The Narragansett Electric Company

Financial Statements

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

THE NARRAGANSETT ELECTRIC COMPANY

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Report of Independent Auditors

To the Shareholder and Board of Directors of
The Narragansett Electric Company:

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

PricewaterhouseCoopers LLP

July 12, 2012

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2012	March 31, 2011 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,301	$ 11,861
Restricted cash	20,057	20,035
Special deposits	36,767	27,073
Accounts receivable	176,349	200,346
Allowance for doubtful accounts	(31,961)	(36,481)
Accounts receivable from affiliates	10,480	-
Unbilled revenues	50,572	69,688
Gas in storage, at average cost	17,914	14,564
Materials and supplies, at average cost	9,342	7,478
Derivative contracts	448	483
Regulatory assets	61,759	42,478
Current portion of deferred income tax assets	11,631	16,230
Prepaid taxes	51,611	56,165
Prepaid and other current assets	1,661	2,555
Total current assets	419,931	432,475
Property, plant, and equipment, net	1,844,486	1,631,204
Deferred charges and other assets:		
Regulatory assets	293,136	262,344
Goodwill	724,810	724,810
Derivative contracts	44	1,022
Other deferred charges	10,990	11,880
Total deferred charges and other assets	1,028,980	1,000,056
Total assets	$ 3,293,397	$ 3,063,735

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2012	March 31, 2011 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 118,867**	$ 125,238
Accounts payable to affiliates	**6,394**	23,467
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**5,932**	7,620
Customer deposits	**8,101**	8,892
Interest accrued	**3,436**	4,170
Intercompany money pool	**197,350**	24,000
Regulatory liabilities	**50,622**	64,393
Derivative contracts	**35,462**	25,947
Other current liabilities	**23,415**	17,320
Total current liabilities	**450,954**	302,422
Deferred credits and other liabilities:		
Regulatory liabilities	**191,291**	214,191
Deferred income tax liabilities	**275,081**	222,379
Derivative contracts	**10,382**	2,109
Postretirement benefits	**168,227**	156,206
Environmental remediation cost	**129,511**	126,182
Other deferred liabilities	**56,229**	68,856
Total deferred credits and other liabilities	**830,721**	789,923
Capitalization:		
Shareholders' equity	**1,408,758**	1,367,051
Long-term debt	**602,964**	604,339
Total capitalization	**2,011,722**	1,971,390
Total liabilities and capitalization	**$ 3,293,397**	$ 3,063,735

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2012	2011 (Revised)
Revenues:		
Electric services	**$ 803,329**	$ 882,949
Gas distribution	**392,875**	480,226
Total operating revenues	**1,196,204**	1,363,175
Operating expenses:		
Purchased electricity	**368,839**	447,620
Purchased gas	**222,147**	308,761
Operations and maintenance	**324,832**	350,259
Contract termination charges from affiliates	**954**	5,060
Depreciation and amortization	**72,633**	69,053
Amortization of rate plan deferrals	**2,679**	1,993
Other taxes	**89,368**	87,937
Total operating expenses	**1,081,452**	1,270,683
Operating income	**114,752**	92,492
Other income and (deductions):		
Interest on long-term debt	**(34,230)**	(35,528)
Other interest, including affiliate interest	**(2,936)**	(1,877)
Other (expense) income, net	**(127)**	1,916
Total other deductions, net	**(37,293)**	(35,489)
Income before income taxes	**77,459**	57,003
Income taxes:		
Current	**(34,502)**	(895)
Deferred	**61,358**	16,795
Total income tax expense	**26,856**	15,900
Net income	**$ 50,603**	$ 41,103

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2012	2011 (Revised)
Operating activities:		
Net income	**$ 50,603**	$ 41,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**72,633**	69,053
Amortization of rate plan deferrals	**2,679**	1,993
Provision for deferred income taxes	**61,358**	16,795
Net prepayments and other amortizations	**224**	181
Bad debt expense	**20,720**	25,913
Pension and other postretirement expenses	**26,564**	29,259
Pension and other postretirement contributions	**(33,748)**	(15,363)
Net environmental remediation payments	**(2,021)**	(7,846)
Changes in operating assets and liabilities:		
Accounts receivable, net	**17,873**	(32,930)
Materials, supplies and gas in storage	**(5,214)**	4,329
Accounts payable and accrued expenses	**(23,985)**	1,338
Prepaid and accrued taxes	**4,626**	61,055
Accounts receivable from/payable to affiliates, net	**(27,553)**	29,223
Derivative contracts	**(251)**	116
Other liabilities	**(5,253)**	2,503
Regulatory assets and liabilities	**(59,313)**	34,686
Other, net	**(2,052)**	897
Net cash provided by operating activities	**97,890**	262,305
Investing activities:		
Capital expenditures	**(254,120)**	(223,374)
Changes in restricted cash and special deposits	**(9,716)**	21,335
Cost of removal	**(15,221)**	(15,505)
Other	**742**	2,411
Net cash used in investing activities	**(278,315)**	(215,133)
Financing activities:		
Dividends paid on preferred stock	**(110)**	(110)
Payments on long-term debt obligation	**(1,375)**	(1,375)
Changes in intercompany money pool	**173,350**	(46,975)
Net cash provided by (used in) financing activities	**171,865**	(48,460)
Net decrease in cash and cash equivalents	**(8,560)**	(1,288)
Cash and cash equivalents, beginning of year	**11,861**	13,149
Cash and cash equivalents, end of year	**$ 3,301**	$ 11,861
Supplemental disclosures:		
Interest paid	**$ (33,844)**	$ (32,373)
Income taxes refunded from Parent	**24,651**	59,089
Significant non-cash items:		
Capital-related accruals included in accounts payable	**41,804**	24,924

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands of dollars, except per share and number of shares data)

	Common Stock - par value $50 per share		Preferred Stock - par value $50 per share				Accumulated Other Comprehensive Income (Loss)				
	Authorized, Issued and Outstanding Shares	Amount	Authorized, Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Hedging Activities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Total
Balance at March 31, 2010 - Revised	1,132,487	$ 56,624	49,089	$ 2,454	$ 1,353,559	$ 8,088	$ 399	$ (6,585)	$ (110,154)	$ (116,340)	$1,304,385
Net income - Revised	-	-	-	-	-	41,103	-	-	-	-	41,103
Comprehensive income:											
Unrealized gains on securities, net of $79 tax expense	-	-	-	-	-	-	147	-	-	147	147
Hedging activities, net of $260 tax expense							-	483	-	483	483
Changes in pension and other postretirement obligations, net of $11,389 tax expense	-	-	-	-	-	-	-	-	21,151	21,151	21,151
Reclassification adjustment for gains included in net income, net of $58 tax benefit	-	-	-	-	-	-	(108)	-	-	(108)	(108)
Total comprehensive income										21,673	62,776
Dividends on preferred stock	-	-	-	-	-	(110)	-	-	-	-	(110)
Balance at March 31, 2011 - Revised	1,132,487	56,624	49,089	2,454	1,353,559	49,081	438	(6,102)	(89,003)	(94,667)	1,367,051
Net income	-	-	-	-	-	50,603	-	-	-		50,603
Comprehensive income:											
Unrealized gains on securities, net of $144 tax expense	-	-	-	-	-	-	268	-	-	268	268
Hedging activities, net of $266 tax expense							-	494	-	494	494
Changes in pension and other postretirement obligations, net of $5,076 tax benefit	-	-	-	-	-	-	-	-	(9,426)	(9,426)	(9,426)
Reclassification adjustment for gains included in net income, net of $66 tax benefit	-	-	-	-	-	-	(122)	-	-	(122)	(122)
Total comprehensive income										(8,786)	41,817
Dividends on preferred stock	-	-	-	-	-	(110)	-	-	-	-	(110)
Balance at March 31, 2012	1,132,487	$ 56,624	49,089	$ 2,454	$ 1,353,559	$ 99,574	$ 584	$ (5,608)	$ (98,429)	$ (103,453)	$1,408,758

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31, 2012	March 31, 2011 (Revised)
Total Shareholders' equity			**$ 1,408,758**	$ 1,367,051
Long-term debt:	Interest Rate	Maturity Date		
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
Long-term debt due within one year			**1,375**	1,375
Total long-term debt, excluding current portion			**602,964**	604,339
Total capitalization			**$ 2,011,722**	$ 1,971,390

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

THE NARRAGANSETT ELECTRIC COMPANY

NOTES TO THE FINANCIAL STATEMENTS

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 491,000 customers and gas service to approximately 253,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all 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 July 12, 2012, the date of the filing, and concluded that there were no events that require disclosure in the notes to the financial statements.

B. Financial Statement Revisions and Accounting Reclassifications

Financial Statement Revisions

During 2012, management determined that our previously issued financial statements for the year ended March 31, 2011 included errors related to the recording of certain accounting transactions. The first error related to the calculation of the regulatory deferral for gas cost recovery. This error was attributable to certain spreadsheet errors, resulting in a cumulative misstatement of the regulatory account balance over a five year period. This error resulted in an understatement of the regulatory liability associated with gas costs and an overstatement of net income. We have adjusted beginning retained earnings as of March 31, 2010 and also corrected net income for 2011. Specifically, a cumulative adjustment of $13.7 million was recorded in the financial statements for the year ended March 31, 2011, of which $11.7 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2010), and $1.3 million (net of income taxes) was recorded as a reduction of net income for the year ended March 31, 2011 to reflect the fiscal 2011 activity related to this error.

The second error was to correct understatement of the allocation from the Company's parent of claims incurred but not yet reported for injuries and damages. A cumulative adjustment of $3.1 million was recorded in the financial statements for the year ended March 31, 2011, of which $2.9 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2010), and $0.1 million (net of income taxes) was recorded as a reduction of net income for the year ended March 31, 2011 to reflect the fiscal 2011 activity related to this error.

Management has concluded that these errors did not have a material impact on the financial statements presented for the year ended March 31, 2011 but would have been material if the correcting adjustments were recorded in the current year financial statements, and therefore the financial statements for the period ended March 31, 2011 have been revised.

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	As Previously Reported	Reclassification	Revisions	As Adjusted
		(in thousands of dollars)		
Balance Sheet				
Current liabilities:				
Regulatory liability	$ 463	$ 50,264	$ 13,666	$ 64,393
Deferred credit and other liabilities:				
Deferred income tax liabilities	228,257	-	(5,878)	222,379
Other deferred liabilities	65,729	-	3,127	68,856
Capitalization:				
Retained Earnings				
March 31, 2011	$ 59,996	$ -	$ (10,915)	$ 49,081
March 31, 2010	17,598	-	(9,510)	8,088
Shareholders' equity				
March 31, 2011	1,377,966	-	(10,915)	1,367,051
March 31, 2010	1,313,895	-	(9,510)	1,304,385
Statement of Income				
Revenues:				
Gas distribution	$ 482,179	$ -	$ (1,953)	$ 480,226
Operating expense:				
Operations and maintenance	350,050	-	209	350,259
Income taxes:				
Deferred income taxes	17,552	-	(757)	16,795
Net income	42,508	-	(1,405)	41,103
Statement of Cash Flows				
Net income	$ 42,508	$ -	$ (1,405)	$ 41,103
Provision for deferred income taxes	17,552		(757)	16,795
Other liabilities	-	2,294	209	2,503
Regulatory assets and liabilities	-	32,733	1,953	34,686

Accounting Reclassifications

Certain reclassifications have been made to the cash flows in the financial statements to conform prior period's data to the current period's presentation. These reclassifications did not have any impact on the subtotals within the cash flow. In addition, the Company reclassified $50.3 million of rate adjustment mechanisms amounts previously included in other current liabilities into current regulatory liabilities.

C. Basis of Presentation

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

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

D. Regulatory Accounting

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

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

E. 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 meters read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month end.

As approved by the RIPUC, the Company is allowed to pass through for recovery commodity-related costs. The Revenue Decoupling Adjustment Factor requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without any financial detriment to the Company resulting from reductions in electricity and gas usage.

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

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

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

	Electric		**Gas**	
	March 31,		**March 31,**	
	2012	2011	**2012**	2011
Residential	**59%**	63%	**68%**	69%
Commercial and Industrial	**41%**	37%	**32%**	31%

F. Property, Plant and Equipment

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

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

	Electric		Gas	
	March 31,		March 31,	
	2012	2011	**2012**	2011
Composite rates	**3.1%**	3.1%	**3.4%**	3.3%
Weighted - average life	**32 years**	32 years	**30 years**	30 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2012 and March 31, 2011, the Company had cumulative costs recovered in excess of costs incurred totaling $155.8 million and $154.1 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

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

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

	March 31,	
	2012	2011
	(in thousands of dollars)	
Debt	**$ 521**	$ 255
Equity	**1,943**	1,162
	$ 2,464	$ 1,417
Composite AFUDC	6.8%	7.5%

G. Goodwill

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

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the business is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The Company calculated the fair value of the business in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2012 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2012 to March 31, 2017; (b) a discount rate of 5.5%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long term average growth rate in line with estimated long term US economic inflation.

- To estimate fair value utilizing the market approach, the company followed a market comparable methodology. Specifically, the Company applied a valuation multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"), derived from data of publicly-traded benchmark companies, to business operating data. Benchmark companies were selected based on comparability of the underlying business and economics. Key assumptions used in the market approach include the selection of appropriate benchmark companies and the selection of an EBITDA multiple of 9.0, which we believe is appropriate based on comparison of our business with the benchmark companies.

