that these two metrics effectively capture the group's financial performance and allow the rating agency to provide clear guidance to the group and the market.

Moody's guidance for the group's current ratings are FFO interest cover of at least 3.0x and RCF to Net Debt of at least 9.0%.

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

National Grid has good liquidity albeit there is a reliance on continued market access to refinance maturing debt and to fund the significant capital investment programme. The group enjoys good access to the capital markets although, with the benefit of the rights issue proceeds, it has repaid rather than issued debt in the current financial year. In its half year results, National Grid reported that it had repaid two bank loans in the amount of £182 million, repurchased bonds totalling £731 million and not refinanced £619 million of maturing debt.

The group has a number of bank facilities including:

» £750 million plus $280 million of bilateral facilities at National Grid Plc;

» a $850 million syndicated facility for National Grid Plc with National Grid USA as a named borrower;

» a £715 million facility at NGET; and

» a £425 million facility at NGG.

The US Opco's can continue to access the group's money pool which is in turn supported by the National Grid Plc facilities.

Moody's assigns National Grid Plc and the rated US subsidiaries a score of Baa for liquidity under the Regulated Electric and Gas Utilities methodology. The single score reflects the fact that funding is arranged on a group-wide basis and, whilst there are certain regulatory constraints, cash flows relatively freely between the different subsidiaries.

Rating Positioning

Following the rights issue, National Grid and its rated subsidiaries are considered to be well positioned in their rating categories. Moody's considers, however, that the current headroom is likely to be eroded over the medium term by the scale of the capital investment programme and by dividend payments. Negative rating pressure is, however, not currently anticipated.

Appendix 1 – Key Financials

in mio £	Mar-2008	Mar-2009	Mar-2010
Operating Earnings, as adjusted by Moody's			
Group Turnover	11,423	15,624	13,988
EBIT	3,186	2,530	3,275
Interest Expense [1]	1,154	1,401	1,101
Cash Flow Inputs, as adjusted by Moody's			
Funds from Operations (FFO) [2]	2,481	2,876	3,234
Dividends	-780	-838	-688
Retained Cash Flow (RCF)	1,701	2,038	2,546
Capex [3]	2,919	3,239	3,169
Debt Inputs, as adjusted by Moody's			
Short-Term Debt + Long-Term Debt	21,003	26,793	25,124
Operating Leases	519	717	689
Underfunded Pension Obligations	158	1,203	1,412
Accrued Interest	-225	-258	-232
Nuclear Decommissioning Liabilities	54	61	51
Derivatives	-536	-1,201	-1,039
Collateral	-345	-473	-501
Cash & Cash Equivalents	-2,236	-2,520	-1,760
Total Net Debt (as adjusted)	18,392	24,322	23,744
Key Credit Metrics			
EBITA Margin	28.3%	16.6%	23.8%
FFO Interest Cover	3.1x	3.1x	3.9x
FFO/ Net Debt	13.5%	11.8%	13.6%
RCF/ Net Debt	9.2%	8.4%	10.7%
RCF/ Capex + Investments (net of disposals)	26.7%	62.9%	62.9%
Debt/ Book Capitalisation	71.5%	81.0%	77.4%

[1] Interest Expense includes the interest element of operating leases (1/3 of lease rental), the interest attributable to the pension debt adjustment, capitalised interest and interest related to nuclear decommissioning liabilities.

[2] FFO includes the capital element of operating leases (2/3 of lease rental), which is added back as part of the depreciation, and the excess contribution over pension service costs.

[3] Capex as adjusted by Moody's includes the capital element of operating leases.

Appendix 2 – Rating Methodology Grids

Rating Factors – National Grid Plc

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

* 3-year average

Rating Factors – National Grid Electricity Transmission plc

Regulated Electric and Gas Networks	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Environment and Asset Ownership Model (40%)						
a) Stability and Predictability of Regulatory Regime	X					
b) Asset Ownership Model		X				
c) Cost and Investment Recovery			X			
d) Revenue Risk	X					
Factor 2: Efficiency and Execution Risk (10%)						
a) Cost Efficiency				X		
b) Scale and Complexity of Capital Programme					X	
Factor 3: Stability of Business Model & Financial Structure (10%)						
a) Ability & Willingness to Pursue Opportunistic Corp. Activity			X			
b) Ability & Willingness to Increase Leverage				X		
c) Targeted Proportion of Op. Profit outside Core Reg. Activities		X				
Factor 4: Key Credit Metrics* (40%)						
a) Adjusted ICR				X		
b) Net Debt / RAV				X		
c) FFO / Net Debt			X			
d) RCF / Capex					X	
Rating:						
a) Indicated Rating from Methodology			A3			
b) Actual Rating Assigned			A3			

* 3-year average

Rating Factors – National Grid Gas Plc

Regulated Electric and Gas Networks	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Environment and Asset Ownership Model (40%)						
a) Stability and Predictability of Regulatory Regime	X					
b) Asset Ownership Model		X				
c) Cost and Investment Recovery			X			
d) Revenue Risk	X					
Factor 2: Efficiency and Execution Risk (10%)						
a) Cost Efficiency				X		
b) Scale and Complexity of Capital Programme					X	
Factor 3: Stability of Business Model & Financial Structure (10%)						
a) Ability & Willingness to Pursue Opportunistic Corp. Activity			X			
b) Ability & Willingness to Increase Leverage				X		
c) Targeted Proportion of Op. Profit outside Core Reg. Activities		X				
Factor 4: Key Credit Metrics* (40%)						
a) FFO Interest Cover			X			
b) Net Debt / RAV			X			
c) FFO / Net Debt			X			
d) RCF / Capex						X
Rating:						
a) Indicated Rating from Methodology			A3			
b) Actual Rating Assigned			A3			

* 3-year average

Rating Factors – NG USA

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

* 3-year average

Moody's Related Research

Special Comment:

» RPI-X@20: A Welcome Review of the UK Regulatory Framework but a Step Change Could Raise Credit Risk, June 2010 (124476)

Rating Methodologies:

» Regulated Electric and Gas Networks, August 2009 (118786)

» Regulated Electric and Gas Utilities, August 2009 (118481)

» European Regulated Utility Groups: Methodology Update, January 2007 (101671)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Credit Opinion: National Grid Plc

Global Credit Research - 07 Jun 2011

London, United Kingdom

Ratings

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

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Key Indicators

National Grid Plc

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

[1] Restated

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

Opinion

Corporate Profile

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

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

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

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

Recent Developments

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

- Pre-tax profit up 25%

- Operating profit up 15%

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

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

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

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

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

Rating Rationale

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

DETAILED RATING CONSIDERATIONS

The following factors influence National Grid's ratings:

FACTOR 1: REGULATORY FRAMEWORK

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

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

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

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

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

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

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

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

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

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

FACTOR 3: DIVERSIFICATION

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

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

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

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

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

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

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

Liquidity

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

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

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

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

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

Structural Considerations

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

Rating Outlook

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

What Could Change the Rating - Down

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

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

What Could Change the Rating - Up

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

Rating Factors

National Grid Plc

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

* 3-year average

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National Grid PLC

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Table Of Contents

National Grid PLC

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:

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

Weaknesses:

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

Rationale

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

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

Key business and profitability developments

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

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

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

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

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

Key cash flow and capital-structure developments

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

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

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

Liquidity

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

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

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

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

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

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

Outlook

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

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

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

Business Description

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

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

Rating Methodology

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

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

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

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

These strengths are mitigated by the following constraints:

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

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

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

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

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

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

These weaknesses are partially mitigated by:

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

Financial Statistics/Adjustments

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

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

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

Table 1

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

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

Table 1

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

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

Standard & Poor's adjusted amounts

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

Table 2

National Grid PLC Peer Comparison

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

Table 2

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

Table 3

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

Table 3

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

Related Criteria And Research

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

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

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

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

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

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

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MOODY'S INVESTORS SERVICE

Credit Opinion: National Grid Plc

Global Credit Research - 28 May 2012

London, United Kingdom

Ratings

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

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Monica Merli/London	

Key Indicators

National Grid Plc[1]

	3/31/2011	3/31/2010	3/31/2009	3/31/2008
FFO Interest Cover	**3.8x**	**3.9x**	**3.1x**	**3.1x**
FFO / Debt	**15.7%**	**12.7%**	**10.7%**	**12.0%**
RCF / Debt	**11.9%**	**10.0%**	**7.6%**	**8.2%**
Debt / Capitalization	**64.1%**	**77.4%**	**80.5%**	**71.5%**

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

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

Opinion

Corporate Profile

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

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

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

National Grid also has a number of related unregulated businesses such as Liquefied Natural Gas importation and storage, property and metering. These operate mostly in the UK and are modest in the context of the group as a whole, accounting for around 5% of revenue and operating profit in the year to March 2012.

Recent Developments

National Grid reported its preliminary results for 2011/12 on 17 May 2012. Excluding an adverse timing impact of GBP256 million, operating profit for the group grew by GBP172 million, or 5%, on a constant currency basis. The higher earnings were largely driven by the UK regulated businesses which benefitted from high retail price index (RPI) inflation, but also a GBP68 million (57%) increase in profit from the Grain LNG, property and UK metering businesses.

On a constant currency basis and excluding timing differences of GBP183 million, operating profit for the US businesses declined by GBP12 million, or 1%, with the benefit of higher regulated income and cost reductions offset by GBP116 million of storm costs. Including storm costs and timing effects, operating profit for the group as a whole declined by 2% in 2011/12 but this must be considered in the context of a 15% increase in the prior year.

In March and April 2012, National Grid submitted updated business plans for its UK transmission and gas distribution businesses to the regulator, Ofgem, as part of the continuing price review process under the regulator's new RIIO (which stands for Revenues = Incentives + Innovation + Outputs) approach. These plans envisage total expenditure over the eight year regulatory period from April 2013 of GBP30 billion for transmission and GBP13 billion for gas distribution, including capex of GBP25 billion and GBP6 billion respectively. The plans also include National Grid's proposals for matters including incentives and transitional arrangements regarding proposed changes to asset depreciation.

Rating Rationale

Moody's rating assessment of National Grid reflects the group's focus on the ownership and operation of electricity and gas networks in the UK and US and takes into account the low business risk of assets operated under well developed regulatory frameworks and strong cash flow generation. The ratings also reflect, as negatives, the capital intensive nature of the group's business, a significant debt burden and the level of shareholder returns.

The ratings are based on Moody's methodologies for (i) Regulated Electric and Gas Utilities published in August 2009 and (ii) complex European utility groups (see European Regulated Utility Groups: Methodology Update, January 2007).

Rating Drivers

The following factors influence National Grid's ratings under Moody's Regulated Electric and Gas Utilities methodology:

FACTOR 1: REGULATORY FRAMEWORK

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

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

Whilst noting that prices from 2013 will be set under the new RIIO framework, Moody's considers the regulatory regime in the UK to be stable and predictable with a track record that demonstrates a high degree of transparency and hence limited regulatory uncertainty. For NGG and NGET, we assign a score of Aaa for Regulatory Framework. This is consistent with the score assigned for the stability and predictability of the regulatory regime for other regulated network businesses in the UK.

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

FACTOR 2: ABILITY TO RECOVER COSTS AND EARN RETURNS

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

In the past, National Grid has seen poor returns from its US businesses as higher than anticipated capital expenditure and operating costs reduced the achieved return on equity ("RoE") under old rate plans, in some cases to levels below 5%. Since 2008, however, new rate cases have come into effect for all of National Grid's US rate base and the group has been largely but not wholly successful in meeting its goals including RoE, revenue decoupling, pension and other true ups and capex trackers. As a result of the new plans and cost cutting, achieved RoE increased to 8.8% in 2011 as compared to 6.9% in 2009, but remains somewhat below the allowed 9.9% for the US operations as a whole and the 11.3% reported return for the group. We observe that reported returns in the US have also benefitted from a re-classification of regulated assets to outside the regulatory rate base (USD1.9 billion of regulated assets are now classified as outside the USD14.5 billion rate base).