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

H. Cash and Cash Equivalents

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

I. Restricted Cash and Special Deposits

Restricted cash consists of deposits held by ISO New England, Inc. ("ISO-NE"). Special deposits primarily include collateral paid to the Company's counterparties for the outstanding derivative contracts, health insurance and worker's compensation.

J. Gas in Storage and Materials and Supplies

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

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

K. Income and Other Taxes

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

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

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

L. Comprehensive Income (Loss)

Comprehensive income (loss) is the change in the equity of the Company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income (loss) is reported net income, the other component includes changes in unrealized gains and losses associated with certain available for sale investments, interest rate hedging activities for bond issuances, and deferred pension and postretirement benefit plans for the regulated electric operation.

M. Employee Benefits

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

N. Derivatives

The Company uses derivative instruments to economically hedge a portion of the Company's exposure to commodity price risk. Whenever hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts, as well as non-performance by the counterparties of the transactions against which they are hedged.

Commodity Derivative Instruments – Regulated Accounting

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

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

Commodity Derivative Instruments – Mark-to-Market Accounting

The Company also uses derivative financial instruments, such as gas purchase contracts and swaps, to reduce the cash flow variability associated with forecasted purchases and sales of various energy-related commodities which do not receive regulatory recovery. All such derivative instruments are accounted for pursuant to the requirements of current accounting guidance for derivative instruments. As these instruments do not qualify for or were not designated as cash-flow hedges, they are accounted for in the accompanying balance sheets at fair value with all changes in fair value reported in earnings.

O. 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.

P. Recent Accounting Pronouncements

Other Comprehensive Income

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

Goodwill Impairment

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

Offsetting Assets and Liabilities

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

Fair Value Measurements

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

Note 2. Rates and Regulatory

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

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 17,212**	$ 15,460
Renewable energy credits	**9,088**	1,211
Regulatory contracts	**35,459**	25,807
Total	**61,759**	42,478
Non-current:		
Environmental response fund	**133,964**	131,837
Postretirement benefits	**90,164**	86,287
Regulatory deferred tax assets - FAS 109	**12,455**	12,302
Storm costs	**11,833**	-
Regulatory contracts	**10,382**	2,109
Gas future - gas supply	**8,694**	3,526
Narragansett Gas and KeySpan cost to achieve	**6,298**	7,500
Losses on reacquired debt	**4,600**	5,179
2003 voluntary early retirement offer deferral	**4,395**	6,906
Other	**10,351**	6,698
Total	**293,136**	262,344
Regulatory liabilities		
Current:		
Gas costs	**12,494**	13,666
Rate adjustment mechanisms	**37,814**	50,264
Regulatory contracts	**314**	463
Total	**50,622**	64,393
Non-current:		
Cost of removal	**155,768**	154,136
Revaluation - Pension and PBOP	**23,783**	25,841
Environmental response costs	**8,734**	9,033
Gas futures - gas supply	**44**	1,022
Storm cost reserves	**-**	21,520
Other	**2,962**	2,639
Total	**191,291**	214,191
Net regulatory assets	**$ 112,982**	$ 26,238

The regulatory items above are not included in the utility rate base at the time the expenses are incurred or the revenue is billed. The Company records carrying charges on the regulatory balances related to rate adjustment mechanisms, storm costs, postretirement benefits, and environmental cost 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.

During the years ended March 31, 2012 and March 31, 2011, the Company recognized carrying charges of $2 million and $0.2 million, respectively, which is included in other interest, including affiliate interest in the accompanying statements of income.

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 as a result of an increase in the equity ratio. The RIPUC approved this settlement agreement on April 13, 2012.

On April 27, 2012, the Company filed an application with the RIPUC for an increase in electric base distribution revenue of approximately $31.4 million and gas base distribution revenue of approximately $20 million based upon a 10.75% ROE and a 49.60% common equity ratio. The Company's filing also included the following proposals: re-instatement of the $1 million base-rate recovery of storm fund contributions and recovery of the projected storm fund deficit of approximately $11.5 million over a 3 years period; implementation of a pension adjustment mechanism for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business; implementation of a property tax adjustment mechanism; and implementation of a fully-reconciling mechanism for commodity-related uncollectible accounts expense.

During May 2010, Rhode Island enacted a decoupling law 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 RIPUC approved 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 effective April 1, 2012. The RIPUC held a 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.

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 %. On May 3, 2012, FERC set the matter for hearing and settlement procedures. The outcome of this proceeding would impact the ROE on transmission facilities owned by the Company. At this time, the Company cannot predict the outcome of the complaint.

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 solicitation and execution of annual long-term contract solicitations, which was approved by RIPUC in June 2010, with some modifications. On March 1, 2012, the Company filed proposed revisions to the solicitation process to integrate the recently enacted Distributed Generation ("DG") and Net Metering laws. 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 law 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 included 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. The Company submitted the PPA to the RIPUC on March 19, 2012. The RIPUC approved the PPA on May 11, 2012.

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 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. During May 2012, the Company awarded two Standard Contracts in the 2012 First Enrollment, totaling 6.05 MW of project nameplate capacity.

On December 21, 2011, the RIPUC approved the annual Energy Efficiency ("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. 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. On April 26, 2012, the Company filed an application with the Division seeking authorization to issue one or more series and/or issues of new long-term debt securities not exceeding $250 million in aggregate principal amount outstanding at any one time by March 31, 2014.

Note 3. Employee Benefits

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension Plan") and PBOP (together with the Pension Plan (the "Plan")), covering substantially all employees. The Pension Plan provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The Company participates in the following plans - The Final Average Pay Pension Plan, National Grid USA Companies' Executive SERP, National Grid Deferred Compensation Plan, Eastern Utilities Associates Retirement Plans, and National Grid Retirees Health and Life Plan I and II.

During the years ended March 31, 2012 and March 31, 2011, the Company made contributions of approximately $33.7 million and $15.4 million, respectively, to the Plan.

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

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company is subject to deferral accounting requirements for pension expenses associated with its regulated gas operation. Any rarities between actual pension costs and amounts used to establishes rates are deferred and collected from or refunded to customers in subsequent periods. There is no deferred mechanism for pension expenses associated with Company's regulated electric operations. Pension and PBOP expense is included in operations and maintenance expenses in the accompanying statements of income.

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

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Pension	$ 493,600	$ 354,800
PBOP	384,800	401,600
	$ 878,400	$ 756,400

The Company's net Pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2012 and March 31, 2011 are as follows:

	Years Ended March 31, 2012	Years Ended March 31, 2011
	(in thousands of dollars)	
Pension	$ 15,191	$ 16,566
PBOP	13,308	16,320
	$ 28,499	$ 32,886

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. Employer matching contributions of $2.3 million and $2.4 million were expensed for the years ended March 31, 2012 and March 31, 2011, respectively.

Note 4. Property, Plant and Equipment

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

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Plant and machinery	$ 2,168,325	$ 2,085,134
Land and buildings	111,774	87,397
Assets in construction	313,192	190,083
Software and other intangibles	29,758	28,710
Property held for future use	15,013	12,736
Total	2,638,062	2,404,060
Accumulated depreciation and amortization	(793,576)	(772,856)
Property, plant and equipment, net	$ 1,844,486	$ 1,631,204

Note 5. Renewable Energy Credit

Rhode Island has implemented regulations to encourage the use of renewable energy which require load serving entities ("LSE") to purchase a minimum percentage of their electric supplies from qualified renewable energy sources. The State of Rhode Island has given various incentives like renewable energy certificates ("REC") to the producers of renewable energy. LSE need to purchase REC associated with renewable energy and not necessarily the energy itself to demonstrate compliance with the state regulations.

RECs purchased in the open market are expensed and since the costs of the REC are recovered from the rate payers, the Company records a regulatory asset. In addition, any REC that have been contracted for but not yet paid/received or any obligation not met at the end of the year is recorded as a current liability and regulatory assets.

At March 31, 2012 and March 31, 2011, the Company recorded regulatory assets of $9.1 million and $1.2 million, respectively.

Note 6. Derivative Contracts

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

Commodity Derivative Instruments - Regulated Accounting

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

Commodity Derivative Instruments – Mark-to-Market Accounting

The Company also employs a small number of derivative instruments related to storage optimization and a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers. These financial derivative instruments do not qualify for hedge accounting treatment. As these instruments do not qualify for or were not designated as cash-flow hedges, they are accounted for in the accompanying balance sheets at fair value with all changes in fair value reported in earnings.

The following are commodity volumes in dekatherms ("dths") associated with those derivative contracts as of March 31, 2012 and March 31, 2011:

		March 31,	
		2012	2011
		(in thousands)	
Physical Contracts:	Gas purchase	**983**	967
Financial Contracts:	Gas swap	**14,063**	14,081
	Gas future	**20,870**	18,240
Total		**35,916**	33,288

The following table presents the Company's derivative assets and liabilities at March 31, 2012 and March 31, 2011 that are included in the accompanying balance sheets for the above contracts:

	Asset Derivatives March 31, 2012	Asset Derivatives March 31, 2011		Liability Derivatives March 31, 2012	Liability Derivatives March 31, 2011
	(in thousands of dollars)			(in thousands of dollars)	
Current assets:			Current liabilities:		
Regulated contracts:			Regulated contracts:		
Gas purchase contracts	$ -	$ -	Gas purchase contracts	$ -	$ 562
Gas future contracts	314	380	Gas future contracts	21,848	9,744
Gas swap contracts	-	84	Gas swap contracts	13,611	15,500
Mark-to-Market contracts:			Mark-to-Market contracts:		
Gas purchase contracts	4	-	Gas purchase contracts	1	24
Gas swap contracts	130	19	Gas swap contracts	2	117
	448	483		35,462	25,947
Deferred charges and other assets:			Deferred credits and other liabilities:		
Regulated contracts:			Regulated contracts:		
Gas future contracts	39	928	Gas future contracts	6,427	1,376
Gas swap contracts	5	94	Gas swap contracts	3,955	733
	44	1,022		10,382	2,109
Total	$ 492	$ 1,505	Total	$ 45,844	$ 28,056

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

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

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Regulated assets:		
Gas purchase contracts	$ (562)	$ (858)
Gas future contracts	17,155	(10,583)
Gas swap contracts	1,333	(12,543)
	17,926	(23,984)
Regulated liabilities:		
Gas purchase contracts	-	(432)
Gas future contracts	(955)	1,215
Gas swap contracts	(173)	(212)
	(1,128)	571
Total increase (decrease) in net regulatory assets	$ 19,054	$ (24,555)
Purchased gas:		
Gas purchase contracts	$ (27)	$ 83
Gas swap contracts	(226)	35
	$ (253)	$ 118

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. As of March 31, 2012 and March 31, 2011, the Company has paid $29.2 million and $19.3 million, respectively, to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions in the accompanying balance sheet.

In addition, certain of the Company's derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company's credit rating were to fall below a certain level, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2012 and March 31, 2011 was $16.3 million and $6.3 million, respectively. The Company had no collateral posted for these instruments at March 31, 2012 and March 31, 2011, respectively. If the Company's credit rating were to be downgraded by one level, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $16.4 million additional collateral to its counterparties.

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 table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2012 and March 31, 2011:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ 353	$ 139	$ -	$ 492
Available for sale securities	1,751	2,263	-	4,014
Total assets	2,104	2,402	-	4,506
Liabilities:				
Derivative contracts	28,275	17,569	-	45,844
Net liabilities	$ (26,171)	$ (15,167)	$ -	$ (41,338)

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts	$ 1,308	$ 197	$ -	$ 1,505
Available for sale securities	1,553	2,050	-	3,603
Total assets	2,861	2,247	-	5,108
Liabilities:				
Derivative contracts	11,120	16,350	586	28,056
Net liabilities	$ (8,259)	$ (14,103)	$ (586)	$ (22,948)

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

Derivatives

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

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

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

Available for Sale Securities

Available for sale securities are included in other deferred charges in the accompanying balance sheets and primarily included equities and investments based on quoted market prices (Level 1), and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Year to Date Level 3 Movement Table

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

	Years Ended March 31,	
	2012	**2011**
	(in thousands of dollars)	
Balance, at beginning of year	**$ (586)**	$ (923)
Purchases	**57**	(323)
Settlements:		
included in earnings	**95**	143
included in regulatory assets and liabilities	**434**	517
Balance, at end of year	**$ -**	$ (586)
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 non-regulatory assets and liabilities at year end	**$ -**	**$ -**

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into and out from Level 3 during the years ended March 31, 2012 and March 31, 2011, respectively.

Other Fair Value Measurement

Long-term debt is based on quoted market prices where available or calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The Company's balance sheets reflect the long-term debt at amortized cost. The fair value of this debt at March 31, 2012 and March 31, 2011 was $675.1 million and $644.1 million, respectively.

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

Note 8. Income Taxes

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

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Current federal tax benefit	**$ (34,502)**	$ (895)
Deferred federal tax expense	**61,844**	17,313
Amortized investment tax credits, net [1]	**(486)**	(518)
Total deferred tax expense	**61,358**	16,795
Total income tax expense	**$ 26,856**	$ 15,900

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

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

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Computed tax	**$ 27,111**	$ 20,094
Change in computed taxes resulting from:		
Investment tax credit	**(486)**	(518)
Audit and related reserve movements	**-**	(1,396)
Other items, net	**231**	(2,280)
Total	**(255)**	(4,194)
Federal income taxes	**$ 26,856**	$ 15,900

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

	March 31, 2012	March 31, 2011
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 76,266**	$ 60,072
Reserve - environmental	**44,700**	44,011
Regulatory liabilities - other	**13,557**	24,686
Allowance for uncollectible account	**11,164**	12,746
Other items	**1,585**	13,456
Total deferred tax assets [1]	**147,272**	154,971
Deferred tax liabilities:		
Property related differences	**309,185**	280,558
Regulatory assets - environmental	**45,045**	43,350
Regulatory assets - pension and PBOP	**32,633**	22,470
Property tax	**10,680**	10,538
Other items	**11,917**	2,456
Total deferred tax liabilities	**409,460**	359,372
Net deferred income tax liability	**262,188**	204,401
Deferred investment tax credit	**1,262**	1,748
Net deferred income tax liability and investment tax credit	**263,450**	206,149
Current portion of net deferred income tax assets	**11,631**	16,230
Non-current deferred income tax liability	**$ 275,081**	$ 222,379

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

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

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

As of March 31, 2012 and March 31, 2011, the Company's unrecognized tax benefits totaled $19.8 million and $36.3 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

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

	Years Ended March 31, 2012	Years Ended March 31, 2011
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 36,272**	$ 19,013
Reductions based on tax positions related to the prior years	**(17,292)**	-
Additions based on tax positions related to prior years	**831**	9,449
Additions based on tax positions related to the current years	**-**	7,810
Balance at the end of the year	**$ 19,811**	$ 36,272

As of March 31, 2012 and March 31, 2011, the Company has accrued for interest related to unrecognized tax benefits of $0.4 million. During the year ended March 31, 2012, the Company recorded interest income of $0.02 million. During the year ended March 31, 2011, the Company recorded interest expense of $0.3 million. The

Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in other deductions in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2012 and March 31, 2011.

It is reasonably possible that other events will occur during the next 12 months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or liquidity.

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

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

Note 9. Debt

Short-term Debt

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 external third-parties as of March 31, 2012 and March 31, 2011.

Long-term Debt

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%.

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 $5.6 million on the "treasury lock" settlement is being amortized over the life of the bonds to match the corresponding rate treatment.

First Mortgage Bonds

At March 31, 2012, the Company had $54.3 million of FMB outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMBs have been issued. Interest rates on these FMB range from 6.82% to 9.63%. Maturities range on these FMB from April 2018 to December 2025. The FMB 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, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2012 and March 31, 2011, the Company is in compliance with this covenant. At March 31, 2012 and March 31, 2011 the Company's debt-to-capitalization ratio was 30%.

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

(in thousands of dollars) Years Ended March 31,	
2013	$ 1,375
2014	1,375
2015	1,375
2016	1,375
2017	1,375
Thereafter	597,464
Total	$ 604,339

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

Note 10. Commitments and Contingencies

Energy Purchase Commitments and Capital Expenditure Commitments

The Company's electricity and gas distribution have entered into various contracts for electricity and gas delivery. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $429.1 million. The Company's electricity and gas distribution 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. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts subsequent to March 31, 2012, are as follows:

(in thousands of dollars) Years ended March 31,	**Energy Purchases**	**Capital Expenditures**
2013	$ 256,919	$ 20,414
2014	67,588	4,466
2015	24,177	4,466
2016	12,234	-
2017	11,020	-
Thereafter	57,136	-
Total	$ 429,074	$ 29,346

The Company 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.

Operating Lease Commitments

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

(in thousands of dollars) Years ended March 31,		
2013	$	167
2014		167
2015		167
2016		167
2017		167
Thereafter		760
Total	$	1,595

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its distribution facilities. The following table represents the changes in the asset retirement obligations for the years ended March 31, 2012 and March 31, 2011:

	March 31,			
	2012		2011	
	(in thousands of dollars)			
Balance as of beginning of year	**$**	**3,799**	$	3,784
Accretion expense		**211**		212
Liabilities settled		**(350)**		(197)
Balance as of end of year	**$**	**3,660**	$	3,799

Legal Matters

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

Environmental Matters

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

The 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.

The Company's total reserves for estimated environmental cleanup activities were approximately $129.5 million and $126.2 million at March 31, 2012 and March 31, 2011, respectively. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has also reflected an environmental regulatory asset of $134 million and $131.8 million at March 31, 2012 and March 31, 2011, respectively.

Note 11. Related Party Transactions

Money Pool

NGUSA and certain affiliates, including the Company, participate in money pools to more effectively utilize cash resources and to reduce outside short-term borrowings. The money pool in which the Company participates is administered by the NGUSA Service Company as the agent for the participants. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing from and investment in the money pool bear interest in accordance with the Company's money pool agreement. Companies that invest in the money 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. The Company had a short-term money pool borrowing of $197.4 million and $24 million at March 31, 2012 and March 31, 2011, respectively. The average interest rate for the money pool was approximately 0.2% and 0.3% for the years ended March 31, 2012 and March 31, 2011, respectively.

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

NGUSA and its affiliates also provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury and finance), human resources, information technology, legal, and strategic planning are shared among the companies and allocated to each company appropriately. In addition, the Company has a tax sharing agreement with NGHI, a NGUSA affiliate, in filing consolidated tax returns. The Company's share of the tax liability is allocated resulting in a payment to or refund from NGHI.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest. In 2011, intercompany and affiliate balances were reported net. In the current year, the Company adopted a policy of gross settlement and the presentation has changed accordingly. At March 31, 2012 and March 31, 2011, the Company had accounts receivable from affiliates and accounts payable to affiliates as follows:

	Accounts Receivable from Affiliates	Accounts Payable to Affiliates	Accounts Payable to Affiliates
	March 31, 2012		March 31, 2011
	(in thousands of dollars)		*(in thousands of dollars)*
National Grid USA	**$ 192**	**$ -**	$ 1,814
New England Power Co.	**1,257**	**-**	(1,395)
Massachusetts Electric Company	**-**	**828**	3,150
Niagara Mohawk Power Co.	**2,134**	**-**	5,325
NGUSA Service Co.	**5,591**	**-**	9,995
KeySpan Corp Services	**-**	**3,554**	5,268
Other	**1,306**	**2,012**	(690)
Total	**$ 10,480**	**$ 6,394**	$ 23,467

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, all other costs are allocated based on a general allocator.

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

	Years Ended March 31,	
	2012	2011
	(in thousands of dollars)	
Operating expenses	**$ 144,332**	$ 114,123
Capital expenditures	**166,449**	113,077
	$ 310,781	$ 227,200

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $3.5 million before taxes, and $2.3 million after taxes, for each of the years ended March 31, 2012 and March 31, 2011.

Note 12. Cumulative Preferred Stock

The Company has issues of non-participating cumulative preferred stock which provide for redemption at the option of the Company. The Company did not redeem any shares of its preferred stock during the years ended March 31, 2012 and March 31, 2011.

Note 13. Dividend Restrictions

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 March 31, 2012 and March 31, 2011, was approximately 70% of total capitalization and goodwill as a portion of equity. Accordingly, none of the Company's retained earnings at March 31, 2012 and March 31, 2011 were restricted as to dividends on common stock under the foregoing provisions.

The Narragansett Electric Company

Financial Statements

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

THE NARRAGANSETT ELECTRIC COMPANY

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Independent Auditor's Report

To the Shareholder and Board of Directors of The Narragansett Electric Company:

We have audited the accompanying financial statements of The Narragansett Electric Company, which comprise the balance sheets as of March 31, 2013 and March 31, 2012, and the related statements of income, comprehensive income, cash flows, capitalization and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Narragansett Electric Company at March 31, 2013 and March 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 25, 2013

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,905	$ 3,301
Restricted cash	20,084	20,057
Special deposits	4,442	36,767
Accounts receivable	201,702	176,349
Allowance for doubtful accounts	(27,115)	(31,961)
Accounts receivable from affiliates	65,802	10,480
Unbilled revenues	60,273	50,572
Materials, supplies, and gas in storage	24,106	27,256
Derivative contracts	4,527	448
Regulatory assets	37,565	61,759
Current portion of deferred income tax assets	6,521	11,631
Prepaid taxes	75,134	51,611
Prepaid and other current assets	5,117	1,661
Total current assets	489,063	419,931
Property, plant, and equipment, net	1,986,075	1,844,486
Deferred charges and other assets:		
Regulatory assets	485,018	293,136
Goodwill	724,810	724,810
Derivative contracts	1,885	44
Financial investments	6,741	6,663
Other deferred charges	3,487	883
Total deferred charges and other assets	1,221,941	1,025,536
Total assets	$ 3,697,079	$ 3,289,953

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 132,985**	$ 118,867
Accounts payable to affiliates	**30,970**	6,394
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**11,053**	5,932
Customer deposits	**8,364**	8,101
Interest accrued	**6,310**	3,436
Intercompany money pool	**56,880**	197,350
Regulatory liabilities	**56,381**	50,622
Derivative contracts	**3,459**	35,462
Other current liabilities	**21,434**	23,415
Total current liabilities	**329,211**	450,954
Deferred credits and other liabilities:		
Regulatory liabilities	**197,433**	191,291
Deferred income tax liabilities	**411,105**	275,081
Derivative contracts	**12**	10,382
Postretirement benefits	**146,541**	168,227
Environmental remediation costs	**136,714**	129,511
Other deferred liabilities	**59,330**	56,229
Total deferred credits and other liabilities	**951,135**	830,721
Capitalization:		
Shareholders' equity	**1,568,343**	1,408,758
Long-term debt	**848,390**	599,520
Total capitalization	**2,416,733**	2,008,278
Total liabilities and capitalization	**$ 3,697,079**	$ 3,289,953

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31, 2013	2012
Revenues:		
Electric services	**$ 813,925**	$ 803,329
Gas distribution	**398,656**	392,875
Total operating revenues	**1,212,581**	1,196,204
Operating expenses:		
Purchased electricity	**341,181**	368,839
Purchased gas	**203,012**	222,147
Operations and maintenance	**350,869**	324,832
Contract termination charges from affiliates	**7,383**	954
Depreciation and amortization	**79,377**	72,633
Amortization of rate plan deferrals	**5,737**	2,679
Other taxes	**89,914**	89,368
Total operating expenses	**1,077,473**	1,081,452
Operating income	**135,108**	114,752
Other income and (deductions):		
Interest on long-term debt	**(36,138)**	(34,230)
Other interest, including affiliate interest	**(2,940)**	(2,936)
Other income (deduction), net	**(2,166)**	(127)
Total other deductions, net	**(41,244)**	(37,293)
Income before income taxes	**93,864**	77,459
Income taxes:		
Current	**(48,770)**	(34,502)
Deferred	**81,938**	61,358
Income tax expense	**33,168**	26,856
Net income	**$ 60,696**	$ 50,603

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31, 2013	2012
Net income	**$ 60,696**	$ 50,603
Other comprehensive income (loss):		
Unrealized gains on securities, net of $111 and $144 tax expense	**207**	268
Changes in pension and other postretirement obligations, net of $2,731 and ($5,076) tax expense (benefit)	**7,850**	(9,426)
Adjustment for pension tracker, net of $54,481 tax expense	**90,588**	-
Reclassification of gains into net income, net of $191 and $200 tax expense	**354**	372
Other comprehensive income (loss)	**98,999**	(8,786)
Comprehensive income	**$ 159,695**	$ 41,817

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31, 2013	2012
Operating activities:		
Net income	**$ 60,696**	$ 50,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**79,377**	72,633
Amortization of rate plan deferrals	**5,737**	2,679
Provision for deferred income taxes	**81,938**	61,358
Amortization of debt discount	**224**	224
Bad debt expense	**16,648**	20,720
Pension and other postretirement expenses	**33,935**	26,564
Pension and other postretirement contributions	**(45,329)**	(33,748)
Net environmental remediation payments	**(1,930)**	(2,021)
Changes in operating assets and liabilities:		
Accounts receivable, net and unbilled revenues	**(56,548)**	17,873
Materials, supplies, and gas in storage	**3,150**	(5,214)
Accounts payable and accrued expenses	**50,281**	(23,985)
Prepaid and accrued taxes	**(18,403)**	4,626
Accounts receivable from/payable to affiliates, net	**(241)**	(27,553)
Derivative contracts	**460**	(251)
Other liabilities	**919**	(5,253)
Regulatory assets and liabilities, net	**(60,929)**	(59,313)
Other, net	**1,773**	(2,052)
Net cash provided by operating activities	**151,758**	97,890
Investing activities:		
Capital expenditures	**(235,100)**	(254,120)
Changes in restricted cash and special deposits	**32,298**	(9,716)
Cost of removal	**(17,360)**	(15,221)
Other	**343**	742
Net cash used in investing activities	**(219,819)**	(278,315)
Financing activities:		
Dividends paid on preferred stock	**(110)**	(110)
Proceeds from long-term debt	**250,000**	-
Payments on long-term debt obligation	**(1,375)**	(1,375)
Payment of debt issuance costs	**(1,875)**	-
Affiliated money pool borrowing and other	**(170,975)**	173,350
Net cash provided by financing activities	**75,665**	171,865
Net increase (decrease) in cash and cash equivalents	**7,604**	(8,560)
Cash and cash equivalents, beginning of year	**3,301**	11,861
Cash and cash equivalents, end of year	**$ 10,905**	$ 3,301
Supplemental disclosures:		
Interest paid	**$ (35,968)**	$ (33,844)
Income taxes refunded from Parent	**26,091**	24,651
Significant non-cash items:		
Capital-related accruals included in accounts payable	**8,515**	41,804