The group continues to make rate case filings in the US as it seeks to further improve returns. In April, National Grid filed with the NY PSC in respect of the Niagara Mohawk gas and electricity businesses, which together comprise around one third of the US rate base. Despite rate plans that came into effect quite recently -- May 2009 for gas and January 2011 for electric -- achieved returns were a modest 6.5% (gas) and 5.6% (electric) in 2011. In April, the group also filed new rate cases for its Rhode Island gas and electric operations.

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

FACTOR 3: DIVERSIFICATION

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

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

FACTOR 4: FINANCIAL STRENGTH AND LIQUIDITY

National Grid demonstrated solid performance in terms of its key financial metrics for the year to March 2011, reflecting the emerging benefit of new US rate cases (albeit largely offset by higher post-retirement costs and depreciation) but also timing differences, which accounted for GBP433 million of the GBP476 million of growth in operating profit for the year. Key ratios for the year also benefitted from receipt of the GBP3.2 billion rights issue proceeds and also the impact of a weakening USD/GBP exchange rate on the group's USD denominated debt. However, the group reported only a 2% reduction in net finance costs for FY11 with higher interest charges for the group's index-linked debt offsetting the reduction in net debt due to the rights issue.

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

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

In its analysis, Moody's also considers the debt capacity of the group. We calculate the excess debt capacity at each operating company i.e. debt capacity at the current rating level less the amount of debt then outstanding. We then compare the aggregate debt capacity across all of the operating companies with the debt at National Grid plc to see if it is adequately supported. Our analysis suggested that this was the case as at March 2011 with the rights issue will have providing good headroom.

Liquidity

As at 31 March 2012, National Grid had cash and cash equivalents of GBP299 million, GBP2,391 million of financial investments and around GBP2.0 billion of undrawn committed bank facilities.

National Grid enjoys good access to the capital markets. Issuance was limited during FY12 following receipt of the rights issue proceeds but is expected to increase in the current financial year.

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

Moody's notes National Grid's large capital programme. For the financial year ending March 2012, the group invested a total of GBP3.4 billion. Capital investment for the current financial year is expected to be in the range of GBP3.5 to 3.8 billion with future growth driven by the need for asset replacement, but also changes in sources of gas supply and electricity generation. The management of the capital programme and the associated funding is considered a key challenge for the group, as the plan relates largely to non-discretionary capex.

National Grid has US CP programmes (USD5.0 billion) and an ECP programme (USD1.5 billion), which are utilised for working capital management and to help hedge the group's US investments exposure. As of 31 March 2012 there was no outstanding issuance under the programmes. Moody's notes management's treasury policy to limit issuance at any one time to the amount of its committed back-up facilities, to the extent that these lines are not already utilised to back up issuance by National Grid USA, National Grid Holdings Inc, NGET or NGG.

Structural Considerations

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

Rating Outlook

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

What Could Change the Rating - Up

Moody's considers upward rating pressure is unlikely in the medium term. As mentioned, the 2010 rights issue left National Grid and its subsidiaries better positioned in their rating categories but Moody's notes that the group's large capital investment programme for the UK and the possibility of additional investment in the US (above and beyond what is currently planned) will most likely reduce financial flexibility over time. The rating agency further considers that the group will favour using free cash flow to fund shareholder distributions and/or support growth rather than to reduce gearing. We note, as a positive, that the group intends to increase dividends for the current year by 4% as compared to the 8% annual growth over recent years.

What Could Change the Rating - Down

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

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

Rating Factors

National Grid Plc
600063513

Regulated Electric and Gas Utilities Industry [1][2]	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**
Factor 1: Regulatory Framework (25%)						
a) Regulatory Framework		x				
Factor 2: Ability To Recover Costs And Earn Returns (25%)						
a) Ability To Recover Costs And Earn Returns			x			
Factor 3: Diversification (10%)						
a) Market Position		x				
b) Generation and Fuel Diversity						
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)						
a) Liquidity				x		
b) FFO Interest Cover (3 Year Avg)				x		
c) FFO / Debt (3 Year Avg)				x		
d) RCF / Debt (3 Year Avg)				x		
e) Debt/Capitalization (3 Year Avg)						x

Rating:						
a) Indicated Rating from Grid			A3			
b) Actual Rating Assigned				Baa1		

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2011; Source: Moody's Financial Metrics

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This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

Division 3-10-ELEC/GAS

Request:

Please provide NEC's most recent presentation to credit rating agencies.

Response:

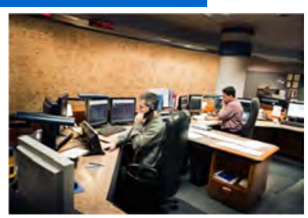
The Company's most recent presentation to credit rating agencies was made by National Grid plc. Please see Attachment DIV 3-10-ELEC/GAS.

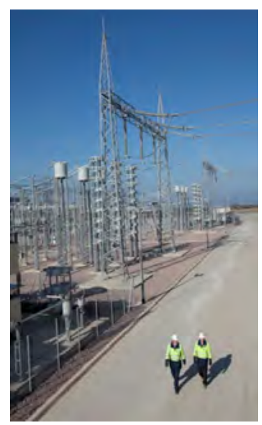
Prepared by or under the supervision of: Mustally Hussain

National Grid Annual Credit Rating update 2011

nationalgrid

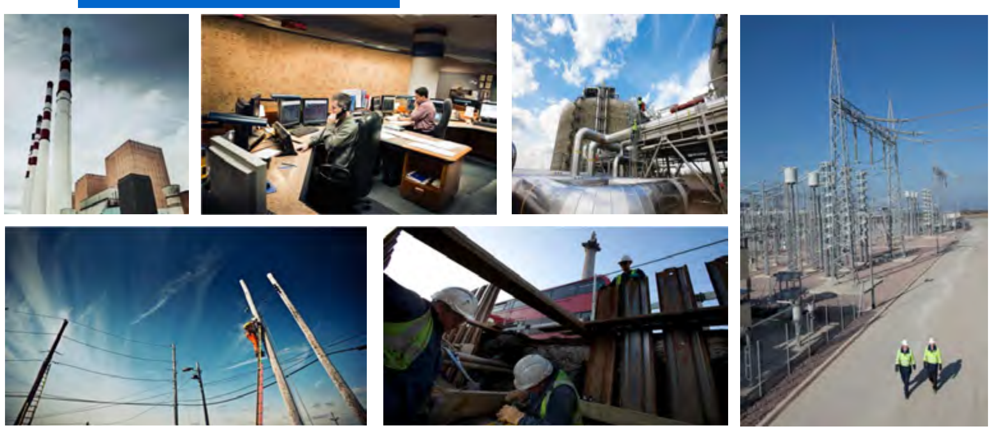
London



Andrew Bonfield

London



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A challenging year…
with strong positive outcomes

- Record £3.6bn capital investment[1]
- On time, on budget delivery of Isle of Grain III & BritNed
- New Hampshire sale
- Massachusetts Gas outcome
- US restructuring well underway
- KeySpan synergy savings
- Coped well with extreme weather in both UK and US
- Real reductions in regulated controllable operating costs

1 Includes investment in joint ventures

nationalgrid

Solid performance

Safety
- Maintained recent successes
- Five year trend remains very strong

Reliability
- UK – good despite adverse conditions
- US – extreme weather led to mixed performance

Customer satisfaction
- UK – plans to drive further improvement
- US – exceeded all regulatory customer service levels

Operating profit	↑ 15%
Operating cash flows	↑ 12%
Earnings	↑ 23%
Earnings per share	↑ 4%
Dividend per share	↑ 8%

Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations
2009/10 dividend restated for the bonus element of the rights issue shares
Operating cash flows from continuing operations before exceptional items, remeasurements, stranded cost recoveries and taxation
Prior year reported EPS restated to reflect scrip dividends and the impact of the bonus element of the rights issue

Transmission

42% of Group Operating Profit

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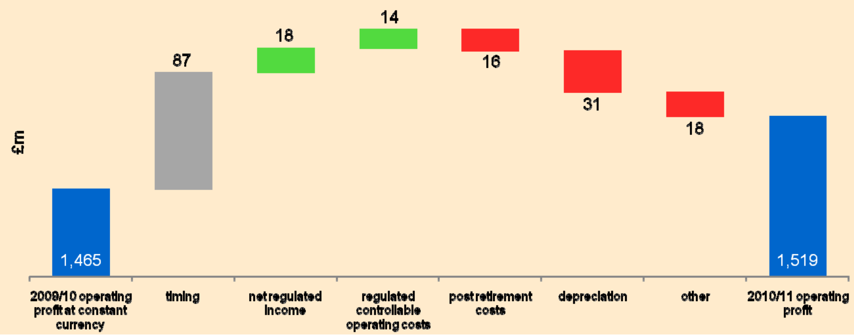
Operating profit
↑ 4%

- Regulated controllable costs down despite larger asset base
- Increased depreciation from ongoing capital investment programme
- Good year of incentive performance
- Minimal revenue increases due to RPI+X



Visual representation only – not to scale
Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations
Constant currency figures calculated by applying the average 2011 rate ($1.57 to £1.00) to 2010 results (when the average rate was $1.58 to £1.00)
Post retirement costs represent pensions and other post employment benefits

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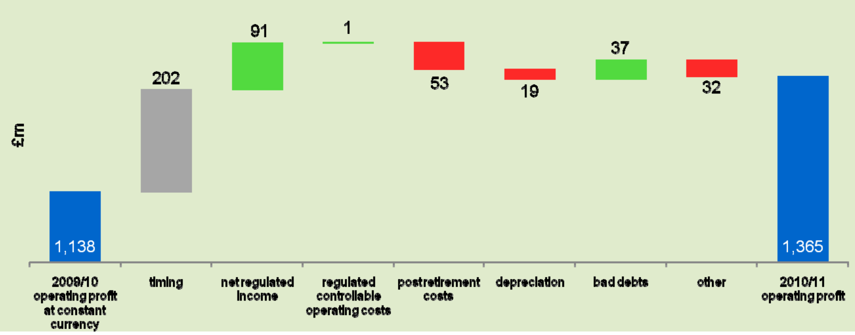
Gas Distribution

38% of Group Operating Profit

Operating profit

↑ 20%

- US Revenues benefited from good customer growth and revenue from new rate plans
- Regulated controllable costs held flat
- Reduced bad debts
- Increase in post-retirement costs and depreciation



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Constant currency figures calculated by applying the average 2011 rate ($1.57 to £1.00) to 2010 results (when the average rate was $1.58 to £1.00)
Post retirement costs represent pensions and other post employment benefits

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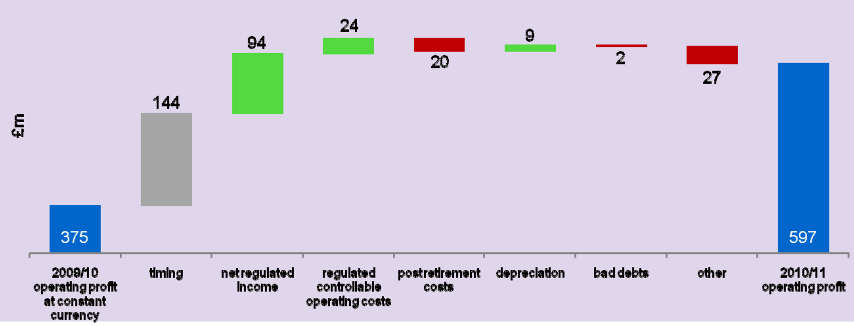
Electricity Distribution & Generation

17% of Group Operating Profit

Operating profit

↑ 59%

- Strong performance
- Revenues up due to timing, benefits of new rate cases and high summer volumes
- Regulated controllable costs down
- Bad debts flat



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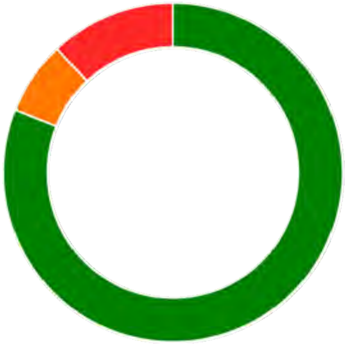
Good returns but more to do