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31, 2013	March 31, 2012
Total shareholders' equity			**$ 1,568,343**	$ 1,408,758
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.534%	March 15, 2020	**250,000**	250,000
Senior Note	5.638%	March 15, 2040	**300,000**	300,000
Senior Note	4.170%	December 10, 2042	**250,000**	-
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	**6,250**	6,875
FMB Series R	7.500%	December 15, 2025	**9,750**	10,500
Unamortized discounts			**(3,199)**	(3,444)
Total long-term debt			**849,765**	600,895
Long-term debt due within one year			**1,375**	1,375
Total long-term debt, excluding current portion			**848,390**	599,520
Total capitalization			**$ 2,416,733**	$ 2,008,278

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share data)

	Common Stock, par value $50 per share		Cumulative Preferred Stock, par value $50 per share			Accumulated Other Comprehensive Income (Loss)					
	Authorized, Issued and Outstanding Shares	Amount	Authorized, Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Unrealized Gain (Loss) on Available for Sale Securities	Hedging Activities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at March 31, 2011	1,132,487	$ 56,624	49,089	$ 2,454	$ 1,353,559	$ 438	$ (6,102)	$ (89,003)	$ (94,667)	$ 49,081	$ 1,367,051
Net income	-	-	-	-	-	-	-	-	-	50,603	50,603
Comprehensive income:											
Unrealized gains on securities, net of $144 tax expense	-	-	-	-	-	268	-	-	268	-	268
Changes in pension and other postretirement obligations, net of ($5,076) tax benefit	-	-	-	-	-	-	-	(9,426)	(9,426)	-	(9,426)
Reclassification of (gains) lossess into net income, net of $200 tax expense	-	-	-	-	-	(122)	494	-	372	-	372
Dividends on preferred stock	-	-	-	-	-	-	-	-	-	(110)	(110)
Balance at March 31, 2012	1,132,487	56,624	49,089	2,454	1,353,559	584	(5,608)	(98,429)	(103,453)	99,574	1,408,758
Net income	-	-	-	-	-	-	-	-		60,696	60,696
Comprehensive income:											
Unrealized gains on securities, net of $111 tax expense	-	-	-	-	-	207	-	-	207	-	207
Changes in pension and other postretirement obligations, net of $2,731 tax expense	-	-	-	-	-	-	-	7,850	7,850	-	7,850
Adjustment for pension tracker, net of $54,481 tax expense	-	-	-	-	-	-	-	90,588	90,588	-	90,588
Reclassification of (gains) losses into net income, net of $191 tax expense	-	-	-	-	-	(107)	461	-	354	-	354
Dividends on preferred stock	-	-	-	-	-	-	-	-	-	(110)	(110)
Balance at March 31, 2013	1,132,487	$ 56,624	49,089	$ 2,454	$ 1,353,559	$ 684	$ (5,147)	$ 9	$ (4,454)	$ 160,160	$ 1,568,343

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

THE NARRAGANSETT ELECTRIC COMPANY

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

The Narragansett Electric Company (the "Company," "we," and "our") is a retail distribution company providing electric service to approximately 492,000 customers and gas service to approximately 257,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all 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 July 25, 2013, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to or disclosure in the financial statements as of and for the year ended March 31, 2013.

B. Basis of Presentation

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

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

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 11, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are recorded as such.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("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 rate actions of the RIPUC can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

D. Revenue Recognition

The Company bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month-end. Revenues are subject to a Decoupling Adjustment Factor which requires the Company to adjust semi-annually its base rates to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without financial detriment to the Company resulting from reductions in electricity and gas usage.

As approved by the RIPUC, the Company is allowed to pass through commodity-related costs to customers.

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

	Electric		Gas	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Residential	**55%**	59%	**69%**	68%
Commercial and industrial	**45%**	41%	**31%**	32%

E. Property, Plant and Equipment

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

The average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2013	2012	**2013**	2012
Composite rates	**3.1%**	3.1%	**3.2%**	3.4%
Average service lives	**44 years**	44 years	**43 years**	43 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $160.1 million and $155.8 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

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

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Debt	**$ 465**	$ 521
Equity	**488**	1,943
	$ 953	$ 2,464
Composite AFUDC	2.6%	6.8%

F. Goodwill

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

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the fair value, then a second step is performed to determine the implied fair value of goodwill. If the carrying value of goodwill exceeds its implied fair value, then an impairment charge equal to the difference is recorded.

The Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 utilizing both income and market approaches.

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2013 to March 31, 2018; (b) a discount rate of 5.5%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long term US economic inflation.

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

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

G. Available-For-Sale Securities

The Company holds available-for-sale securities which primarily include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in financial instruments in the accompanying balance sheets.

H. Cash and Cash Equivalents

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

I. Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by ISO New England, Inc. ("ISO-NE"). Special deposits primarily include collateral paid to the Company's counterparties for outstanding derivative contracts, health insurance and worker's compensation.

J. Allowance for Doubtful Accounts

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

K. Materials, Supplies and Gas in Storage

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. At March 31, 2013 and March 31, 2012, material and supplies was $9.5 million and $9.3 million, respectively. The Company's policy is to write-off obsolete inventory. There were no material write-offs of obsolete inventory for the years ended March 31, 2013 or March 31, 2012.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the RIPUC. At March 31, 2013 and March 31, 2012, gas in storage was $14.6 million and $17.9 million, respectively.

L. Income and Other Taxes

Federal income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return method. As a member, the Company settles its current tax liability or benefit each year with NGNA pursuant to a tax sharing arrangement between NGNA and its members. Benefits allocated by NGNA are treated as capital contributions. The Company has joint and several liability for any potential assessments against the consolidated group.

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

The Company collects certain taxes from customers such as sales taxes, along with other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes), on a net basis (excluded from revenues).

M. Employee Benefits

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

N. Derivatives

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

Commodity Derivative Instruments – Regulated Accounting

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

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

Commodity Derivative Instruments – Non-Regulated Accounting

The Company also uses derivative instruments related to storage optimization, such as gas purchase contracts and swaps, to reduce the cash flow variability associated with forecasted purchases and sales of various energy-related commodities which do not receive regulatory recovery. All such derivative instruments are accounted for at fair value in the accompanying balance sheets with all changes in fair value reported in the statements of income.

Balance Sheet Offsetting

Accounting guidance relating to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. The Company's accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, and to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded as special deposits in the accompanying balance sheets.

O. Fair Value Measurements

The Company measures commodity derivatives and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

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

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

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

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

P. New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2013

Fair Value Measurements

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

Goodwill Impairment

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

Other Comprehensive Income

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

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

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

Reclassifications From Accumulated Other Comprehensive Income

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

Q. Reclassifications

Certain reclassifications have been made to the financial statements to conform prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulation

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

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 6,626**	$ 4,637
Revenue decoupling	**5,565**	12,575
Storm costs	**4,800**	-
Derivative contracts	**3,113**	35,459
2003 voluntary early retirement offer deferral	**1,883**	-
Losses on reacquired debt	**460**	-
Renewable energy certificates	**12,698**	9,088
Other	**2,420**	-
Total	**37,565**	61,759
Non-current:		
Postretirement benefits	**236,752**	90,164
Environmental response costs	**140,923**	133,964
Storm costs	**78,470**	11,833
Regulatory deferred tax assets	**14,137**	12,455
Losses on reacquired debt	**3,594**	4,600
Gas futures - gas supply	**2,440**	8,694
Derivative contracts	**12**	10,382
Cost to achieve	**-**	6,298
2003 voluntary early retirement offer deferral	**-**	4,395
Other	**8,690**	10,351
Total	**485,018**	293,136
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**22,770**	6,894
Energy efficiency	**28,555**	30,920
Derivative contracts	**4,511**	314
Gas costs	**545**	12,494
Total	**56,381**	50,622
Non-current:		
Cost of removal	**160,128**	155,768
Revaluation - pension and PBOP	**20,540**	23,783
Refund of customer credit	**8,364**	8,155
Environmental response fund	**1,872**	579
Derivative contracts	**1,885**	44
Other	**4,644**	2,962
Total	**197,433**	191,291
Net regulatory assets	**$ 268,769**	$ 112,982

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and postretirement benefits plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses.

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $4.4 million per year, with variances deferred for future recovery or return to customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Storm costs: This regulatory asset represents the incremental costs to restore power to customers resulting from major storms. The Company's most recent settlement with RIPUC included reinstatement of base rate recovery of storm fund contributions at a level of $4.8 million per year, and then to $7.3 million per year effective January 1, 2014. The increase in storm costs is primarily attributable to the costs associated with restoring power to customers for Tropical Storm Sandy in October 2012, winter storm Nemo in February 2013, and other smaller storm events.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms such as for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the RIPUC.

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

Carrying Charges: The Company includes in rate base or records carrying charges on most regulatory balances related to rate adjustment mechanisms, storm costs, postretirement benefits, and environmental costs for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges. Carrying charges are not earned on regulatory deferred tax assets or losses on reacquired debt. Losses on reacquired debt have a recovery period averaging ten years.

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ 1,051**	$ 2,179
Other income, net	**(342)**	(222)
	$ 709	$ 1,957

Rate Matters

On April 27, 2012, the Company filed an application with the RIPUC for an increase in electric base distribution revenue of approximately $31.4 million and gas base distribution revenue of approximately $20 million based upon a 10.75% ROE and a 49.60% common equity ratio. On December 20, 2012, the Commission approved a settlement agreement amongst the Division, the Department of the Navy, and the Company which provided for an increase in electric base distribution revenue of $21.5 million and an increase in gas base distribution revenue of $11.3 million based on a 9.5% allowed ROE and a common equity ratio of approximately 49.1%, effective February 1, 2013. The settlement also included reinstatement of base rate recovery of storm fund contributions at a level of $4.8 million per year, implementation of a pension adjustment mechanism for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business; and implementation of a property tax adjustment mechanism. New rates resulting from the approved settlement went into effect for both the electric and gas business on February 1, 2013.

In May 2010, Rhode Island enacted a decoupling law 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 new law also provides for submission and approval of an annual infrastructure spending plan spanning the fiscal year April 1 through March 31 without having to file a full general rate case. In the fiscal year 2013 plans, the Company requested a revenue requirement increase of approximately $4.1 million for the electric business and $5.4 million for the gas business, which the RIPUC approved for rates effective April 1, 2012. Because the Company's 2012 rate case rate base included forecasted capital investment through January 31, 2014, the Company's fiscal year 2014 infrastructure spending plans represented only two months of fiscal year 2014 to reflect investment not included in the Company's gas and electric distribution rates. In the plans, the Company requested a revenue requirement of $0.7 million for gas and $12.1 million for electric, which the RIPUC approved on March 21, 2013 and March 22, 2013, respectively.

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%. The amounts reimbursed to the Company by NEP for the years ended March 31, 2013 and March 31, 2012 were $84.1 million and $66.2 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income.

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 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 construction work in progress ("CWIP") in rate base; (2) include details of AFUDC not capitalized because of CWIP in rate base for the current year, the previous two years, and the sum of all years; and (3) include 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. As of March 31, 2013, the Company had total net electric utility plant assets excluding goodwill on its balance sheets of $1.3 billion including $122.4 million of CWIP. As of March 31, 2013 and March 31, 2012, the Companies' NEEWS-related CWIP and in-service investment totaled $405.5 million and $291.1 million, respectively.

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 New England Transmission Owners, including NEP (the "NETOs"), to lower the base ROE for transmission rates in New England from the FERC approved rate of 11.14% to 9.2%, which may result in a reduction to the rates for NEP's support of the Company's transmission facilities. The FERC has conducted hearings on the matter and an initial decision by an Administrative Law Judge is expected by September 10, 2013. A final FERC order is expected no sooner than early 2014. Similarly, on December 27, 2012, a new ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. The FERC has not yet acted on this complaint.

In August 2012, 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. On October 31, 2012, the RIPUC approved a DAC rate that will result in recovery of approximately $13.3 million from customers for the period November 2012 through October 2013.

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.

Long-Term Contracts for Renewable Energy

In 2009, Rhode Island passed a law promoting the development of renewable energy resources through long-term contracts for the purchase of capacity, energy, and attributes. 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 facility reached commercial operation on May 28, 2013.

The 2009 law 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 included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, the Company entered into a 20 year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC ("Deepwater"), which was approved by the RIPUC in August 2010. The Company is currently negotiating with Deepwater to purchase the permits, engineering, real estate and other site development work for construction of the undersea transmission cable. The Company intends to file an unexecuted copy of the purchase agreement with the Division for review and consent in late summer 2013, following which the Company will make a filing with the FERC to recover the costs associated with the cable in transmission rates.

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. The Company submitted the PPA to the RIPUC on March 19, 2012. The RIPUC approved the PPA on May 11, 2012.

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 DG projects over a four year period from 2011 through 2014. From 2011 through April 2013, the Company conducted four DG enrollments and awarded contracts for a total of approximately 18.4 MW of project nameplate capacity. In early July 2013, the Rhode Island legislature passed an amendment to state law that extended the deadline for meeting 100% of the long-term contract capacity from December 30, 2013 to December 30, 2014.

Energy Efficiency

On December 21, 2011, the RIPUC approved the annual Energy Efficiency ("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. 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. On November 2, 2012, the Company filed its EE plan for the calendar year 2013 with proposed electric and gas spending budgets of $77.5 million and $19.5 million, respectively. This year's annual plan also contains a newly proposed combined heat and power ("CHP") program pursuant to a newly enacted amendment to the Rhode Island least cost procurement statute to support the development of CHP projects through energy efficiency. The plan consists of enhanced incentives and a proposed tariff amendment to assure that customers who receive incentives under the CHP program will continue to pay a fair share of the costs of the distribution system when the CHP unit is offline. The plan was approved by the RIPUC and reflected in rates effective January 1, 2013. On March 5, 2013, the Company filed a Petition with the RIPUC for approval of a $15.9 million incentive package to Toray Plastics (America), Inc. to install a 12.5 MW CHP system at their manufacturing facilities in North Kingstown, Rhode Island. This is the first incentive package offered pursuant to the 2013 EE Plan and the new law. The RIPUC approved the incentive package on June 20, 2013.

Note 3. Employee Benefits

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension Plan") and PBOP (together with the Pension Plan (the "Plan")), covering substantially all employees. The Pension Plan provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The Company participates in the following plans: The Final Average Pay Pension Plan, National Grid USA Companies' Executive SERP, National Grid Deferred Compensation Plan, Eastern Utilities Associates Retirement Plans, and National Grid Retirees Health and Life Plan I and II.

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $45.3 million and $33.7 million, respectively, to the Plan.

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

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas and electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. Pension and PBOP expense is included in operations and maintenance expenses in the accompanying statements of income.

NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2013 and March 31, 2012 as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 471,000**	$ 493,600
PBOP	**368,100**	384,800
	$ 839,100	$ 878,400

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 23,135**	$ 15,191
PBOP	**11,423**	13,308
	$ 34,558	$ 28,499

Pension Adjustment Mechanism ("PAM")

In February 2013, the RIPUC approved implementation of a PAM for the Company's electric operations. The PAM reconciles annual pension and PBOP expense with a base amount established in distribution rates through a base-rate proceeding and allows for recovery of the difference between the rate base amount and an annual expense. As a result of the implementation of a rate tracker, the Company reclassified $145.1 million, pre-tax, of accumulated other comprehensive income to regulatory assets. This reclassification is presented as an adjustment to accumulated other comprehensive income in the accompanying statements of comprehensive income.

In implementing the PAM, the Company will pay a carrying charge to customers at the weighted average cost of capital, which will be applied to any cumulative shortfall between the minimum funding obligation and amounts contributed to the pension and PBOP plans by the Company and/or its affiliated service company. The minimum funding obligation is equal to the amount of pension and PBOP costs recovered from customers, plus amounts capitalized on the Company's balance sheet. This carrying charge is asymmetrical, meaning that it is not applied to any excess Company contributions based on the same criteria.

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, we recognized $2.0 million and $2.3 million of expense, respectively, in the accompanying statements of income for matching contributions.

Note 4. Property, Plant and Equipment

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**$ 2,482,843**	$ 2,168,325
Land and buildings	**106,694**	111,774
Assets in construction	**180,879**	313,192
Software	**30,058**	29,758
Property held for future use	**15,016**	15,013
Total	**2,815,490**	2,638,062
Accumulated depreciation and amortization	**(829,415)**	(793,576)
Property, plant and equipment, net	**$ 1,986,075**	$ 1,844,486

Note 5. Renewable Energy Credits

Legislation in Rhode Island has established requirements to foster the development of new renewable energy sources through implementation of a Renewable Portfolio Standard ("RPS"). As a Retail Electricity Supplier ("RES"), the Company is required to source a minimum portion of its resources each calendar year from certain renewable or alternative energy resources, such as wind, solar, municipal waste combustion, coal gasification, cogeneration, and flywheel energy storage. To demonstrate compliance with the program, an RES can (1) obtain and deliver renewable energy credits ("RECs"); (2) contract for the output from a renewable or alternative energy resource; or (3) make an alternative compliance payment for each MWh of obligation not met under alternatives (1) or (2).

The Company does not self-generate any RECs but rather purchases them from various providers primarily via standalone contracts. Purchased RECs are recorded within prepaid and other current assets on the accompanying balance sheets. In addition, the Company records a compliance liability based on retail electricity sales, which are classified within other current liabilities or other deferred liabilities on the accompanying balance sheets based on the period of the compliance requirement. Our costs associated with the RPS are recoverable from customers through our rate adjustment mechanism. As a result, expenses associated with the compliance obligation are deferred as a regulatory asset and relieved through the rate adjustment mechanism. We recorded a regulatory asset of $12.7 million and $9.1 million as of March 31, 2013 and March 31, 2012, respectively. The Company does not expect to make any alternative compliance payment related to it calendar year 2012 requirement as it had sufficient RECs to meet its obligation.

Note 6. Derivatives

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

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

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

		March 31,	
		2013	2012
		(in thousands)	
Physical Contracts:	Gas purchase	**786**	983
Financial Contracts:	Gas swap	**14,343**	14,063
	Gas future	**16,830**	20,870
Total		**31,959**	35,916

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

	Asset Derivatives March 31, 2013	Asset Derivatives March 31, 2012		Liability Derivatives March 31, 2013	Liability Derivatives March 31, 2012
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**$ 1,300**	$ 314	Gas future contracts	**$ 1,797**	$ 21,848
Gas swap contracts	**3,211**	-	Gas swap contracts	**1,316**	13,611
Contracts not subject to rate recovery:			Contracts not subject to rate recovery:		
Gas purchase contracts	**-**	4	Gas purchase contracts	**37**	1
Gas swap contracts	**16**	130	Gas swap contracts	**309**	2
	4,527	448		**3,459**	35,462
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**1,611**	39	Gas future contracts	**5**	6,427
Gas swap contracts	**274**	5	Gas swap contracts	**7**	3,955
	1,885	44		**12**	10,382
Total	**$ 6,412**	$ 492	Total	**$ 3,471**	$ 45,844

The changes in fair value of our rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact on the accompanying statements of income. The changes in fair value of our contracts not subject to rate recovery are recorded within purchased gas in the accompanying statements of income.

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

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Regulated assets:		
Gas purchase contracts	**$ -**	$ (562)
Gas future contracts	**(26,473)**	17,155
Gas swap contracts	**(16,242)**	1,333
	(42,715)	17,926
Regulated liabilities:		
Gas future contracts	**2,558**	(955)
Gas swap contracts	**3,480**	(173)
	6,038	(1,128)
Total increase (decrease) in net regulatory assets	**$ (48,753)**	$ 19,054
Purchased gas:		
Gas purchase contracts	**$ (40)**	$ (27)
Gas swap contracts	**(420)**	(226)
	$ (460)	$ (253)

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 counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the Energy Procurement Risk Management Committee, and establishes controls and procedures to determine monitor and minimize the credit risk of counterparties. Counterparty credit exposure is monitored, and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $0.9 million as of March 31, 2013.

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

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2013 and March 31, 2012 was $1.0 million and $16.3 million, respectively. The Company had no collateral posted for these instruments at March 31, 2013 and March 31, 2012, respectively. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $1.1 million additional collateral to its counterparties. The Company would have to be downgraded by four levels to receive a non-investment grade rating of BB+/Ba1.

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. Accounting guidance for fair value measurement emphasizes that fair value is a market based measurement, not an entity specific measurement, and establishes a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources and those based on an entity's own assumptions. The hierarchy prioritizes the inputs to fair value measurement into three levels:

Level 1— Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3— Unobservable inputs for the asset or liability.

The following table presents assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts - gas				
Financial	$ 2,911	$ 3,501		$ 6,412
Available for sale securities	1,896	2,512	-	4,408
Total assets	4,807	6,013	-	10,820
Liabilities:				
Derivative contracts - gas				
Financial	1,802	1,632		3,434
Physical	-	37	-	37
Total liabilities	1,802	1,669	-	3,471
Net assets	$ 3,005	$ 4,344	$ -	$ 7,349

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts - gas				
Financial	$ 353	$ 136		$ 489
Physical	-	3	-	3
Available for sale securities	1,751	2,263	-	4,014
Total assets	2,104	2,402	-	4,506
Liabilities:				
Derivative contracts - gas				
Financial	28,275	17,568	-	45,843
Physical	-	1	-	1
Total liabilities	28,275	17,569	-	45,844
Net liabilities	$ (26,171)	$ (15,167)	$ -	$ (41,338)

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

Derivatives

The Company's Level 1 fair value derivative instruments consist of active exchange-based derivatives (e.g. natural gas futures traded on NYMEX) valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward physical gas deals pricing inputs obtained from the NYMEX and Intercontinental Exchange ("ICE"), except in cases in which ICE publishes seasonal averages or there were no transactions within last seven days. We may utilize discounting based on quoted interest rate curves that may include a liquidity reserve calculated based on the bid/ask spread for our Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

Level 3 fair value derivative instruments consist of the Company's complex and structured OTC physical gas transactions valued based on internally-developed models. Industry-standard valuation techniques, such as Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative instrument is designated Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from market observable curve with correlation coefficients less than 95%, optionality is present, or if non-economic assumptions are made. The internally developed forward curves have a high level of correlation with Platts Mark-to-Market curves.

Available for Sale Securities

Available for sale securities are included in financial investments in the accompanying balance sheets and primarily included equities and investments based on quoted market prices (Level 1), and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

Year to Date Level 3 Movement Table

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

	Years Ended March 31,	
	2013	**2012**
	(in thousands of dollars)	
Balance, at beginning of year	**$ -**	$ (586)
Purchases	**(347)**	57
Settlements:		
included in earnings	**85**	95
included in regulatory assets and liabilities	**262**	434
Balance, at end of year	**$ -**	$ -
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 non-regulatory assets and liabilities at year-end	**$ -**	**$ -**

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into and out from Level 3 during the years ended March 31, 2013 and March 31, 2012, respectively.

Other Fair Value Measurements

The fair market value of the Company's long-term debt was estimated based on the quoted market prices for similar issues or on the current rates offered to the Company for debt of the same remaining maturity. The fair value of our long-term debt at March 31, 2013 and March 31, 2012 was $964.6 million and $675.1 million, respectively.

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

Note 8. Income Taxes

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Current federal tax benefit	**$ (48,770)**	$ (34,502)
Deferred federal tax expense	**82,387**	61,844
Amortized investment tax credits, net [1]	**(449)**	(486)
Total deferred tax expense	**81,938**	61,358
Total income tax expense	**$ 33,168**	$ 26,856

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

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Computed tax	**$ 32,854**	$ 27,111
Change in computed taxes resulting from:		
Investment tax credit	**(449)**	(486)
Other items, net	**763**	231
Total	**314**	(255)
Federal income taxes	**$ 33,168**	$ 26,856

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

	March 31, 2013	March 31, 2012
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, PBOP and other employee benefits	**$ 62,031**	$ 76,266
Reserve - environmental	**47,211**	44,700
Net operating losses	**27,984**	-
Allowance for uncollectible accounts	**9,468**	11,164
Other items	**3,463**	15,142
Total deferred tax assets[1]	**150,157**	147,272
Deferred tax liabilities:		
Property related differences	**404,360**	309,185
Regulatory assets - pension and PBOP	**61,247**	32,633
Regulatory assets - environmental	**47,602**	45,045
Regulatory assets - storm cost	**29,145**	4,141
Other items	**11,574**	18,456
Total deferred tax liabilities	**553,928**	409,460
Net deferred income tax liability	**403,771**	262,188
Deferred investment tax credit	**813**	1,262
Net deferred income tax liability and investment tax credit	**404,584**	263,450
Current portion of net deferred income tax assets	**6,521**	11,631
Non-current deferred income tax liability	**$ 411,105**	$ 275,081

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

The Company is a member of the NGNA and subsidiaries' consolidated federal income tax return.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $22.3 million and $19.8 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other deferred liabilities in the accompanying balance sheets.

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

	Years Ended March 31, 2013	Years Ended March 31, 2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 19,811**	$ 36,272
Gross increases related to prior period	**313**	831
Gross decreases related to prior period	**(536)**	(17,292)
Gross increases related to current period	**3,422**	-
Gross decreases related to current period	**(739)**	-
Balance at the end of the year	**$ 22,271**	$ 19,811

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $0.5 million and $0.4 million, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $0.1 million and interest income of $0.02 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in other deductions in the accompanying statements of income. No penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

In fiscal year 2012, the Company adopted Revenue Procedure 2011-43, which provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under Section 263(a) of the Internal Revenue Code. As a result, the Company, during the year ended March 31, 2012 reversed $15.9 million of tax reserves related to unrecognized tax benefits recorded in prior years.

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

In fiscal year 2012, the Internal Revenue Service ("IRS") commenced an audit of NGNA and subsidiaries for the fiscal years ended March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 remain subject to examination by the IRS.

March 31, 2005 is the earliest tax year subject to examination. The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. However, the Company's tax sharing agreement may result in a change to allocated tax as a result of current and future audits or appeals.

Note 9. Debt

Short-term Debt

The Company has regulatory approval from the FERC to issue up to $400 million of short-term debt. The Company had no short-term debt outstanding to third-parties as of March 31, 2013 or March 31, 2012.

Long-term Debt

Unsecured Notes

In December 2012, the Company issued $250 million of unsecured long-term debt at 4.17% with a maturity date of December 10, 2042.

On March 18, 2010, National Grid plc settled the derivative financial instruments that it had entered into in connection with $550 million of debt issued in March 2010, for the purpose of locking-in the risk-free interest rate element of the bond issues. The $5.6 million on the "treasury lock" settlement is being amortized over the life of the bonds to match the corresponding rate treatment. In the year ended March 31, 2013, $0.8 million pre-tax was reclassified out of accumulated other comprehensive income into the statement of income.

First Mortgage Bonds

At March 31, 2013, the Company had $53.0 million of First Mortgage Bonds ("FMB") outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. Interest rates on these FMB range from 6.82% to 9.63%. Maturities range on these FMB from April 2018 to December 2025. The FMB 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, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2013 and March 31, 2012, the Company was in compliance with this covenant. At March 31, 2013 and March 31, 2012 the Company's debt-to-capitalization ratio was 35% and 30%, respectively.