Underperforming 11%
- NMPC Electric
- NMPC Gas
- Narragansett Electric Distribution
- Narragansett Gas

On track 7%
- Massachusetts Gas*
- Massachusetts Electric

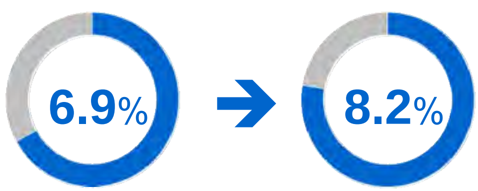
* On a pro-forma basis



Outperforming 82%
- UK Transmission
- UK Distribution
- KEDNY
- KEDLI
- New England Power
- Canadian Interconnector
- Narragansett Electric Transmission
- Long Island Generation

US progress in 2010/11

US achieved Return on Equity (%)



2009/10 **2010/11**

Actual return ■ as percentage of allowed return ■

- Improved returns, including weather related benefits
- Further restructuring and rate case benefits to come through
- Decoupling and tracking measures now in place
- Good start but significant further progress to be made
- Next phase – programme of regular filings

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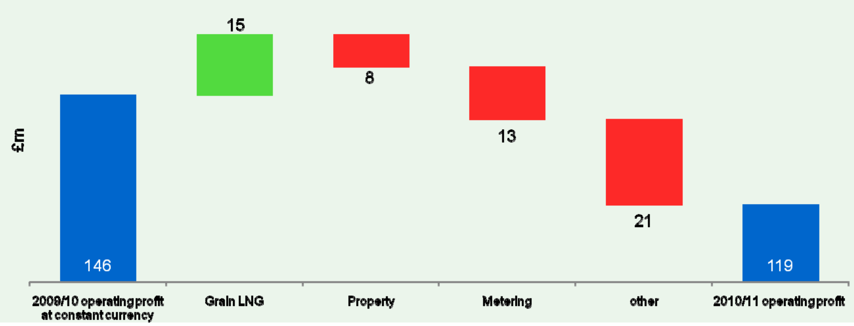
Non-regulated & other

3% of Group Operating Profit

Operating profit
↓ 18%

- Reduced profits in metering due to reduced meter population
- Increased US system development costs
- Grain LNG profit increased after phase III completion



Visual representation only – not to scale
Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations
Constant currency figures calculated by applying the average 2011 rate ($1.57 to £1.00) to 2010 results (when the average rate was $1.58 to £1.00)

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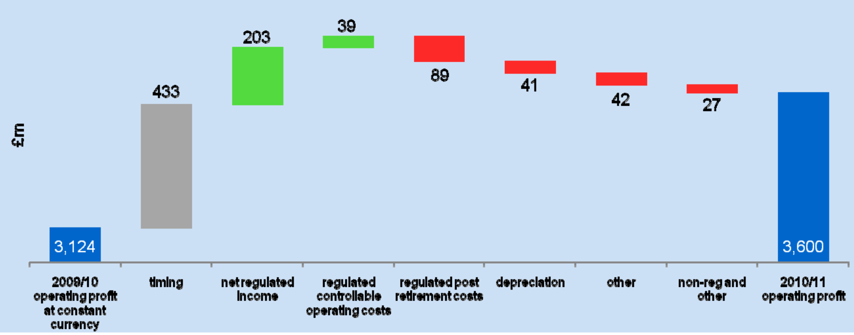
National Grid

Operating profit
↑ 15%
to £3.6bn

- Timing benefits of £433m
- Operating profit excluding timing up £43m, despite exceptionally low UK revenue inflation
- Benefit of positive rate case outcomes and lower controllable costs
- Increased post retirement costs



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Constant currency figures calculated by applying the average 2011 rate ($1.57 to £1.00) to 2010 results (when the average rate was $1.58 to £1.00)
Post retirement costs represent pensions and other post employment benefits

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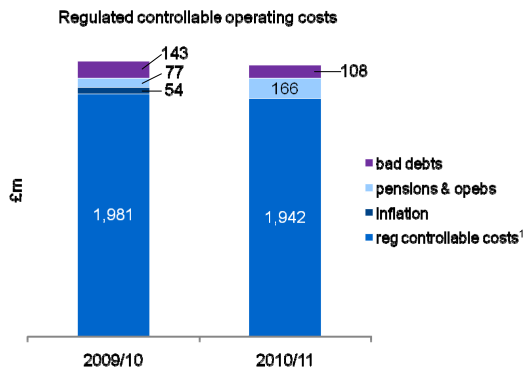
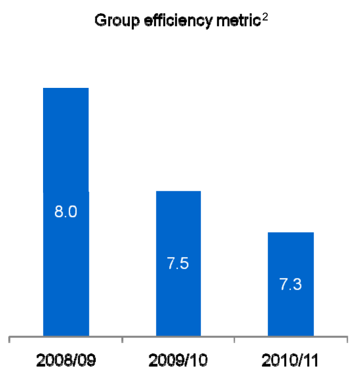
Regulated controllable operating costs

- Down £39m – a reduction of 5% in real terms[1]
- Improvement in efficiency metric, reflecting increased asset base





1 Regulated controllable costs excluding bad debts, pensions and other post employment benefits and adjusted for inflation. Constant currency figures calculated by applying the average 2011 rate ($1.57 to £1.00) to 2010 results (when the average rate was $1.58 to £1.00)
2 Regulated controllable costs excluding bad debts, including pensions and OPEBs unadjusted for inflation, divided by asset base. Asset base: mid-year UK regulatory asset value plus US rate base at constant currency

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Interest, tax and earnings

Finance costs
↓ 2%
at £(1,134)m

Tax
↑ 30%
at £(722)m
(effective tax rate 29.2%)

Earnings
↑ 23%
at £1,747m

Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations

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Cash flows

Year ended 31 March 2011	£m
Operating profit	3,600
Depreciation & amortisation	1,245
Pensions	(304)
Working capital & other	117
Net operating cash flow	4,658

Net operating cash flow

£4.7bn

Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations
Operating cash flows from continuing operations before exceptional items, remeasurements, stranded cost recoveries and taxation

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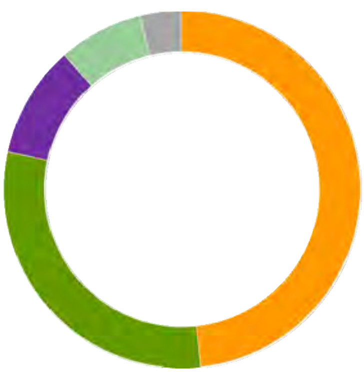
Capital investment



	£m
Transmission	1,742
Gas Distribution	1,084
ED&G	367
Non-reg & other	275
Joint ventures	135
Total	**3,603**

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Cash flows and balance sheet

Year ended 31 March 2011	£m
Operating profit	3,600
Depreciation & amortisation	1,245
Pensions	(304)
Working capital & other	117
Net operating cash flow	4,658
Operating cash flow less cash investment	1,426
Net debt	18,731

Net operating cash flow
£4.7bn

Operating cash flow after capex
£1.4bn

Net debt
£18.7bn

Business performance, excluding exceptional items, remeasurements and stranded cost recoveries for continuing operations
Operating cash flows from continuing operations before exceptional items, remeasurements, stranded cost recoveries and taxation

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Key priorities

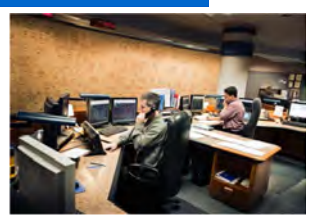
Deliver the new operating model	◆ Complete the transition to the new operating model by July ◆ Hit the $200m saving run rate by March 2012
Deliver the core investment programme	◆ ~£3.6bn investment in 2011/12 ◆ Progress RIIO framework
Deliver cost reductions	◆ Reductions across the Group ◆ Realign UK Gas Distribution costs with frontier networks

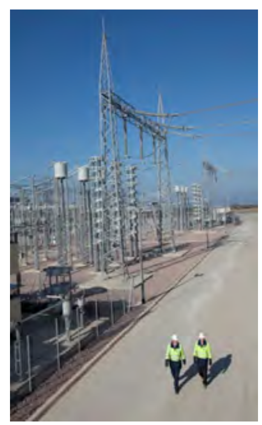
Well positioned to drive performance and deliver attractive returns

Malcolm Cooper

nationalgrid

London



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Debt in the Group

Gross and net debt as at 31 March 2011 (IFRS, £bn)	Gross Debt	Net Debt
National Grid plc, NGG Finance plc and other	**5.0**	**2.9**
National Grid Electricity Transmission plc	**4.4**	**4.4**
National Grid Gas plc	**6.9**	**6.7**
National Grid Grain LNG	**0.3**	**0.3**
Total UK debt	**16.6**	**14.3**
Total US debt (at $1.6 = £1)	**5.4**	**4.4**
Total IFRS debt*	22.0	18.7

*** Gross debt defined as total borrowings, net of derivative financial assets and liabilities. Net debt defined as gross debt, less cash and cash equivalents and financial investments**

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Funding headlines

We are committed to financing our business in a manner consistent with maintaining an efficient balance sheet and optimising our cost of capital. External debt is raised by our operating companies, intermediate holding companies and by the Group parent company, National Grid plc. We typically aim to hold an amount of debt in each of our regulated operating companies that maintains a debt to equity ratio consistent with that assumed by the relevant regulator.

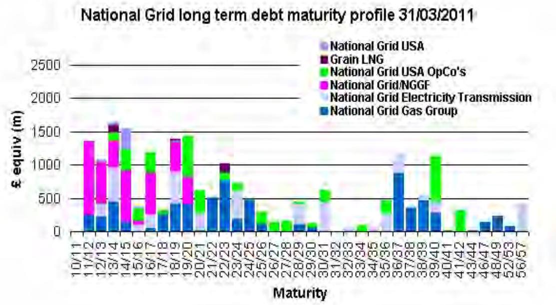
We are currently long of cash, with around £3bn of cash at the year end. We anticipate funding modestly over the remainder of this year. With net debt increasing over the next few years and refinancing of existing debt staying at the levels seen recently, we expect to have an annual funding requirement of around £3bn going forward excluding any pre-funding.

FFO interest cover
3.8x

- Target range (trend) 3.0x to 3.5x
- Commitment to A range ratings at UK Operating Companies

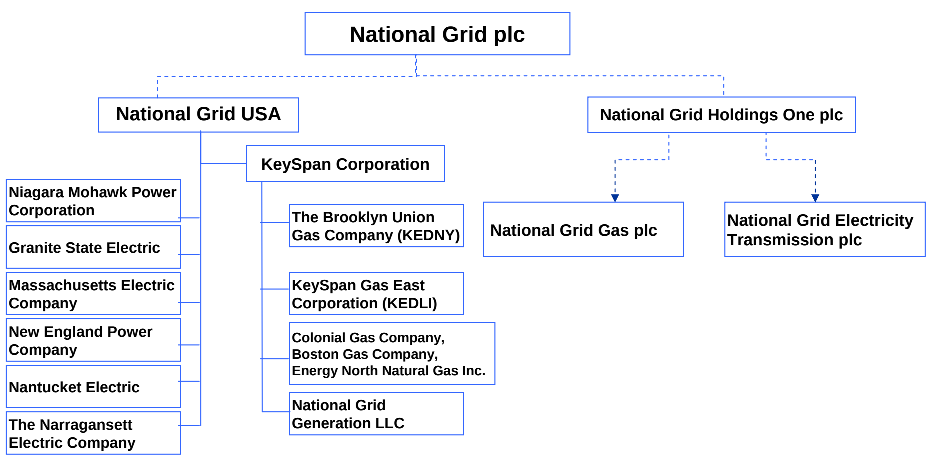
Average debt maturity….c. 13 years

Company	Approximate Weighted Average Debt Maturity
National Grid plc	3 yrs
National Grid Electricity Transmission plc	17 yrs
National Grid Gas plc	16 yrs
US Group	12 yrs



Debt maturity profile at 31st March 11 at £1=$1.6

Group structure (summary)



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Group credit ratings

Senior Unsecured / Short-Term ratings	Moody's	S&P	Fitch
National Grid plc	Baa1/P2	BBB+/A2	BBB+/F2
National Grid Electricity Transmission plc	A3/P2	A-/A2	A/F2
National Grid Holdings One plc	Not rated	BBB+/A2	Not rated
National Grid Gas plc[1]	A3/P2	A-/A2	A/F2
National Grid Gas Holdings Limited	A3/---	A-[3]/---	A/---
National Grid USA	Baa1/P2	BBB+/A2	Not rated
National Grid Holdings Inc	Not rated	A-[3]/---	Not rated
Niagara Mohawk Power Corporation	A3/--	A-/A2	Not rated
Massachusetts Electric Co.	A3/P2	A-/A2	Not rated
New England Power Co.	A3/P2	A-/A2	Not rated
The Narragansett Electric Co.	A3/---	A-/A2	Not rated
KeySpan Corporation	Baa1/P2	A-/A2	A-/---
The Brooklyn Union Gas Company	A3/---	A/---	A+/---
KeySpan Gas East Corporation	A3/---	A/---	A/---
Boston Gas Company	Baa1/--	A-/--	Not rated
Colonial Gas Company	A3[2]/---	A-[3]/---	Not rated
National Grid Generation LLC	Baa1[2]/---	A-[3]/---	Not rated

[1]NGG is also rated "A/Stable" by JCR [2]Issuer rating [3]Corporate credit rating

The ratings set forth above are not a recommendation to purchase, hold or sell notes, that may be issued from time to time, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The ratings are based on current information we have given to the rating agencies and information obtained by the rating agencies from other sources. The ratings are only accurate as of the date hereof and may be changed, superseded or withdrawn as a result of changes in, or unavailability of, such information and, therefore, a prospective purchaser should check the current ratings before purchasing notes.