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

(in thousands of dollars) Years Ended March 31,	
2014	$ 1,375
2015	1,375
2016	1,375
2017	1,375
2018	1,375
Thereafter	846,089
Total	$ 852,964

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

Note 10. Commitments and Contingencies

Purchase Commitments

The Company has several types of long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. The Company has entered into various contracts for electricity and gas delivery storage and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from customers as gas and electricity costs. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

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

(in thousands of dollars) Years Ended March 31,	Energy Purchases	Capital Expenditures
2014	$ 249,356	$ 34,084
2015	83,890	-
2016	12,379	-
2017	11,173	-
2018	8,613	-
Thereafter	48,631	-
Total	$ 414,042	$ 34,084

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

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its distribution facilities. The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Balance as of beginning of year	**$ 3,660**	$ 3,799
Accretion expense	**204**	211
Liabilities settled	**(423)**	(350)
Balance as of end of year	**$ 3,441**	$ 3,660

Legal Matters

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

Environmental Matters

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

The 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. Expenditures incurred for the years ended March 31, 2013 and March 31, 2012 were $1.9 million and $2.0 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $136.7 million and $129.5 million at March 31, 2013 and March 31, 2012, respectively. These costs are expected to be incurred over the next 38 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has 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 as a regulatory liability in the accompanying balance sheets. 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. Accordingly, as of March 31, 2013 and March 31, 2012, the Company has recorded environmental regulatory assets of $140.9 million and $134.0 million, respectively, and environmental regulatory liabilities of $1.9 million and $0.6 million, respectively.

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

Note 11. Related Party Transactions

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

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

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the money pool. At March 31, 2013 and March 31, 2012, the Company had net outstanding accounts receivable from affiliates/accounts payable to affiliates balances as follows:

	Accounts Receivable from Affiliates	Accounts Payable to Affiliates	Accounts Receivable from Affiliates	Accounts Payable to Affiliates
	March 31, 2013		March 31, 2012	
	(in thousands of dollars)		*(in thousands of dollars)*	
NGUSA	$ 3	$ -	$ 192	$ -
Boston Gas Company	34,095	-	-	-
Colonial Gas Company	11,372	-	-	-
New England Power Company	19,269	-	1,257	-
Massachusetts Electric Company	-	158	-	828
Niagara Mohawk Power Company	466	-	2,134	-
NGUSA Service Company	-	27,942	5,591	-
KeySpan Corporate Services	-	-	-	3,554
Other	597	2,870	1,306	2,012
Total	$ 65,802	$ 30,970	$ 10,480	$ 6,394

Money Pool

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

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had short-term money pool borrowings of $56.9 million and $197.4 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $324.5 million and $310.8 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be approximately $3.5 million before taxes, and $2.3 million after taxes, for each of the years ended March 31, 2013 and March 31, 2012.

Note 12. Cumulative Preferred Stock

The Company has non-participating cumulative preferred stock outstanding which can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock at March 31, 2013 and March 31, 2012 is as follows:

	Shares Outstanding		Amount		
	March 31,		**March 31,**		Call
Series	**2013**	2012	**2013**	2012	Price
	(in thousands of dollars, except per share and number of shares data)				
$50 par value - 4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	55.000

The Company did not redeem any preferred stock during the years ended March 31, 2013 or March 31, 2012. The annual dividend requirement for cumulative preferred stock was approximately $0.1 million for the years ended March 31, 2013 and March 31, 2012.

Note 13. Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2013 and March 31, 2012 was approximately 65% and 70%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2013 or March 31, 2012.

The Narragansett Electric Company

Financial Statements

For the years ended March 31, 2014 and 2013

THE NARRAGANSETT ELECTRIC COMPANY

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Independent Auditor's Report

To the Shareholder and Board of Directors
of The Narragansett Electric Company

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

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

PricewaterhouseCoopers LLP

July 18, 2014

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31, 2014	Years Ended March 31, 2013
Operating revenues:		
Electric services	**$ 964,035**	$ 813,925
Gas distribution	**455,736**	398,656
Total operating revenues	**1,419,771**	1,212,581
Operating expenses:		
Purchased electricity	**420,073**	341,181
Purchased gas	**247,982**	203,012
Contract termination charges and nuclear shutdown	**10,314**	7,383
Operations and maintenance	**393,740**	356,606
Depreciation and amortization	**85,048**	79,377
Other taxes	**106,351**	89,914
Total operating expenses	**1,263,508**	1,077,473
Operating income	**156,263**	135,108
Other income and (deductions):		
Interest on long-term debt	**(44,370)**	(36,138)
Other interest, including affiliate interest	**(1,430)**	(2,940)
Other income (deductions), net	**7,359**	(2,166)
Total other deductions, net	**(38,441)**	(41,244)
Income before income taxes	**117,822**	93,864
Income tax expense	**39,259**	33,168
Net income	**$ 78,563**	$ 60,696

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31, 2014	Years Ended March 31, 2013
Net income	**$ 78,563**	$ 60,696
Other comprehensive income:		
Unrealized gains on securities, net of $148 and $111 tax expense	**275**	207
Changes in pension and other postretirement obligations, net of $6 and $2,731 tax expense	**12**	7,850
Adjustment for pension tracker, net of $ - and $54,481 tax expense	**-**	90,588
Reclassification of losses into net income, net of $140 and $191 tax benefit	**260**	354
Total other comprehensive income	**547**	98,999
Comprehensive income	**$ 79,110**	$ 159,695

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2014	2013
Operating activities:		
Net income	**$ 78,563**	$ 60,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**85,048**	79,377
Regulatory amortizations	**706**	5,737
Provision for deferred income taxes	**49,690**	81,938
Bad debt expense	**27,582**	16,648
Allowance for equity funds used during construction	**(2,536)**	488
Amortization of debt discount and issuance costs	**273**	224
Net pension and other postretirement expense (contributions)	**1,051**	(11,394)
Net environmental remediation payments	**(8,042)**	(1,930)
Share based compensation	**1,375**	-
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(64,084)**	(56,548)
Accounts receivable from/payable to affiliates, net	**-**	(241)
Inventory	**6,480**	3,150
Regulatory assets and liabilities, net	**(25,950)**	(60,929)
Accounts payable and other liabilities	**(27,531)**	51,200
Other, net	**47,580**	(16,658)
Net cash provided by operating activities	**170,205**	151,758
Investing activities:		
Capital expenditures	**(224,461)**	(235,100)
Changes in restricted cash	**(5,211)**	32,298
Affiliated money pool investing and receivables/payables, net	**(153,189)**	-
Cost of removal	**(13,026)**	(17,360)
Other	**847**	343
Net cash used in investing activities	**(395,040)**	(219,819)
Financing activities:		
Dividends paid on preferred stock	**(110)**	(110)
Payments on long-term debt	**(1,375)**	(1,375)
Proceeds from long-term debt	**-**	250,000
Affiliated money pool borrowing and receivables/payables, net	**(22,048)**	(170,975)
Advance from affiliate	**250,000**	-
Payment of debt issuance costs	**-**	(1,875)
Net cash provided by financing activities	**226,467**	75,665
Net increase in cash and cash equivalents	**1,632**	7,604
Cash and cash equivalents, beginning of year	**10,905**	3,301
Cash and cash equivalents, end of year	**$ 12,537**	$ 10,905
Supplemental disclosures:		
Interest paid	$ (43,908)	$ (35,968)
Income taxes refunded	25,234	26,091
Significant non-cash items:		
Capital-related accruals included in accounts payable	22,865	8,515
Share based compensation	1,375	-

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,537	$ 10,905
Restricted cash and special deposits	29,883	24,526
Accounts receivable	239,924	201,702
Allowance for doubtful accounts	(30,202)	(27,115)
Unbilled revenues	61,640	60,273
Accounts receivable from affiliates	21,364	65,802
Intercompany money pool	156,863	-
Inventory	17,626	24,106
Regulatory assets	105,013	37,565
Derivative contracts	6,243	4,527
Current portion of deferred income tax assets, net	32,853	6,521
Prepaid taxes	22,315	75,134
Other	14,100	5,117
Total current assets	690,159	489,063
Property, plant, and equipment, net	2,137,340	1,986,075
Other non-current assets:		
Regulatory assets	445,410	485,018
Goodwill	724,810	724,810
Derivative contracts	238	1,885
Other	12,636	10,228
Total other non-current assets	1,183,094	1,221,941
Total assets	$ 4,010,593	$ 3,697,079

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 123,538**	$ 132,985
Accounts payable to affiliates	**25,038**	30,970
Intercompany money pool	**-**	56,880
Advance from affiliate	**250,000**	-
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**14,088**	11,053
Interest accrued	**5,512**	6,310
Customer deposits	**8,557**	8,364
Regulatory liabilities	**77,884**	56,381
Derivative contracts	**10,372**	3,459
Other	**38,710**	21,434
Total current liabilities	**555,074**	329,211
Other non-current liabilities:		
Regulatory liabilities	**209,632**	197,433
Deferred income tax liabilities, net	**466,650**	411,105
Postretirement benefits	**126,058**	146,541
Environmental remediation costs	**130,550**	136,714
Derivative contracts	**416**	12
Other	**26,256**	59,330
Total non-current liabilities	**959,562**	951,135
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**1,648,718**	1,568,343
Long-term debt	**847,239**	848,390
Total capitalization	**2,495,957**	2,416,733
Total liabilities and capitalization	**$ 4,010,593**	$ 3,697,079

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2014	March 31, 2013
Total shareholders' equity			**$ 1,648,718**	$ 1,568,343
Long-term debt:				
Unsecured notes:				
Senior Note	4.53%	March 15, 2020	**250,000**	250,000
Senior Note	5.64%	March 15, 2040	**300,000**	300,000
Senior Note	4.17%	December 10, 2042	**250,000**	250,000
			800,000	800,000
First Mortgage Bonds ("FMB"):				
FMB Series S	6.82%	April 1, 2018	**14,464**	14,464
FMB Series N	9.63%	May 30, 2020	**10,000**	10,000
FMB Series O	8.46%	September 30, 2022	**12,500**	12,500
FMB Series P	8.09%	September 30, 2022	**5,625**	6,250
FMB Series R	7.50%	December 15, 2025	**9,000**	9,750
Unamortized debt discounts			**(2,975)**	(3,199)
Total debt			**848,614**	849,765
Current portion of long-term debt			**1,375**	1,375
Long-term debt			**847,239**	848,390
Total capitalization			**$ 2,495,957**	$ 2,416,733

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-for-Sale Securities	Hedging Activities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ 56,624**	**$ 2,454**	**$ 1,353,559**	**$ 584**	**(5,608)**	**$ (98,429)**	**$ (103,453)**	**$ 99,574**	**$ 1,408,758**
Net income	-	-	-	-	-	-	-	60,696	60,696
Other comprehensive income (loss):									
Unrealized gains on securities, net of $111 tax expense	-	-	-	207	-	-	207	-	207
Changes in pension and other postretirement obligations, net of $2,731 tax expense	-	-	-	-	-	7,850	7,850	-	7,850
Adjustment for pension tracker, net of $54,481 tax expense	-	-	-	-	-	90,588	90,588	-	90,588
Reclassification of (gains) losses into net income, net of $191 tax benefit	-	-	-	(107)	461	-	354	-	354
Total comprehensive income									159,695
Dividends on preferred stock	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2013	**$ 56,624**	**2,454**	**1,353,559**	**684**	**(5,147)**	**9**	**(4,454)**	**160,160**	**1,568,343**
Net income	-	-	-	-	-	-	-	78,563	78,563
Other comprehensive income (loss):									
Unrealized gains on securities, net of $148 tax expense	-	-	-	275	-	-	275	-	275
Changes in pension and other postretirement obligations, net of $6 tax expense	-	-	-	-	-	12	12	-	12
Reclassification of (gains) losses into net income, net of $140 tax benefit	-	-	-	(227)	487	-	260	-	260
Total comprehensive income									79,110
Share based compensation	-	-	1,375	-	-	-	-	-	1,375
Dividends on preferred stock	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2014	**$ 56,624**	**$ 2,454**	**$ 1,354,934**	**$ 732**	**$ (4,660)**	**$ 21**	**$ (3,907)**	**$ 238,613**	**$ 1,648,718**

The Company had 1,132,487 of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at March 31, 2014 and 2013.

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

THE NARRAGANSETT ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Narragansett Electric Company ("the Company") is a retail distribution company providing electric service to approximately 493,000 customers and gas service to approximately 260,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all of Rhode Island.

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

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

Management recorded out-of-period adjustments during the current fiscal year that resulted in net reductions of net income of $1.4 million. The adjustments primarily related to correction of operations and maintenance expense and stock compensation expense. Management concluded that the impact of recording these adjustments was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through July 18, 2014, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to or disclosure in the financial statements as of and for the year ended March 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

As approved by the RIPUC, the Company is allowed to pass through commodity-related costs to customers and also bills for other approved rate adjustment mechanisms. In addition, the Company has a revenue decoupling mechanism which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior fiscal year.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $12.5 million and $10.5 million at March 31, 2014 and 2013, respectively.

Income Taxes

Federal income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken or expected to be taken in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by ISO New England, Inc. ("ISO-NE"). Special deposits primarily include collateral paid to the Company's counterparties for outstanding derivative contracts, health insurance and worker's compensation. The Company had restricted cash of $25.3 million and $20.1 million and special deposits of $4.6 million and $4.4 million at March 31, 2014 and 2013, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. The allowance is determined based on a variety of factors, including for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. In prior years, the estimate placed a higher emphasis on a write off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach resulted in an increase of approximately $1.8 million in the reserve. The collectability of receivables is continuously assessed, and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

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

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

The Company had materials and supplies of $10.8 million and $9.5 million and gas in storage of $6.4 million and $14.6 million at March 31, 2014 and 2013, respectively.