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Debt funding policies

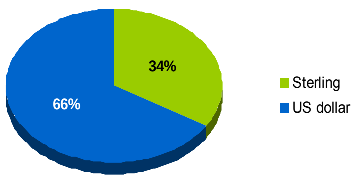
Foreign exchange risk management
- Principle foreign exchange risk is $US
- 'Natural hedge': manage $US financial liabilities to match $US cash flows
- Hedge certain contractually committed foreign exchange transactions

Interest rate risk management
- We seek to minimise total financing costs within present fixed/floating ranges
- Exposure managed using fixed-rate and floating rate debt, interest rate swaps, swap options and forward rate agreements (FRAs)
- After FRAs 65% of debt interest is fixed

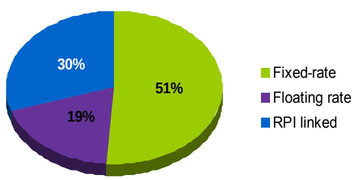
Counterparty risk
- Controlled through credit limits, approvals and monitoring procedures
- For multiple transactions with a single counterparty we usually use a master netting agreement to reduce exposure to credit risk

Refinancing risk
- Controlled through limits on the amount of financing obligations arising in any given year
- Limits the amount of debt falling due for refinancing in any given time frame

Currency profile*
(at 31-Mar-11)



Interest rate profile - future years**
(at 31-Mar-11)



* Post derivative financial instruments. Excludes Euros which account for < 0.2%.
** Interest rate profile shows only the future years position excluding derivatives that mature within the next year.

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Group borrowing facilities and liquidity

- **National Grid plc**
  - $850m, 5-year syndicated facility agreement expiring November 2015 with National Grid USA as a named borrower
  - £725m + $280m of 3-year bilateral revolving credit facilities expiring second half of 2012 / early 2013 with National Grid USA as a named borrower on £200m + $280m of these facilities
  - Short-term funding programmes:
    - USCP $3bn: nil outstanding
    - ECP $1.5bn: nil outstanding
  - €15bn EMTN programme (joint with NGET):
    - National Grid in issue €4.9bn*; NGET €2.9bn*
    - €7.2bn* un-issued
- **National Grid Electricity Transmission plc**
  - £715m, 4-year bilateral revolving credit facilities expiring April 2014
  - Short-term funding programmes:
    - USCP $1bn: nil outstanding
    - ECP $1bn: nil outstanding
- **National Grid USA Group**
  - $75m, 364-day bilateral credit facilities backing-up tax-exempt debt at New England Power, expiring November 2011
  - $455m syndicated loan facility (2-year Standby Bond Purchase Facility) for New England Power, Massachusetts Electric and Nantucket Electric expiring November 2011
  - Short Term Programmes:
    - USCP $2bn: $513m* outstanding
    - ECP $2bn: $114m* outstanding
  - €4bn NGUSA EMTN programme: €0.13bn* issued
- **National Grid Gas plc**
  - £425m, 4-year bilateral revolving credit facilities expiring April 2014
  - Short-term funding programmes:
    - USCP $2.5bn: nil outstanding
    - ECP $1.25bn: nil outstanding
  - €10bn EMTN programme: €5.19bn* in issue

* As at 24th May 2011

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Cautionary statement

This presentation contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of National Grid's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid's ability to control or estimate precisely, such as changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, owing to adverse weather conditions or otherwise; performance against regulatory targets and standards and against National Grid's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to restructuring and internal transformation projects; and customers and counterparties failing to perform their obligations to the Company and its arrangements with the Long Island Power Authority not being renewed. Other factors that could cause actual results to differ materially from those described in this presentation include fluctuations in exchange rates, interest rates and commodity price indices; restrictions in National Grid's borrowing and debt arrangements, funding costs and access to financing; National Grid's status as a holding company with no revenue generating operations of its own; inflation; seasonal fluctuations; the funding requirements of its pension schemes and other post-retirement benefit schemes; the loss of key personnel or the ability to attract, train or retain qualified personnel and any disputes arising with its employees or the breach of laws or regulations by its employees; accounting standards, rules and interpretations, including changes of law and accounting standards and other factors that may affect National Grid's effective rate of tax; and incorrect or unforeseen assumptions or conclusions relating to business development activity. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see National Grid's filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the 'Risk factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). The effects of these factors are difficult to predict. New factors emerge from time to time and National Grid cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this presentation. The content of any website references herein do not form part of this presentation.

Division 3-11-ELEC/GAS

Request:

Please provide NEC and National Grid's SEC Form 10Q report for the quarter ending March 31, 2012.

Response:

The Narragansett Electric Company (the "Company") and National Grid USA are not SEC registrants and therefore do not file 10Qs or 10Ks. These companies will be preparing audited financial statements to be filed with lenders for the fiscal year ended March 31, 2012; however these financial statements are not due to be filed until July 13, 2012. The most currently available financial statements and accompanying notes for the Company are for the year ending December 31, 2011, which were contained in its Q4-2011 FERC Form 1 Annual Report and included here as Attachment DIV 3-11-ELEC/GAS.

Prepared by or under the supervision of: Michael D. Laflamme

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

STATEMENT OF INCOME

Quarterly
1. Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
2. Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
4. Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
5. If additional columns are needed, place them in a footnote.

Annual or Quarterly if applicable
5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	1,236,720,621	1,372,797,586		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	942,219,005	1,102,930,786		
5	Maintenance Expenses (402)	320-323	35,938,866	36,289,527		
6	Depreciation Expense (403)	336-337	69,188,234	65,115,189		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337	10,779	11,139		
8	Amort. & Depl. of Utility Plant (404-405)	336-337	2,373,199	2,383,948		
9	Amort. of Utility Plant Acq. Adj. (406)	336-337				
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		2,842,364	1,993,280		
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	91,386,797	87,907,125		
15	Income Taxes - Federal (409.1)	262-263	-35,239,004	4,049,142		
16	- Other (409.1)	262-263				
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	94,197,497	49,871,701		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	40,749,898	33,331,597		
19	Investment Tax Credit Adj. - Net (411.4)	266	-493,479	-527,196		
20	(Less) Gains from Disp. of Utility Plant (411.6)					
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)					
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)					
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		1,161,674,360	1,316,693,044		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		75,046,261	56,104,542		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	3,034,002,951	2,945,050,527
3	Construction Work in Progress (107)	200-201	294,928,459	111,110,961
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		3,328,931,410	3,056,161,488
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201	975,349,557	942,187,304
6	Net Utility Plant (Enter Total of line 4 less 5)		2,353,581,853	2,113,974,184
7	Nuclear Fuel in Process of Ref., Conv.,Enrich., and Fab. (120.1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120.3)		0	0
10	Spent Nuclear Fuel (120.4)		0	0
11	Nuclear Fuel Under Capital Leases (120.6)		0	0
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203	0	0
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)		2,353,581,853	2,113,974,184
15	Utility Plant Adjustments (116)		0	0
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		1,242,562	1,240,484
19	(Less) Accum. Prov. for Depr. and Amort. (122)		25,783	18,160
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123.1)	224-225	0	0
22	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		2,556,121	2,405,069
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		3,716,257	4,019,187
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		7,489,157	7,646,580
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		5,052,470	7,956,777
36	Special Deposits (132-134)		58,762,408	63,013,206
37	Working Fund (135)		500	500
38	Temporary Cash Investments (136)		0	0
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		146,247,479	171,317,594
41	Other Accounts Receivable (143)		11,726,251	11,864,680
42	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)		33,301,419	33,678,219
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc. Companies (146)		8,509,356	21,999,434
45	Fuel Stock (151)	227	0	0
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	9,589,943	7,117,561
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158.1 and 158.2)	228-229	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

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

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	-57,086	493,751
55	Gas Stored Underground - Current (164.1)		19,073,566	19,023,231
56	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)		4,780,667	5,414,405
57	Prepayments (165)		67,037,002	20,485,536
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		0	592
60	Rents Receivable (172)		179,357	365,737
61	Accrued Utility Revenues (173)		65,660,154	88,064,527
62	Miscellaneous Current and Accrued Assets (174)		2,100,391	783,140
63	Derivative Instrument Assets (175)		398,271	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	1,516,185
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		365,759,310	385,738,637
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		3,516,248	3,751,711
70	Extraordinary Property Losses (182.1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182.2)	230b	0	0
72	Other Regulatory Assets (182.3)	232	294,515,535	298,113,396
73	Prelim. Survey and Investigation Charges (Electric) (183)		1,267,078	3,417,356
74	Preliminary Natural Gas Survey and Investigation Charges 183.1)		118,236	25,303
75	Other Preliminary Survey and Investigation Charges (183.2)		0	0
76	Clearing Accounts (184)		454,098	-194,526
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	805,418	2,135,542
79	Def. Losses from Disposition of Utility Plt. (187)		0	0
80	Research, Devel. and Demonstration Expend. (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		4,742,527	5,326,285
82	Accumulated Deferred Income Taxes (190)	234	125,032,744	144,261,752
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		430,451,884	456,836,819
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		3,157,282,204	2,964,196,220

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	end of 2011/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (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)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		0	0
7	Other Paid-In Capital (208-211)	253	1,353,559,018	1,353,559,018
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	71,252,955	32,011,294
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	0	0
13	(Less) Reaquired Capital Stock (217)	250-251	0	0
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	-84,214,432	-103,400,941
16	Total Proprietary Capital (lines 2 through 15)		1,399,676,341	1,341,248,171
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	604,339,000	605,714,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	0	0
22	Unamortized Premium on Long-Term Debt (225)		0	0
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		0	0
24	Total Long-Term Debt (lines 18 through 23)		604,339,000	605,714,000
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		0	0
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		6,752,946	6,105,000
29	Accumulated Provision for Pensions and Benefits (228.3)		0	0
30	Accumulated Miscellaneous Operating Provisions (228.4)		0	0
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		14,410,802	0
34	Asset Retirement Obligations (230)		3,956,587	3,942,606
35	Total Other Noncurrent Liabilities (lines 26 through 34)		25,120,335	10,047,606
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		0	0
38	Accounts Payable (232)		131,128,428	124,473,688
39	Notes Payable to Associated Companies (233)		168,950,000	21,250,000
40	Accounts Payable to Associated Companies (234)		8,961,187	8,880,721
41	Customer Deposits (235)		10,405,545	7,996,177
42	Taxes Accrued (236)	262-263	2,231,641	3,692,167
43	Interest Accrued (237)		10,203,261	10,932,480
44	Dividends Declared (238)		27,613	27,613
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is:	Date of Report (mo, da, yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	end of 2011/Q4

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

Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		2,345,907	1,908,087
48	Miscellaneous Current and Accrued Liabilities (242)		47,400,431	63,694,179
49	Obligations Under Capital Leases-Current (243)		0	0
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		37,441,447	33,015,344
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		419,095,460	275,870,456
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		5,687,216	2,598,926
57	Accumulated Deferred Investment Tax Credits (255)	266-267	1,376,903	1,870,382
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	260,098,641	312,102,841
60	Other Regulatory Liabilities (254)	278	42,153,816	60,947,096
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum. Deferred Income Taxes-Accel. Amort.(281)	272-277	0	0
63	Accum. Deferred Income Taxes-Other Property (282)		294,988,715	303,120,233
64	Accum. Deferred Income Taxes-Other (283)		104,745,777	50,676,509
65	Total Deferred Credits (lines 56 through 64)		709,051,068	731,315,987
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		3,157,282,204	2,964,196,220

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

STATEMENT OF INCOME FOR THE YEAR (Continued)

9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. 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 material refund to the utility with respect to power or gas purchases. State for each year effected 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 or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. 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 appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No.
						1
810,697,076	887,203,589	426,023,545	485,593,997			2
						3
595,155,945	683,577,757	347,063,060	419,353,029			4
19,421,209	19,989,863	16,517,657	16,299,664			5
48,425,981	46,389,114	20,762,253	18,726,075			6
2,247	2,304	8,532	8,835			7
		2,373,199	2,383,948			8
						9
						10
						11
924,000		1,918,364	1,993,280			12
						13
66,050,414	63,675,767	25,336,383	24,231,358			14
-17,289,699	21,506,687	-17,949,305	-17,457,545			15
						16
51,007,783	21,073,587	43,189,714	28,798,114			17
16,659,311	23,562,478	24,090,587	9,769,119			18
-493,479	-527,196					19
						20
						21
						22
						23
						24
746,545,090	832,125,405	415,129,270	484,567,639			25
64,151,986	55,078,184	10,894,275	1,026,358			26

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No.	Title of Account (a)	(Ref.) Page No. (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		75,046,261	56,104,542		
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty 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)		-27,347	152,472		
34	(Less) Expenses of Nonutility Operations (417.1)		1,397,215	1,756,132		
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)		2,683,327	4,949,966		
38	Allowance for Other Funds Used During Construction (419.1)		2,057,442	809,798		
39	Miscellaneous Nonoperating Income (421)		88,813	-269,938		
40	Gain on Disposition of Property (421.1)					
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		3,397,398	3,878,544		
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)					
44	Miscellaneous Amortization (425)					
45	Donations (426.1)		574,738	463,529		
46	Life Insurance (426.2)		156,683	-268,946		
47	Penalties (426.3)		418,995			
48	Exp. for Certain Civic, Political & Related Activities (426.4)		846,702	624,045		
49	Other Deductions (426.5)		-60,694	-976,619		
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		1,936,424	-157,991		
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408.2)	262-263	71,658	67,569		
53	Income Taxes-Federal (409.2)	262-263	1,081,335	285,690		
54	Income Taxes-Other (409.2)	262-263		10		
55	Provision for Deferred Inc. Taxes (410.2)	234, 272-277	-491,452	540,200		
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 Income and Deductions (Total of lines 52-58)		661,541	893,469		
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		799,433	3,143,066		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		33,454,250	28,176,869		
63	Amort. of Debt Disc. and Expense (428)		235,463	171,046		
64	Amortization of Loss on Reaquired Debt (428.1)		583,758	813,551		
65	(Less) Amort. of Premium on Debt-Credit (429)					
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429.1)					
67	Interest on Debt to Assoc. Companies (430)		74,236	135,401		
68	Other Interest Expense (431)		2,491,710	4,496,865		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr. (432)		345,835	506,358		
70	Net Interest Charges (Total of lines 62 thru 69)		36,493,582	33,287,374		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		39,352,112	25,960,234		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409.3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		39,352,112	25,960,234		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(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 in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

Line No.	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
1	Net Cash Flow from Operating Activities:		
2	Net Income (Line 78(c) on page 117)	39,352,112	25,960,234
3	Noncash Charges (Credits) to Income:		
4	Depreciation and Depletion	71,572,212	67,510,276
5	Amortization of Regulatory Debits	2,842,364	1,993,280
6	Amortization of Loss on Reacquired Debt	583,758	813,551
7	Amortization of Debt Discount and Expense	235,463	171,046
8	Deferred Income Taxes (Net)	52,956,147	17,080,304
9	Investment Tax Credit Adjustment (Net)	-493,479	-527,196
10	Net (Increase) Decrease in Receivables	60,913,167	-8,641,248
11	Net (Increase) Decrease in Inventory	-1,338,142	4,032,247
12	Net (Increase) Decrease in Allowances Inventory		
13	Net Increase (Decrease) in Payables and Accrued Expenses	-18,091,171	35,749,366
14	Net (Increase) Decrease in Other Regulatory Assets	-11,250,914	16,639,336
15	Net Increase (Decrease) in Other Regulatory Liabilities	-17,261,020	-16,352,620
16	(Less) Allowance for Other Funds Used During Construction	2,057,442	809,798
17	(Less) Undistributed Earnings from Subsidiary Companies		
18	Other (provide details in footnote):	11,165,314	12,660,133
19	Treasury lock settlement		-10,213,043
20	Prepaid and o ther current assets	-47,868,717	85,541,310
21			
22	Net Cash Provided by (Used in) Operating Activities (Total 2 thru 21)	141,259,652	231,607,178
23			
24	Cash Flows from Investment Activities:		
25	Construction and Acquisition of Plant (including land):		
26	Gross Additions to Utility Plant (less nuclear fuel)	-282,905,595	-181,333,977
27	Gross Additions to Nuclear Fuel		
28	Gross Additions to Common Utility Plant		
29	Gross Additions to Nonutility Plant	5,545	7,622
30	(Less) Allowance for Other Funds Used During Construction	-2,057,442	-809,798
31	Other (provide details in footnote):		
32	Utility Plant Retirement Costs	-13,938,576	-15,565,424
33			
34	Cash Outflows for Plant (Total of lines 26 thru 33)	-294,781,184	-196,081,981
35			
36	Acquisition of Other Noncurrent Assets (d)		
37	Proceeds from Disposal of Noncurrent Assets (d)		
38			
39	Investments in and Advances to Assoc. and Subsidiary Companies		
40	Contributions and Advances from Assoc. and Subsidiary Companies		
41	Disposition of Investments in (and Advances to)		
42	Associated and Subsidiary Companies		
43			
44	Purchase of Investment Securities (a)		
45	Proceeds from Sales of Investment Securities (a)		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2011/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(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 in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

Line No.	Description (See Instruction No. 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		
50	Net (Increase) Decrease in Inventory		
51	Net (Increase) Decrease in Allowances Held for Speculation		
52	Net Increase (Decrease) in Payables and Accrued Expenses		
53	Other (provide details in footnote):	151,878	-326,824
54	Special Deposits	4,250,798	-12,263,685
55			
56	Net Cash Provided by (Used in) Investing Activities		
57	Total of lines 34 thru 55)	-290,378,508	-208,672,490
58			
59	Cash Flows from Financing Activities:		
60	Proceeds from Issuance of:		
61	Long-Term Debt (b)		550,000,000
62	Preferred Stock		
63	Common Stock		
64	Other (provide details in footnote):		
65	Debt issuance costs		-3,658,384
66	Net Increase in Short-Term Debt (c)	147,700,000	
67	Other (provide details in footnote):		
68			
69			
70	Cash Provided by Outside Sources (Total 61 thru 69)	147,700,000	546,341,616
71			
72	Payments for Retirement of:		
73	Long-term Debt (b)	-1,375,000	-1,375,000
74	Preferred Stock		
75	Common Stock		
76	Other (provide details in footnote):		
77			
78	Net Decrease in Short-Term Debt (c)		-248,700,000
79			
80	Dividends on Preferred Stock	-110,451	-110,450
81	Dividends on Common Stock		-320,000,000
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	146,214,549	-23,843,834
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of lines 22,57 and 83)	-2,904,307	-909,146
87			
88	Cash and Cash Equivalents at Beginning of Period	7,957,277	8,866,423
89			
90	Cash and Cash Equivalents at End of period	5,052,970	7,957,277

Name of Respondent The Narragansett Electric Company	This Report is: (1) X An Original (2) _ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2011/Q4

FOOTNOTE DATA

Schedule Page: 120 Line No.: 18 Column: b

Change in Other Operating Activities:

Changes in other deferred credits	$ (2,146,077)
Changes in clearing accounts	(648,624)
Changes in miscellaneous and deferred debits	1,008,292
Changes in accumulated deferred income taxes	12,210,612
Changes in accumulated other comprehensive income	340,539
Changes in accumulated provision for injuries and damages	647,946
Changes in asset retirement obligation	13,981
Change in derivatives	(261,355)
Total	$ 11,165,314

Schedule Page: 120 Line No.: 18 Column: c

Change in Other Operating Activities:

Changes in other deferred credits	$ 6,359,788
Changes in clearing accounts	981,717
Changes in miscellaneous and deferred debits	1,222,623
Changes in accumulated deferred income taxes	(1,256,498)
Changes in accumulated other comprehensive income	4,257,116
Changes in accumulated provision for injuries and damages	685,000
Changes in asset retirement obligation	368,056
Change in derivatives	42,331
Total	$ 12,660,133

Schedule Page: 120 Line No.: 53 Column: b

Changes in Other Investing Activities:

Changes in other investments	$ (151,052)
Changes in other special funds	302,930
Total	$ 151,878

Schedule Page: 120 Line No.: 53 Column: c

Changes in Other Investing Activities:

Changes in other investments	$ (49,983)
Changes in other special funds	(276,841)
Total	$ (326,824)

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

The Narragansett Electric Company (the "Company," "we," "us," and "our") is a retail distribution company providing electric service to approximately 489,000 customers and gas service to approximately 249,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers approximately 99% of Rhode Island.

The Company is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through April 16, 2016, and concluded that there were no events or transactions that require adjustment to, or disclosure in the notes to, the financial statements.

B. Basis of Presentation

The financial statements are prepared in accordance with accounting requirements of the Federal Energy Regulatory Commission ("FERC") as set forth in its applicable Uniform System of Accounts. This is a comprehensive basis for accounting other than accounting principles generally accepted in the United States ("GAAP"). The significant differences consist of the following:

- for FERC reporting, deferred tax assets and liabilities are presented on a gross basis and are classified as non-current. For GAAP reporting, deferred tax assets and liabilities are presented on a net basis, with current and non-current amounts segregated.
- for FERC reporting, regulatory assets and liabilities are classified as non-current. For GAAP reporting, regulatory assets and liabilities are segregated between current and non-current classifications.
- for FERC reporting, the liability for uncertain tax positions related to temporary differences is not recognized pursuant to FERC guidance and deferred taxes are recognized based on the difference between positions taken in filed tax returns and amounts reported in the financial statements. For GAAP reporting, the liability for uncertain tax positions related to temporary differences is recognized and deferred taxes are recognized based on the difference between the positions taken in filed tax returns adjusted for uncertain tax positions related to temporary differences and amounts reported in the financial statements.
- the accumulated reserve for depreciation for estimated removal costs is included in the accumulated provision for depreciation for FERC reporting and as a regulatory liability or asset retirement obligation for GAAP reporting.
- current and long-term debt is classified in the balance sheet as all long-term debt in accordance with regulatory treatment, while GAAP presentation reflects current and long-term debt separately.
- the intercompany accounts are not netted for FERC reporting but are netted together for GAAP reporting.

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

C. Regulatory Accounting

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

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

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

and results of operations.

D. Revenue Recognition

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

As approved by the RIPUC, the Company is allowed to pass through for recovery commodity-related costs. Furthermore, the Company's revenue decoupling mechanism allows for annual adjustments to the Company's distribution rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or liability. The 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 service, transmission service, and contract termination charges.