Derivatives

Commodity Derivative Instruments – Regulated Accounting

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

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

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

Commodity Derivative Instruments – Non-Regulated Accounting

The Company also uses derivative instruments related to storage optimization, such as gas purchase contracts and swaps, to reduce the cash flow variability associated with forecasted purchases and sales of various energy-related commodities which do not receive regulatory recovery. All such derivative instruments are accounted for at fair value in the accompanying balance sheets with all changes in fair value reported in the statements of income.

Renewable Energy Certificates

Renewable Energy Certificates ("RECs") are used to measure compliance with renewable energy standards and are held primarily for consumption. At March 31, 2014 and 2013 the Company recorded purchased RECs of $12.1 million and $3.1 within other current assets and a compliance liability based on retail electricity sales of $23.3 million and $15.9 million within other current liabilities in the accompanying balance sheets.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

Property, Plant and Equipment

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

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

	Electric		Gas	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
Composite rates	**3.1%**	3.1%	**3.2%**	3.2%
Average service lives	**44 years**	44 years	**43 years**	43 years

Depreciation expense includes a component for estimated future cost of removal which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs of removal recovered in excess of costs incurred of $171.5 million and $160.1 million at March 31, 2014 and 2013, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income (deductions), net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $2.5 million and $0.5 million and AFUDC related to debt of $1.8 million and $0.5 million for the years ended March

31, 2014 and 2013, respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 5.9% and 2.6% respectively.

Goodwill

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

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

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

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

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

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

	Years Ended March 31,			
	2014		2013	
	(in thousands of dollars)			
Balance as of the beginning of the year	**$**	**3,441**	$	3,660
Accretion expense		**211**		204
Liabilities settled		**(501)**		(423)
Balance as of the end of the year	**$**	**3,151**	$	3,441

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

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2014

Offsetting Assets and Liabilities

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

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

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

Accounting Guidance Not Yet Adopted

Reclassifications From Accumulated Other Comprehensive Income

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

3. REGULATORY ASSETS AND LIABILITIES

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

	March31,	
	2014	2013
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative contracts	**$ 10,210**	$ 3,113
Gas cost adjustment	**42,453**	-
Rate adjustment mechanisms	**31,026**	6,626
Renewable energy certificates	**11,155**	12,698
Revenue decoupling mechanism	**-**	5,565
Storm costs	**7,300**	4,800
Other	**2,869**	4,763
Total	**105,013**	37,565
Non-current:		
Derivative contracts	**416**	12
Environmental response costs	**138,000**	140,923
Postretirement benefits	**212,577**	236,752
Regulatory deferred tax asset	**14,406**	14,137
Storm costs	**69,038**	78,470
Other	**10,973**	14,724
Total	**445,410**	485,018
Regulatory liabilities		
Current:		
Derivative contracts	**5,662**	4,511
Energy efficiency	**34,014**	28,555
Gas cost adjustment	**-**	545
Rate adjustment mechanisms	**21,327**	22,770
Revenue decoupling mechanism	**16,881**	-
Total	**77,884**	56,381
Non-current:		
Cost of removal	**171,491**	160,128
Derivative contracts	**2,470**	1,885
Postretirement benefits	**19,267**	20,540
Refund of customer credit	**8,758**	8,364
Other	**7,646**	6,516
Total	**209,632**	197,433
Net regulatory assets	**$ 262,907**	$ 268,769

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

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

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

Environmental response costs: This regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $4.4 million per year, with variances deferred for future recovery or return to customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

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

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred as a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the RIPUC. Rate adjustment mechanisms include the Renewable Energy Standard Charge, a charge designed to cover our compliance costs associated with state renewable portfolio standards and Low Income Energy Assistance Program, a federally funded, state administered program providing funding to assist low income customers in paying their heating bills.

Refund of customer credit: This regulatory liability primarily represents interest on retained funds for the E-183 Line undergrounding project as per the Customer Credit Adjustment Provision approved by RIPUC Docket No. 3617.

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

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with Rhode Island's Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Revenue decoupling mechanism: As approved by the RIPUC, the Company has a RDM which allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: This regulatory asset represents the incremental costs to restore power to customers resulting from major storms. The Company's most recent settlement with the RIPUC included storm fund recovery at a level of $4.8 million per year through December 31, 2013, and then to $7.3 million per year effective January 1, 2014. This level of recovery will remain in place at least through January 31, 2018 and will be subject to RIPUC review at that time.

The Company records carrying charges on regulatory balances related to rate adjustment mechanisms, storm costs, postretirement benefits, and environmental costs for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

On December 20, 2012, the RIPUC approved a settlement agreement among the Division, the Department of the Navy, and the Company, which provided for an increase in electric base distribution revenue of $21.5 million and an increase in gas base distribution revenue of $11.3 million based on a 9.5% allowed return on equity ("ROE") and a common equity ratio of approximately 49.1%, effective February 1, 2013. The settlement also included reinstatement of base rate recovery of storm fund contributions and implementation of a Pension Adjustment Mechanism for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business.

New England East-West Solution ("NEEWS") Project

In September 2008, the Company, its affiliate, New England Power ("NEP"), and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS, pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS 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 Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is approximately $575 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 in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. On June 19, 2014, the FERC issued an order that all ROE incentives, such as the NEEWS incentive ROE, be capped at 11.74% subject to further limited proceedings to determine growth rates. It is currently unclear how the FERC's order will affect the ROE for NEEWS.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2014	2013
	(in thousands of dollars)	
Plant and machinery	**$ 2,695,582**	$ 2,482,843
Land and buildings	**114,485**	106,694
Assets in construction	**148,380**	180,879
Software and other intangibles	**30,144**	30,058
Property held for future use	**15,016**	15,016
Total property, plant and equipment	**3,003,607**	2,815,490
Accumulated depreciation and amortization	**(866,267)**	(829,415)
Property, plant and equipment, net	**$ 2,137,340**	$ 1,986,075

6. DERIVATIVE CONTRACTS

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

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

Volumes

Volumes of outstanding commodity derivative contracts measured in dekatherms are as follows:

	March 31,	
	2014	2013
	(in thousands)	
Physical contracts:		
Gas purchase contracts	**3,701**	786
Financial contracts:		
Gas swap contracts	**12,722**	14,343
Gas future contracts	**19,730**	16,830
Total	**36,153**	31,959

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives March 31, 2014	Asset Derivatives March 31, 2013		Liability Derivatives March 31, 2014	Liability Derivatives March 31, 2013
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			**Current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 2,982**	$ 3,211	Gas swap contracts	**$ 157**	$ 1,316
Gas future contracts	**2,679**	1,300	Gas future contracts	**145**	1,797
Gas purchase contracts	**-**	-	Gas purchase contracts	**9,908**	-
Contracts not subject to rate recovery:			Contracts not subject to rate recovery:		
Gas swap contracts	**207**	16	Gas swap contracts	**69**	309
Gas purchase contracts	**375**	-	Gas purchase contracts	**93**	37
	6,243	4,527		**10,372**	3,459
Non-current assets:			**Non-current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**38**	274	Gas swap contracts	**50**	7
Gas future contracts	**200**	1,611	Gas future contracts	**366**	5
	238	1,885		**416**	12
Total	**$ 6,481**	$ 6,412	Total	**$ 10,788**	$ 3,471

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. At March 31, 2014 and 2013 the Company recorded gains of $0.7 million and losses of $0.4 million within purchased gas in the accompanying statements of income for changes in fair value for contracts not subject to rate recovery.

Credit and Collateral

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

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

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The Company's credit exposure for all derivative instruments and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was $2.1 million and $0.5 million as of March 31, 2014 and 2013, respectively.

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

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $0.5 million and $1.0 million, respectively. The Company had no collateral posted for these instruments at March 31, 2014 or 2013. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $0.6 million and $1.1 million additional collateral to its counterparties at March 31, 2014 and 2013.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

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

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 3,227	$ -	$ 3,227	-	$ 35	$ 3,192
Gas future contracts	2,879	-	2,879	-	2,879	-
Gas purchase contracts	375	-	375	-	-	375
Total	$ 6,481	$ -	$ 6,481	$ -	$ 2,914	$ 3,567

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ (276)	$ -	$ (276)	$ -	$ (43)	$ (233)
Gas future contracts	(511)	-	(511)	-	(511)	-
Gas purchase contracts	(10,001)	-	(10,001)	-	-	(10,001)
Total	$ (10,788)	$ -	$ (10,788)	$ -	$ (554)	$ (10,234)

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

ASSETS: Description	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 3,501	$ -	$ 3,501	$ -	$ 840	$ 2,661
Gas future contracts	2,911	-	2,911	-	2,911	-
Gas purchase contracts	-	-	-	-	-	-
Total	$ 6,412	$ -	$ 6,412	$ -	$ 3,751	$ 2,661

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ (1,632)	$ -	$ (1,632)	$ -	$ -	$ (1,632)
Gas future contracts	(1,802)	-	(1,802)	-	(1,802)	-
Gas purchase contracts	(37)	-	(37)	-	-	(37)
Total	$ (3,471)	$ -	$ (3,471)	$ -	$ (1,802)	$ (1,669)

7. FAIR VALUE MEASUREMENTS

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

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 3,119	$ 108	$ 3,227
Gas future contracts	2,879	-	-	2,879
Gas purchase contracts	-	292	83	375
Available-for-sale securities	2,031	2,741	-	4,772
Total	4,910	6,152	191	11,253
Liabilities:				
Derivative contracts				
Gas swap contracts	-	276	-	276
Gas future contracts	511	-	-	511
Gas purchase contracts	-	13	9,988	10,001
Total	511	289	9,988	10,788
Net assets (liabilities)	$ 4,399	$ 5,863	$ (9,797)	$ 465

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 3,501	$ -	$ 3,501
Gas future contracts	2,911	-	-	2,911
Available-for-sale securities	1,896	2,512	-	4,408
Total	4,807	6,013	-	10,820
Liabilities:				
Derivative contracts				
Gas swap contracts	-	1,632	-	1,632
Gas future contracts	1,802	-	-	1,802
Gas purchase contracts	-	37	-	37
Total	1,802	1,669	-	3,471
Net assets	$ 3,005	$ 4,344	$ -	$ 7,349

Derivative Contracts: The Company's Level 1 fair value derivative instruments consist of active exchange-based derivatives (e.g. natural gas futures traded on NYMEX) valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward gas purchase contracts with pricing inputs obtained from the New York Mercantile Exchange and Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

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

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

Changes in Level 3 Derivatives

	Years Ended March 31, 2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ -**	$ -
Total gains or losses included in regulatory assets and liabilities	**(14,163)**	(347)
Settlements:		
included in earnings	**73**	85
included in regulatory assets and liabilities	**4,293**	262
Balance as of the end of the year	**$ (9,797)**	$ -
The amount of total gains or losses for the year included in net income attributed to the change in unrealized gains or losses related to non-regulatory assets and liabilities at year-end	**$ -**	$ -

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

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(thousands of dollars)					
Physical							
Gas	Gas Purchase Contract	$ -	$ (9,907)	$ (9,907)	Discounted Cash Flow	LNG Forward Curve	$3.5490 - $11.01/dth
Gas	Gas Purchase Contract	83	(81)	2	Discounted Cash Flow	Forward Curve	$2.534 - $4.544/dth
Financial							
Gas	Gas Swap Contract	108	-	108	Discounted Cash Flow	Forward Curve	($1.070) - ($0.610)/dth
	Total	$ 191	$ (9,988)	$ (9,797)			

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

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices, where available or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $905.3 million and $964.6 million, respectively.

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

8. EMPLOYEE BENEFITS

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

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2014 and 2013, the Company made contributions of approximately $23.9 million and $45.3 million, respectively, to the Plan.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas and electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. Pension and PBOP expense is included in operations and maintenance expense in the accompanying statements of income.

The NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2014 and 2013 as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 402,928**	$ 471,000
PBOP	**302,360**	368,100
	$ 705,288	$ 839,100

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

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 20,503**	$ 23,135
PBOP	**7,392**	11,423
	$ 27,895	$ 34,558

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying statements of income of $2.5 million and $2.0 million, respectively, for matching contributions.

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in a decrease in income before taxes of approximately $3.8 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $4.5 million and $4.4 million respectively.

9. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $400 million of short-term debt, which expired on November 30, 2013. Effective April 2014, the Company entered into an Equity Contribution Agreement with the Parent which provides the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit until such time as regulatory approval for short-term borrowing is regained. The Company has not made use of this facility since its effective date. The Company had no short-term debt outstanding to third parties as of March 31, 2014 or 2013.

First Mortgage Bonds

At March 31, 2014, the Company had $51.6 million of First Mortgage Bonds ("FMB") outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. Interest rates on these FMB range from 6.82% to 9.63%. Maturities range on these FMB from April 2018 to December 2025. The FMB 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, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2014 and 2013, the Company was in compliance with this covenant. At March 31, 2014 and 2013 the Company's debt-to-capitalization ratio was 34% and 35%, respectively.

Current Maturities of Long-term Debt

(in thousands of dollars)		
Years Ended March 31,		
2015	$	1,375
2016		1,375
2017		1,375
2018		1,375
2019		15,839
Thereafter		830,250
Total	$	851,589

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

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2014 and 2013 was approximately 66% and 65%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2014 or 2013.