The gas distribution business is influenced by seasonal weather conditions and therefore the Company's gas utility tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues.

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

The Company's revenue from the sale and delivery of electricity and gas are derived as follows:

	Electric		Gas	
	December 31,		December 31,	
	2011	2010	**2011**	2010
Residential	**54%**	56%	**70%**	70%
Commercial	**39%**	38%	**26%**	26%
Industrial	**7%**	6%	**4%**	4%

E. Utility Plant

Utility plant is stated at original cost. The cost of additions to utility plant and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead, and allowance for funds used during construction ("AFUDC"). The cost of renewals and betterments that extend the useful life of utility plant are also capitalized. The cost of repairs, replacements, and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, are expensed as incurred. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. Depreciation is generally computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the state regulatory bodies.

The composite rates and weighted average life for the years ended December 31, 2011 and December 31, 2010 are as follows:

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

	Electric		Gas	
	December 31,		December 31,	
	2011	2010	**2011**	2010
Composite rates	**2.4%**	2.5%	**2.1%**	2.1%
Weighted average life	**42**	41	**47**	48

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the statements of income. AFUDC is capitalized as a component of the cost of utility plant, with an offsetting credit to other income for the equity component and other interest for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense. The debt component of AFUDC capitalized during the years ended December 31, 2011 and December 31, 2010 was $0.3 million and $0.5 million, respectively, and the equity component of AFUDC capitalized during the years ended December 31, 2011 and December 31, 2010 was $2.1 million and $0.8 million, respectively.

Goodwill

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

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

For the purpose of first step analysis, determination of reporting unit's fair value is typically based on combination of an income-based approach using projected discounted cash flows and a market-based approach using valuation multiples of comparable companies to determine fair value. The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required for our continuing operations at December 31, 2011 and December 31, 2010.

F. Cash and Cash Equivalents

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

G. Special Deposits

Special deposits represent restricted cash, which consists primarily of collateral paid to our counterparties for the outstanding derivative contracts. Deposits are also recorded for property, health insurance, and worker's compensation. At December 31, 2011 and December 31, 2010, $20 million was required by the Independent System Operator for New England ("ISO-NE") to be on deposit.

H. Income and Other Taxes

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

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards, and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

Other taxes primarily include excise tax, property tax, and payroll tax. The Company reports its collections and payments of excise taxes on a gross basis. Gas distribution and electric revenues include the collection of excise taxes, while operating taxes include the related expense. Excise taxes collected and paid for the years ended December 31, 2011 and December 31, 2010 were $42 million and $45.4 million, respectively.

I. Comprehensive Income (Loss)

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

J. Derivatives

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

Commodity Derivative Instruments – Regulated Accounting

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

Certain of our contracts for the physical purchase of natural gas and certain power supply contracts were assessed as no longer being exempt as normal purchases. As such, these contracts are recorded in the accompanying balance sheets at fair market value. However, since such contracts were executed for regulated utility customers, and pursuant to the requirements for rate-regulated enterprises, changes in the fair market value of these contracts are recorded as a regulatory asset or regulatory liability in the accompanying balance sheets.

K. Employee Benefits

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

L. Fair Value Measurements

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

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

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

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

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

M. Gas in Storage and Materials

Gas in storage and materials are stated at the lower of cost or market value with cost determined on an average weighted cost basis and is expensed when delivered to customers as gas purchased for resale. Materials and supplies are expensed as used or capitalized into specific capital additions as utilized. The Company's policy is to write off obsolete inventory.

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

N. Recent Accounting Pronouncements

Fair Value Measurements

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

Goodwill Impairment

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

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Offsetting Assets and Liabilities

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

O. Reclassifications

Certain prior period data in the cash flow statement has been reclassified between operating, investing and financing activities to conform with the current presentation. These reclassifications had no effect on the results of operations and the statement of financial condition.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 2. Rates and Regulatory

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

	December 31, 2011	December 31, 2010
	(in thousands of dollars)	
Other regulatory assets:		
Regulatory deferred tax asset - FAS 109	**$ 13,396**	$ 14,893
Environmental response fund	**129,800**	118,337
2003 voluntary early retirement offer deferral	**5,022**	7,533
Postretirement benefits	**70,343**	91,906
Gas future - gas supply	**61,238**	49,919
Narragansett Gas & KeySpan cost to achieve	**6,548**	8,170
Other	**8,169**	7,355
Total other regulatory assets	**$ 294,516**	$ 298,113
Other regulatory liabilities:		
Regulatory deferred tax liabilities - FAS 109	**$ 1,845**	$ 2,124
Revaluation - Pension and PBOP	**26,854**	28,723
Environmental response costs	**8,615**	9,965
Storm cost reserves	**(10,413)**	21,933
Deferred gas cost	**12,775**	-
Gas futures - gas supply	**277**	1,810
Other	**2,201**	(3,608)
Total other regulatory liabilities	**$ 42,154**	$ 60,947

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

Rate Matters

In June 2009, the Company filed an application to increase electric base distribution rates. In February 2010, the RIPUC approved an increase in base distribution revenue of approximately $23.5 million based upon a 9.8% rate of return on equity ("ROE") and a 42.75% equity ratio. The Company's new rates went into effect on March 1, 2010 retroactive to January 1, 2010. The RIPUC approved recovery of the increase in revenue generated by the new rates for January and February 2010 over a 13 month period. On April 21, 2010 the Company filed a petition for writ of certiorari with the Rhode Island Supreme Court appealing certain elements of the RIPUC's decision. On January 23, 2012, the Rhode Island Supreme Court vacated and remanded the RIPUC's determination of the Company's rate-making capital structure for further hearings. On March 2, 2012, the Company and the Division filed a settlement agreement with the RIPUC recommending a capital structure that would result in an increase in the Company's annual revenue requirement of approximately $3.2 million, effective April 23, 2012. RIPUC is expected to rule on this settlement agreement in April 2012.

During May 2010, Rhode Island enacted decoupling legislation that provides for the annual reconciliation of the revenue requirement allowed in the Company's base distribution rate case to actual revenue billed by the electric and gas business. The Company filed a proposal to implement revenue decoupling for both electric and gas in October 2010. At an open meeting held on July 26, 2011, the

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

RIPUC approved both the electric and gas decoupling mechanisms, effective retroactively to April 1, 2011. The new law also provides for submission and approval of an annual infrastructure spending plan without having to file a full general rate case. In December 2011, the Company filed its fiscal year 2013 gas and electric annual infrastructure spending plans requesting a revenue requirement increase of approximately $4.5 million for the electric business and $7.2 million for the gas business. On March 2, 2012, the RIPUC approved the fiscal year 2013 gas plan for effect April 1, 2012. The RIPUC has scheduled a March 23, 2012, hearing regarding the fiscal year 2013 electric plan and approved the proposal on March 29, 2012 for rates effective April 1, 2012.

The Company's affiliate, New England Power ("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, under NEP's Tariff No. 1. In turn, these costs are allocated among transmission customers in New England in accordance with the ISO New England transmission tariff. Effective June 1, 2007, the FERC approved amendments to Tariff No. 1 whereby the Company is compensated for its actual monthly transmission costs with its authorized ROE ranging from 11.14% to 12.64%. In December 2009, NEP filed with the FERC a proposed amendment to the Tariff No. 1 formula rate revenue requirements which decreased the Company's compensation for its electric transmission facilities by approximately $0.1 million. In March 2010, the FERC issued an order establishing hearing and settlement procedures for this filing and made the new rates effective January 1, 2010. In March 2011, NEP filed an uncontested settlement agreement with the FERC resolving all issues raised by the Massachusetts Attorney General in this proceeding. On July 8, 2011, the FERC accepted the settlement without modification.

In September 2008, the Company, NEP, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the New England East-West Solution ("NEEWS"), pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS, 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 approximately $575 million and NEP's share is approximately $200 million. The Company is fully reimbursed for its transmission revenue requirements on a monthly basis by NEP through NEP's Tariff No. 1. Effective as of November 18, 2008, the FERC granted for NEEWS (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress ("CWIP") in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Parties opposing the NEEWS incentives sought rehearing of the FERC order. On June 28, 2011, the FERC denied all requests for rehearing.

As a condition of the FERC's approval, the 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 allowance for fund used during construction ("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 sheets consisting of the assets and other debits section of the balance sheets to include the amounts of AFUDC not capitalized because of the inclusion of CWIP in rate base. At December 31, 2011, the Company had total net electric utility plant assets on its balance sheets of $1.2 billion including $228.3 million of CWIP. At December 31, 2011 and December 31, 2010, the Companies NEEWS-related CWIP and in-service investment totaled $263.1 million and $101.4 million respectively.

(in millions)	Current Year to Date (January 11 - December 11)	Previous Two Years (January 09 - December 10)	Sum of All Years November 08 - December 11
Average Monthly NEEWS CWIP Balance	$136.704	$23.112	$58.186
Estimated Annual AFUDC Rate	7.08%	3.78%	6.22%
Avoided AFUDC	$9.679	$1.747	$11.465
Return	$15.519	$6.180	$21.809

On September 30, 2011, several state and municipal parties in New England, including the Massachusetts Attorney General's Office, the Connecticut Public Utilities Regulatory Authority and the Massachusetts Department of Public Utilities, filed with the FERC a complaint under Section 206 of the Federal Power Act against certain Transmission Owners to lower the base ROE for transmission rates in New England from the FERC approved rate of 11.14% to 9.2 %. At this time, the Company cannot predict the outcome of the complaint.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

In August 2011, the Company made its annual Distribution Adjustment Charge ("DAC") filing for its gas business. The DAC was established to provide for the recovery and reconciliation of the costs of identifiable special programs, as well as to facilitate the timely revenue recognition of incentive provisions. The prior DAC rate recovered approximately $3.2 million from customers. The proposed DAC rate would result in recovery of approximately $2.2 million from customers for the period November 2011 through October 2012. On October 26, 2011, the Commission approved the proposed DAC rate for effect November 1, 2011.

The Company is allowed recovery of all of its electric and gas commodity costs through a fully reconciling rate recovery mechanism. In addition, the Company is allowed to recover from its electric customers all of its electric transmission costs and costs charged by the Company's affiliate NEP, for stranded costs associated with NEP's former electric generation investments.

Energy Efficiency

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

The 2009 legislation also required the Company to solicit proposals for a small scale renewable energy generation project of up to eight wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham that also includes a transmission cable to be constructed between Block Island and the mainland of Rhode Island. In October 2009, the Company entered into a 20 year Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC ("Deepwater") and in December 2009, the Company filed the PPA with the RIPUC. In March 2010, the RIPUC voted to reject the PPA due to pricing issues. As a result, the legislature amended the law to specifically authorize the Company to enter into an amended PPA with Deepwater, to establish a new standard of review, and to provide for a reduction in the initial fixed price under the prior PPA if certain cost savings could be achieved. In August 2010, the RIPUC approved the amended PPA. Certain parties appealed the RIPUC's decision and on July 1, 2011, the Rhode Island Supreme Court issued its decision upholding the RIPUC's approval of the PPA with Deepwater. On September 29, 2011, the Company filed with the RIPUC for approval of a waiver of the one-year termination provision regarding appeals resolution contained in the PPA. On November 29, 2011, the RIPUC voted to approve that waiver.

On July 28, 2011, the RIPUC unanimously approved a 15 year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project. This is the first PPA that the Company submitted to the RIPUC for review as a result of the Company's annual solicitation process that was approved by the RIPUC on March 1, 2010. Following the Company's second annual solicitation, the Company executed a 15 year PPA with Black Bear Development Holdings, LLC on February 17, 2012, for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine, which will be submitted to the RIPUC for review and approval.

In June 2011, Rhode Island established a 10% carve out to the 90 MW of long-term contracting requirement for renewable energy to be used for long-term contracts for smaller Distributed Generation ("DG") projects over a four year period from 2011 through 2014. In December 2011, the Company conducted the first enrollment under these new provisions and entered into standard contracts for 5 MW of nameplate capacity.

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

On September 7, 2011, the Company filed its second three-year Energy Efficiency ("EE") plan under the least cost procurement legislation, as amended, with the RIPUC for 2012-2014 program years. The three-year plan provides the framework for the detailed annual EE plans and System Reliability Plans. On December 22, 2011, the RIPUC approved the three-year plan.

On December 21, 2011, the RIPUC approved the annual EE plan for the calendar year 2012, which includes a portfolio of electric and gas energy efficiency programs along with the associated budgets and electric and gas EE program charges for effect January 1, 2012.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The calendar year 2012 electric and gas EE programs contain spending budgets of approximately $61.4 million and $13.7 million, respectively, which are to be collected through the approved EE program charges.

Other Regulatory Matters

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

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

Note 3. Employee Benefits

The Company participates with certain other NGUSA subsidiaries in non-contributory defined benefit plans ("Pension Plans") and the PBOPs (together with the Pension Plans the "Plans"). The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plans provide substantially all employees hired before January 1, 2011 with a retirement benefit. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. PBOPs provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and in most cases, retirees must contribute to the cost of their coverage.

The Plan assets are commingled and cannot be allocated to an individual company. The Plans' costs are allocated to the Company. The Company is subject to certain deferral accounting requirements mandated by the RIPUC for pension and PBOP expense. Any variation between actual costs and amounts used to establish rates are deferred as a regulatory asset or a regulatory liability and collected from or refunded to customers in subsequent periods. Any deferral is recorded as either a regulatory asset or regulatory liability in the accompanying balance sheets.

At December 31, 2011 and December 31, 2010, the pension plans of NGUSA have a net underfunded obligation of $339.1 million and $377.7 million, respectively. The PBOP plans of NGUSA have a net underfunded obligation of $340.8 million and $429.1 million as of December 31, 2011 and December 31, 2010, respectively.

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	(Mo, Da, Yr) / /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The pension and PBOP expenses directly charged and allocated from the service company, net of capital, for the years ended December 31, 2011 and December 31, 2010 are as follows:

	December 31, 2011	December 31, 2010
	(in thousands of dollars)	
Pension	$ 16,467	$ 14,796
PBOP	14,294	14,830
	$ 30,761	$ 29,626

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 $2.3 million and $2.4 million was expensed for the years ended December 31, 2011 and December 31, 2010, respectively.

Note 4. Utility Plant

At December 31, 2011 and December 31, 2010, utility plant, at cost, and accumulated depreciation and amortization are as follows:

	December 31, 2011	December 31, 2010
	(in thousands of dollars)	
Plant and machinery	$ 2,169,677	$ 2,069,756
Goodwill	751,164	751,164
Land and buildings	84,471	95,596
Assets in construction	294,928	111,111
Software and othe intangibles	28,692	28,534
Total	3,328,932	3,056,161
Accumulated depreciation and amortization	(975,350)	(942,187)
Utility plant, net	$ 2,353,582	$ 2,113,974

Note 5. Income Taxes

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The components of federal income tax expenses (benefits) are as of follows:

	Years Ended December 31, 2011	2010
	(in thousands of dollars)	
Current federal tax (benefit) expense:	$ **(34,158)**	$ 4,335
Deferred federal tax expense:	**52,956**	17,080
Amortized investment tax credits, net [1]	**(493)**	(527)
Total income tax expense	$ **18,305**	$ 20,888

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

	2011	2010
Total income taxes in the statements of operations:		
Income taxes charged to operations	$ **17,715**	$ 20,062
Income taxes credited to other income (deductions)	**590**	826
Total	$ **18,305**	$ 20,888

Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35%, to the Company's actual income tax expense for the years ended December 31, 2011 and December 31, 2010 is as follows:

	Years Ended December 31, 2011	2010
	(in thousands of dollars)	
Computed tax	$ **20,180**	$ 16,397
Change in computed taxes resulting from:		
Audit and related reserve movements	**(1,397)**	(699)
Rate recovery of deficiency in deferred tax reserves	**1,300**	-
Allowance for equity funds used during construction	**(720)**	(283)
Investment tax credit	**(493)**	(527)
Intercompany tax allocation	-	(2,000)
Medicare subsidy, including the Patient Protection and Affordable Care Act effect, net	-	7,350
Other items - net	**(565)**	650
Total	**(1,875)**	4,491
Federal income taxes	$ **18,305**	$ 20,888

Significant components of the Company's net deferred tax assets and liabilities at December 31, 2011 and December 31, 2010 are as

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	(Mo, Da, Yr) / /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

follows:

	December 31,	
	2011	2010
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 43,714**	$ 70,797
Reserve - environmental	**43,347**	41,437
Net operating losses	**23,990**	24,002
Other items	**13,982**	8,026
Total deferred tax assets[1]	**125,033**	144,262
Deferred tax liabilities:		
Property related differences	**294,989**	303,120
Regulatory assets - other	**59,489**	41,760
Other items	**45,256**	8,917
Total deferred tax liabilities	**399,734**	353,797
Net deferred income tax liabilities	**$ 274,701**	$ 209,535
Deferred investment tax credit	**$ 1,377**	$ 1,870

[1]There were no valuation allowances for deferred tax assets at December 31, 2011 or December 31, 2010.

The Company is a member of the National Grid Holdings Inc. ("NGHI") and subsidiaries consolidated federal income tax return. The Company has joint and several liabilities for any potential assessments against the consolidated group.

The Company adopted the provisions of FASB guidance which clarifies the accounting for uncertain tax positions as modified by FERC Docket AI07-2-000. FASB guidance provides that the financial effects of a tax position shall initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information. FERC docket AI07-2-000 issues supplementary guidance requiring entities to continue to recognize deferred income taxes for Commission accounting and reporting purposes based on the difference between positions taken in tax returns filed or expected to be filed and amounts reported in the financial statements.

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

	Years Ended December 31, 2011	2010
	(in thousands of dollars)	
Beginning balance	$ 19,013	$ -
Additions based on tax positions related to the prior years	9,449	15,099
Additions based on tax positions related to the current years	7,810	3,914
	36,272	19,013
Less: unrecognized tax benefits on temporary differences	(36,272)	19,013
Balance at the end of the year	$ -	$ -

As of December 31, 2011 and December 31, 2010, the Company has accrued for interest related to unrecognized tax benefits of $0.6 million and $0.3 million, respectively. During the year ended December 31, 2011, the Company recorded interest expense of $0.4 million. During the year ended December 31, 2010, the Company recorded interest benefit of $0.4 million. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in non-operating expenses. No penalties were recognized during the years ended December 31, 2011 and December 31, 2010.

Federal income tax returns have been examined and all issues have been agreed with the Internal Revenue Service ("IRS") and the NGHI consolidated filing group through March 31, 2004. During the year ended December 31, 2010, the NGHI consolidated group reached an agreement with the IRS that contained a settlement of the majority of the income tax issues related to the years ended March 31, 2005 through March 31, 2007 as well as an acknowledgment that certain discrete items remained disputed.

The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. During the calendar year, the IRS began a new audit examination cycle the covering the fiscal years ended March 31, 2008 and March 31, 2009. The fiscal years ended March 31, 2010 and March 31, 2011 remain subject to examination by the IRS.

Note 6. Derivative Contracts

Physical Derivatives

Current accounting guidance for derivative instruments establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features, or contracts that combine a forward contract and a purchased option contract to qualify as normal purchase and normal sales. Certain contracts for the physical purchase of natural gas do not qualify for this exception. Because these contracts are for the purchase of natural gas sold to regulated firm gas sales customers, the accounting for these contracts follows the accounting guidance for rate-regulated enterprises. The fair value of these derivatives at December 31, 2011 and December 31, 2010 was a net asset of $0.1 million and $0.3 million, respectively.

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

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Currently the Company utilizes New York Mercantile Exchange ("NYMEX") and over-the-counter gas swaps and NYMEX gas futures. The fair value of the gas derivative instruments at December 31, 2011 and December 31, 2010 was a net liability of $51.6 million and $40.7 million, respectively.

Other Derivative Instruments

Additionally, the Company employs a small number of derivative instruments related to storage optimization. These financial derivative instruments do not qualify for hedge accounting treatment. We use market quoted forward prices to value these contracts. The fair value of these contracts at December 31, 2011 was immaterial. The fair value of these contracts at December 31, 2010 was a net liability of $0.2 million. We use market quoted forward prices to value these contracts.

The following are commodity volumes in dekatherms ("dths") associated with those derivative contracts as of December 31, 2011 and December 31, 2010:

		December 31, 2011	December 31, 2010
		(in thousands)	
Physicals:	Gas (dths)	3,670	3,848
Financials:	Gas swaps (dths)	12,875	20,430
	Gas Futures (dths)	19,320	14,850
		35,865	39,128

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

	Asset Derivatives December 31, 2011	Asset Derivatives December 31, 2010		Liability Derivatives December 31, 2011	Liability Derivatives December 31, 2010
	(in thousands of dollars)			(in thousands of dollars)	
Current assets:			Current liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	$ 277	$ 457	Gas purchase contracts	$ 148	$ 163
Gas futures contracts	-	233	Gas futures contracts	20,677	8,037
Gas swaps contracts	-	798	Gas swaps contracts	16,542	24,573
Mark-to-Market contracts:			Mark-to-Market contracts:		
Gas purchase contracts	7	-	Gas purchase contracts	42	193
Gas swaps contracts	113	28	Gas swaps contracts	32	49
	397	1,516		37,441	33,015
Deferred assets:			Deferred liabilities:		
Regulated contracts:			Regulated contracts:		
Gas futures contracts	$ -	$ 259	Gas futures contracts	$ 9,920	$ 5,150
Gas swaps contracts	-	63	Gas swaps contracts	4,491	4,299
	-	322		14,411	9,449
Total	$ 397	$ 1,838	Total	$ 51,852	$ 42,464

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The following table presents the change in the fair value of the Company's derivative contracts for the twelve months ended December 31, 2011 and December 31, 2010:

	December 31, 2011	December 31, 2010
	(in thousands of dollars)	
Regulated assets:		
Gas purchase contract	$ (15)	$ (951)
Gas futures contract	17,410	(10,267)
Gas swaps contract	(7,839)	23,850
	9,556	12,632
Regulated liabilities:		
Gas purchase contract	(180)	(1,917)
Gas futures contract	(492)	140
Gas swaps contract	(861)	406
	(1,533)	(1,371)
Other income (deductions):		
Gas purchase contract	(158)	115
Gas swaps contract	(102)	(73)
	(260)	42
Total net increase in regulatory assets	$ 10,829	$ 14,045

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. As of December 31, 2011 and December 31, 2010, the Company has paid $32.4 million and $32 million, respectively, to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions on the balance sheet.

The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2011, for which the Company does not post any collateral in the normal course of business, is $ 6.3 million. If the Company's credit rating were to be downgraded by one notch, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three notches, it would be required to post $6.8 million additional collateral to its counterparties.

Name of Respondent The Narragansett Electric Company	This Report is: (1) X An Original (2) _ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 7. Fair Value Measurements

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

The Company's Level 1 fair value derivative instruments primarily consist of natural gas futures and swaps traded on the NYMEX. There is no liquidity or credit reserve associated with such trades, and no discounting as well.

The Company's Level 2 fair value derivative instruments primarily consist of forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from NYMEX and Intercontinental Exchange ("ICE"), except cases when ICE publishes seasonal averages or there were no transactions within the last seven days. During periods prior to December 31, 2010 Level 2 pricing inputs were obtained from NYMEX and Platts M2M (industry standard, non-exchange-based editorial commodity forward curves) when it can be verified by available market data from ICE based on transactions within the last seven days. Level 2 derivative instruments may utilize discounting based on quoted interest rate curve as well as have liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

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

The internally developed forward curves have a high level of correlation with Platts M2M curves.

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

The following table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2011 and December 31, 2010:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ -	$ 120	$ 277	$ 397
Available for sale securities	1,596	2,175	-	3,771
Total assets	1,596	2,295	277	4,168
Liabilities:				
Derivative contracts	30,597	21,065	190	51,852
Net (liabilities) assets	$ (29,001)	$ (18,770)	$ 87	$ (47,684)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ 493	$ 889	$ 456	$ 1,838
Available for sale securities	1,520	1,999	-	3,519
Total assets	2,013	2,888	456	5,357
Liabilities:				
Derivative contracts	13,187	28,921	356	42,464
Net (liabilities) assets	$ (11,174)	$ (26,033)	$ 100	$ (37,107)

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

(in thousands of dollars)	2011
Balance, beginning of year	$ 100
Total gains and losses included in regulatory assets and liabilities	(494)
Purchases	34
Settlements:	
included in earnings	246
included in regulatory assets and liabilities	201
Balance, end of year	$ 87
The amount of total gains or losses for the period included in net income attributed to the change in unrealized gains or losses related to derivative assets and liabilities at December 31, 2011	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2 during the twelve months ended December 31, 2011 and December 31, 2010.

Long-term Debt

The Company's balance sheets reflect the long-term debt at carrying value. The fair value of this debt at December 31, 2011 and December 31, 2010 is approximately $697.6 million and $643.7 million, respectively. The fair value is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate.

Note 8. Debt

Short-term

The Company has regulatory approval from the FERC to issue up to $400 million of short-term debt. The company has no short-term debt outstanding to third-parties as of December 31, 2011 and December 31, 2010, respectively.

Long-term

Long-term debt at December 31, 2011 and December 31, 2010 are as follows:

Series	Rate	Maturity Date	December 31, 2011	December 31, 2010
			(in thousands of dollars)	
Unsecured notes:				
Senior Note	4.534%	March 15, 2020	**$ 250,000**	$ 250,000
Senior Note	5.638%	March 15, 2040	**300,000**	300,000
First Mortgage Bonds ("FMB"):				
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	**6,875**	7,500
FMB Series R	7.500%	December 15, 2025	**10,500**	11,250
Total long-term debt			**$ 604,339**	$ 605,714

Unsecured Notes

The Company issued debt on March 22, 2010, in two tranches. $250 million of 10-year unsecured bonds were issued at a coupon rate of 4.534% and $300 million of 30-year unsecured bonds were issued at a coupon rate of 5.638%. The proceeds from the financing were used to: (i) replenish internally generated cash funds that were provided by retained earnings and were used to finance past capital investments in long-lived utility plant assets and refund long-term debt that was issued to finance those investments; (ii) fund future capital expenditures; (iii) term out existing short-term debt so that these financing resources can be made available for ongoing working capital needs, and: (iv) pay dividends. The payment of dividends resulted in a more optimal and cost efficient capital structure for the Company and leaves the Company within an appropriate capital structure for the nature of its business and attendant risk profile.

On March 18, 2010, National Grid plc settled the derivative financial instrument that it had entered into in connection with such bond issuances for the purpose of locking-in the risk-free interest rate element of the bond issues. The $10.2 million on the "treasury lock" settlement is included as accumulated other comprehensive income in the accompanying balance sheets, and amortized over the life of the bonds to match the corresponding rate treatment.

First Mortgage Bonds

At December 31, 2011, the Company had outstanding of $54.3 million First Mortgage Bonds. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which the first mortgage bonds have been issued. Interest rates ranged from 6.82% to 9.63%. Maturities range from April 2018 to December 2025. The First Mortgage Bonds have annual sinking fund requirements totaling approximately $1.4 million.

The Company has a maximum 70% of debt-to-capitalization covenant. Furthermore, if at any time the Company's debt exceeds 60% of the total capitalization, each holder of bonds then outstanding shall receive effective as of the first date of such occurrence, a one time permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended December 31, 2011 and December 31, 2010, the Company was in compliance with this covenant. At December 31, 2011 and December 31, 2010 the Company's debt-to-capitalization ratio was 30% and 31%, respectively.

The aggregate maturities of long-term debt for the five years subsequent to December 31, 2011 are approximately:

(in thousands of dollars)

Years Ended December 31,	
2012	$ 1,375
2013	1,375
2014	1,375
2015	1,375
2016	1,375
Thereafter	597,464
Total	$ 604,339

Note 9. Commitments and Contingencies

Electricity and Gas Supply, Storage and Pipeline Commitments

The Company's electricity and gas distribution subsidiaries have entered into various contracts for electricity and gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $461 million. The Company and its electricity and 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 and electricity costs.

The Company's commitments under these long-term contracts, as of December 31, 2011, are summarized in the table below.

(in thousands of dollars)

Years ended December 31,		
2012	$	302,120
2013		67,361
2014		16,193
2015		12,096
2016		10,620
Thereafter		52,628
Total	$	**461,018**

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

Legal Matters

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

Environmental Matters

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

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	/ /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The United States Environmental Protection Agency ("EPA"), the Massachusetts Department of Environmental Protection ("DEP"), and the Rhode Island Department of Environmental Management ("DEM") have alleged that the Company is a potentially responsible party under state or federal law for 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 gas distribution assets of New England Gas. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA, DEM and DEP.

The RIPUC approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Rhode Island. Under that agreement, qualified costs related to these sites are paid out of a special fund established on the Company's books. 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 due to rate recovery. At December 31, 2011 and December 31, 2010, the Company's total reserves for estimated environmental activities were approximately $115.2 million and $118.8 million, respectively. The Company has also reflected an environmental regulatory asset of $129.8 million and $118.3 million at December 31, 2011 and December 31, 2010, respectively. Those reserves may need to be materially increased in the future if new sites are identified or currently unknown contamination is discovered, if other potentially responsible parties fail to pay their share, or if there are changes in laws or policies, or the enforcement thereof, relating to the investigation or remediation of those sites.

Note 10. Related Party Transactions

Intercompany Money Pool

NGUSA and certain affiliates, including the Company, participate in money pools to more effectively utilize cash resources and to reduce outside short-term borrowings. The money pool in which this Company participates is administered by the NGUSA Service Company as the agent for the participants. Short-term borrowing needs are met first by available funds of the moneypool participants. Borrowings from the money pool bear interest in accordance with the moneypool agreement. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice. At December 31, 2011 and December 31, 2010, the Company had short-term money pool borrowings of $169 million and $21.3 million, respectively, which is included as notes payable to associated companies in the accompanying balance sheets. The average interest rate for the money pool was 0.18% and 0.26% for the years ended December 31, 2011 and December 31, 2010, respectively.

Accounts Receivable from/Payable to Associated Companies

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 treasury/finance), human resources, information technology, legal, and strategic planning are shared among the companies and charged to each company appropriately. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of tax liability is allocated resulting in a payment to or refund from NGHI.

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
The Narragansett Electric Company	(1) X An Original (2) _ A Resubmission	(Mo, Da, Yr) / /	2011/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its associates do not bear interest. At December 30, 2011 and December 31, 2010, the Company had outstanding receivable and payable positions as follows:

	Accounts Receivable From Associated Companies		Accounts Payable To Associated Companies	
	December 31, 2011	December 31, 2010	**December 31, 2011**	December 31, 2010
	(in thousands of dollars)			
Massachusetts Electric	**$ 887**	$ 1,319	**$ 851**	$ 4,496
New England Power	**3,815**	7,512	**2,367**	-
Nantucket Electric	**1,506**	-	**-**	-
Niagara Mohawk Power Co.	**1,500**	5,991	**713**	5,419
NGUSA Service Co.	**201**	5,841	**925**	-
KeySpan Corp Services	**-**	-	**3,695**	2,054
Other	**600**	1,336	**410**	(3,088)
Total	**$ 8,509**	$ 21,999	**$ 8,961**	$ 8,881

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally charged to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, all other costs are allocated based on a general allocator. These costs include operating and capital expenditure of $149.3 million and $145.4 million for the year ended December 31, 2011, and $127.1 million and $124 million for the year ended December 3010, respectively.

Note 11. 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% of "Total Capitalization." However, the junior stock equity at December 31, 2011 and December 31, 2010, was 70% and 69%, respectively, of total capitalization and goodwill as a portion of equity. Accordingly, none of the Company's retained earnings at December 31, 2011 and December 31, 2010 were restricted as to dividends on common stock under the foregoing provisions.

Division 3-12-ELEC/GAS

Request:

Please provide NEC's income statement and statement of cash flow for 2011, with footnotes.

Response:

Please see the Company's response to Division 3-11-ELEC/GAS.

Prepared by or under the supervision of: Michael D. Laflamme

Division 3-13-ELEC/GAS

Request:

Please provide NEC's capital spending for each year 2009, 2010 and 2011.

Response:

Narragansett Electric

	Calendar Year 2009	Calendar Year 2010	Calendar Year 2011
Capital Spending	$53,994,744	$51,390,626	$48,073,857
Cost of Removal	$5,856,250	$6,866,368	$6,085,318
Total	$59,850,994	$58,256,994	$54,159,174

Narragansett Gas

	Calendar Year 2009	Calendar Year 2010	Calendar Year 2011
Capital Spending	$45,334,690	$60,762,456	$76,274,865
Cost of Removal	$3,771,804	$3,246,462	$3,045,586
Total	$49,106,494	$64,008,918	$79,320,451

Prepared by or under the supervision of: Michael D. Laflamme

Division 3-15-ELEC/GAS

Request:

Please identify NEC's capital structure percentage targets and describe how those targets were determined.

Response:

The Company targets a capital structure consisting of approximately 50 percent equity and 50 percent debt. These targets are determined in line with the Company's credit, risk and industry profile.

Prepared by or under the supervision of: Michael D. Laflamme

Division 3-16-ELEC/GAS

Request:

Please indicate and describe how NEC's capital structure policy compares with those of its parent (National Grid USA) and ultimate parent (National Grid PLC).

Response:

The Company's capital structure policy is to maintain a stand-alone capital structure consisting of approximately 50 percent equity and 50 percent debt, in line with its industry, risk and credit profile. The Company's parent companies include or support subsidiaries that hold a variety of assets. These assets include regulated utility assets, as well as the financial assets required to run various subsidiaries, including unregulated operating segments. Therefore, the capital structures at the parent companies reflect the funding required to support a broad spectrum of assets, while the Company capital structure supports regulated utility assets and operations only.

Prepared by or under the supervision of: Michael D. Laflamme

Division 3-17-ELEC/GAS

Request:

Please provide a listing of the returns on equity and capital structure ratios approved for each NEC U.S. utility affiliate since January 1, 2008. The response should identify the utility, jurisdiction, docket number, date (month/year) of award and whether the utility is gas or electric.

Response:

Please refer to Attachment DIV 3-17-ELEC/GAS.

Prepared by or under the supervision of: Michael D. Laflamme

National Grid USA Utility Subsidiary	Common Equity Ratio Used to Set Rates (%)	Effective Date	Case/Docket #	Outcome Determined By	Requested Equity Ratio (%)	Gas / Electric
KeySpan Energy Delivery -New York	45	January-08	06-M-0878	Settlement	50	Gas
KeySpan Energy Delivery -Long Island	45	January-08	06-M-0878	Settlement	50	Gas
Niagara Mohawk Power Corp. -Gas	44	May-09	08-G-0609	Settlement	50	Gas & Electric
Niagara Mohawk Power Corp -Electric	48	January-12	10-E-0050	Litigation	50	Gas & Electric
Boston / Essex / Colonial Gas	50	November-10	10-55	Litigation	54	Gas
Massachusetts Electric / Nantucket Electric	50	January-10	09-39	Litigation	50	Electric
Energy North Natural Gas	50	March-10	10-017	Settlement	50	Gas
Granite State Electric Company	50	July-12	DG 06-107	Settlement	50	Electric
Narragansett Electric Company -Gas	48	December-08	39-43	Litigation	48	Gas
Narragansettt Electric Company -Electric	49	April-12	4065	Litigation	50	Electric
New England Power Company (1)	Actual	July-96	ER97-253	Settlement	Actual	Elec. transmissio
National Grid Generation LLC	50	February-12	ER09-628-000 & ER09-628-001	Settlement	50	Elec. Generation

(1) The common equity ratio used to determine the company's revenue requirements is adjusted under the FERC formula rate to reflect the company's current actual common equity ratio. This adjustment is made monthly for local network service and annually for regional network service. Current rates for both services are set based on a common equity ratio of approximately 65%.