Cumulative Preferred Stock

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

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2014**	2013	**2014**	2013	Price
	(in thousands of dollars, except per share and number of shares data)				
$50 par value - 4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	55.000

The Company did not redeem any preferred stock during the years ended March 31, 2014 or 2013. The annual dividend requirement for cumulative preferred stock was $0.1 million for the years ended March 31, 2014 and 2013.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current federal tax benefit	**$ (10,431)**	$ (48,770)
Deferred federal tax expense	**49,993**	82,387
Amortized investment tax credits, net (1)	**(303)**	(449)
Total deferred tax expense	**49,690**	81,938
Total income tax expense	**$ 39,259**	$ 33,168

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

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended March 31, 2014 and 2013 is 33.3% and 35.3%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense from continuing operations:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax at the statutory rate	**$ 41,023**	$ 32,854
Change in computed taxes resulting from:		
Allowance for equity funds used during construction	**(771)**	(128)
Investment tax credits	**(303)**	(449)
Other items, net	**(690)**	891
Total	**(1,764)**	314
Federal and state income taxes	**$ 39,259**	$ 33,168

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

In September 2013, the Internal Revenue Service ("IRS") issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected or required by the final regulations. At March 31, 2014, $3.4 million of deferred tax liabilities have been classified as current in the accompanying balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015.

Deferred Tax Components

	March 31, 2014	March 31, 2013
	(in thousands of dollars)	
Deferred tax assets:		
Net operating losses	**$ 58,537**	$ 27,984
Pensions, PBOP and other employee benefits	**50,727**	62,031
Environmental reserve	**44,946**	47,211
Allowance for uncollectible accounts	**10,927**	9,468
Other items	**27**	3,463
Total deferred tax assets [1]	**165,164**	150,157
Deferred tax liabilities:		
Property related differences	**456,343**	404,360
Regulatory assets - pension and PBOP	**62,254**	61,247
Regulatory assets - environmental	**46,171**	47,602
Regulatory assets - storm costs	**27,113**	29,145
Other items	**6,570**	11,574
Total deferred tax liabilities	**598,451**	553,928
Net deferred income tax liabilities	**433,287**	403,771
Deferred investment tax credits	**510**	813
Net deferred income tax liabilities and investment tax credits	**433,797**	404,584
Current portion of deferred income tax assets, net	**32,853**	6,521
Deferred income tax liabilities, net	**$ 466,650**	$ 411,105

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

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

Expiration of net operating losses:	Federal
	(in thousands of dollars)
03/31/2029	$ 54,816
03/31/2030	13,689
03/31/2032	30,224
03/31/2033	50,227
03/31/2034	56,909

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $22.7 million and $22.3 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are presented on a net basis with the associated deferred tax asset.

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

	Years Ended March 31, 2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 22,271**	$ 19,811
Gross increases - tax positions in prior periods	**1,407**	313
Gross decreases - tax positions in prior periods	**(1,392)**	(536)
Gross increases - current period tax positions	**1,773**	3,422
Gross decreases - current period tax positions	**-**	(739)
Settlements with tax authorities	**(1,408)**	-
Balance as of the end of the year	**$ 22,651**	$ 22,271

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of zero and $0.5 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest income of $0.5 million and interest expense of $0.1 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2014 or 2013.

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

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group through March 31, 2007.

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

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

11. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), 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. Expenditures incurred for the years ended March 31, 2014 and 2013 were $8.0 million and $1.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $130.6 million and $136.7 million at March 31, 2014 and 2013, respectively. These costs are expected to be incurred over the next 41 years, and these undiscounted amounts have been recorded as liabilities in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has 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 as a regulatory liability in the accompanying balance sheets. 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. Accordingly, as of March 31, 2014 and 2013, the Company has recorded environmental regulatory assets of $136.6 million and $140.9 million, respectively, and environmental regulatory liabilities of $2.4 million and $1.9 million, respectively.

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

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, the Company has entered into various contracts for electricity and gas delivery storage and supply services. Certain of these contracts require payment of annual demand charges. The Company is liable for these payments regardless of the level of services required from third parties. Such charges are currently recovered from customers as purchased electricity and purchased gas. The Company also has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2015	$ 329,049	$ 72,256
2016	96,670	-
2017	35,807	-
2018	23,128	-
2019	9,668	-
Thereafter	41,587	-
Total	$ 535,909	$ 72,256

The Company purchases additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the ISO-NE at market prices.

Long-Term Contracts for Renewable Energy

Town of Johnston Project

In June 2010, pursuant to 2009 Rhode Island legislation that required the Company to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill, the Company entered into a contract with Rhode Island LFG Genco for the Town of Johnston Project, a combined cycle power plant with an average output of 32 megawatts ("MW"). The facility reached commercial operation on May 28, 2013 and is being accounted for as an operating lease.

Deepwater Agreement

The 2009 law 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. The renewable energy generation project also included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, the Company entered into a 20-year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC, which was approved by the RIPUC in August 2010. The Company also negotiated a Transmission Facilities Purchase Agreement ("Facilities Purchase Agreement") with Deepwater Wind Block Island Transmission, LLC ("Deepwater") to purchase from Deepwater the permits, engineering, real estate, and other site development work for construction of the undersea transmission cable. On April 2, 2014, the Division issued its Consent Decision for the Company to execute the Facilities Purchase Agreement with Deepwater. The Company intends to make a filing with the FERC to recover the costs associated with the cable in transmission rates.

Annual Solicitations

- First Solicitation: On July 28, 2011, the RIPUC approved a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project.
- Second Solicitation: On May 11, 2012, the RIPUC approved a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine ("Black Bear PPA"). The Black Bear facility reached commercial operation on November 22, 2013.
- Third Solicitation: On October 25, 2013, the RIPUC approved a 15-year PPA with Champlain Wind, LLC for a 48 MW land-based wind project located in Carroll Plantation and Kossuth Township, Maine.

Legal Matters

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

13. RELATED PARTY TRANSACTIONS

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $250 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliate of $250 million and zero, respectively.

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)		*(in thousands of dollars)*	
Boston Gas Company	**$ 5,650**	$ 34,095	**$ -**	$ -
Colonial Gas Company	**1,133**	11,372	**-**	-
New England Power Company	**11,373**	19,269	**-**	-
Massachusetts Electric Company	**-**	-	**5,391**	158
Niagara Mohawk Power Company	**1,215**	466	**-**	-
NGUSA Service Company	**-**	-	**16,812**	27,942
Other	**1,993**	600	**2,835**	2,870
Total	**$ 21,364**	$ 65,802	**$ 25,038**	$ 30,970

Recovery of Transmission Costs

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. The Company is compensated for its actual monthly transmission costs with its authorized ROE ranging from 11.14% to 12.64%. The amounts reimbursed to the Company by NEP for the years ended March 31, 2014 and 2013 were $100.7 million and $84.1 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA, and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of $156.9 million and borrowings of $56.9 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.6% for the years ended March 31, 2014 and 2013, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were $197.1 million and $264.7 million, respectively.

Holding Company Charges

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

The Narragansett Electric Company

Financial Statements

For the years ended March 31, 2015, 2014, and 2013

THE NARRAGANSETT ELECTRIC COMPANY

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Independent Auditor's Report

To the Board of Directors
of The Narragansett Electric Company

We have audited the accompanying financial statements of The Narragansett Electric Company (the Company), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of income, comprehensive income, cash flows, capitalization, and changes in shareholders' equity for each of the three years in the period ended March 31, 2015.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Narragansett Electric Company at March 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 17, 2015

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating revenues:			
Electric services	**$ 1,079,955**	$ 964,035	$ 813,925
Gas distribution	**420,080**	455,736	398,656
Total operating revenues	**1,500,035**	1,419,771	1,212,581
Operating expenses:			
Purchased electricity	**499,701**	430,387	348,564
Purchased gas	**206,080**	247,982	203,012
Operations and maintenance	**421,187**	393,740	356,606
Depreciation and amortization	**90,746**	85,048	79,377
Other taxes	**127,924**	106,351	89,914
Total operating expenses	**1,345,638**	1,263,508	1,077,473
Operating income	**154,397**	156,263	135,108
Other income and (deductions):			
Interest on long-term debt	**(44,103)**	(44,370)	(36,138)
Other interest, including affiliate interest	**(7,489)**	(1,430)	(2,940)
Other income (deductions), net	**5,579**	7,359	(2,166)
Total other deductions, net	**(46,013)**	(38,441)	(41,244)
Income before income taxes	**108,384**	117,822	93,864
Income tax expense	**30,175**	39,259	33,168
Net income	**$ 78,209**	$ 78,563	$ 60,696

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Net income	**$ 78,209**	$ 78,563	$ 60,696
Other comprehensive income:			
Unrealized gains on securities	**291**	275	207
Change in pension and other postretirement obligations	**1,176**	12	7,850
Reclassification of losses into net income	**328**	260	354
Adjustment for pension tracker	**-**	-	90,588
Total other comprehensive income	**1,795**	547	98,999
Comprehensive income	**$ 80,004**	$ 79,110	$ 159,695
Related tax expense:			
Unrealized gains on securities	**$ (157)**	$ (148)	$ (111)
Change in pension and other postretirement obligations	**(633)**	(6)	(2,371)
Reclassification of losses into net income	**(177)**	(140)	(191)
Adjustment for pension tracker	**-**	-	(54,481)
Total tax expense	**$ (967)**	$ (294)	$ (57,154)

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2015	2014	2013
Operating activities:			
Net income	**$ 78,209**	$ 78,563	$ 60,696
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**90,746**	85,048	79,377
Regulatory amortizations	**(1,145)**	706	5,737
Provision for deferred income taxes	**16,949**	49,690	81,938
Bad debt expense	**28,269**	27,582	16,648
Allowance for equity funds used during construction	**(347)**	(2,536)	488
Amortization of debt discount and issuance costs	**293**	273	224
Net postretirement benefits expense (contributions)	**2,435**	1,051	(11,394)
Net environmental remediation payments	**(283)**	(8,042)	(1,930)
Share based compensation	**18**	1,375	-
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(63,582)**	(64,084)	(56,548)
Accounts receivable from/payable to affiliates, net	**-**	-	(241)
Inventory	**(725)**	6,480	3,150
Regulatory assets and liabilities, net	**(59,701)**	(25,950)	(60,929)
Accounts payable and other liabilities	**37,807**	(27,531)	51,200
Other, net	**68,443**	47,580	(16,658)
Net cash provided by operating activities	**197,386**	170,205	151,758
Investing activities:			
Capital expenditures	**(286,421)**	(224,461)	(235,100)
Changes in restricted cash and special deposits	**(14,615)**	(5,211)	32,298
Affiliated money pool investing and receivables/payables, net	**153,189**	(153,189)	-
Cost of removal	**(13,260)**	(13,026)	(17,360)
Other	**(163)**	847	343
Net cash used in investing activities	**(161,270)**	(395,040)	(219,819)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Proceeds from long-term debt	**-**	-	250,000
Affiliated money pool borrowing and receivables/payables, net	**222,142**	(22,048)	(170,975)
Advance from affiliate	**(250,000)**	250,000	-
Payment of debt issuance costs	**-**	-	(1,875)
Net cash (used in) provided by financing activities	**(29,343)**	226,467	75,665
Net increase in cash and cash equivalents	**6,773**	1,632	7,604
Cash and cash equivalents, beginning of year	**12,537**	10,905	3,301
Cash and cash equivalents, end of year	**$ 19,310**	$ 12,537	$ 10,905
Supplemental disclosures:			
Interest paid	$ (42,887)	$ (43,908)	$ (35,968)
Income taxes (paid) refunded	(17,111)	25,234	26,091
Significant non-cash items:			
Capital-related accruals included in accounts payable	26,872	22,865	8,515

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2015	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 19,310**	$ 12,537
Restricted cash and special deposits	**44,498**	29,883
Accounts receivable	**272,521**	239,924
Allowance for doubtful accounts	**(34,861)**	(30,202)
Accounts receivable from affiliates	**26,000**	21,364
Intercompany money pool	**-**	156,863
Unbilled revenues	**69,015**	61,640
Inventory	**29,373**	29,726
Regulatory assets	**132,159**	90,518
Derivative contracts	**526**	6,243
Current portion of deferred income tax assets, net	**-**	32,853
Other	**6,830**	24,315
Total current assets	**565,371**	675,664
Property, plant and equipment, net	**2,366,008**	2,137,340
Other non-current assets:		
Regulatory assets	**521,540**	454,006
Goodwill	**724,810**	724,810
Derivative contracts	**428**	238
Other	**10,531**	12,636
Total other non-current assets	**1,257,309**	1,191,690
Total assets	**$ 4,188,688**	$ 4,004,694

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2015	March 31, 2014
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 149,527**	$ 123,538
Accounts payable to affiliates	**10,939**	25,038
Advance from affiliate	**-**	250,000
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**15,822**	14,088
Customer deposits	**13,314**	8,557
Interest accrued	**5,467**	5,512
Regulatory liabilities	**62,376**	74,645
Intercompany money pool	**237,203**	-
Derivative contracts	**18,984**	10,372
Current portion of deferred income tax liabilities, ne	**2,818**	-
Renewable energy certificate obligations	**21,633**	23,255
Other	**40,084**	15,455
Total current liabilities	**579,542**	551,835
Other non-current liabilities:		
Regulatory liabilities	**216,382**	206,972
Deferred income tax liabilities, net	**463,268**	466,650
Postretirement benefits	**190,548**	126,058
Environmental remediation costs	**132,859**	130,550
Derivative contracts	**7,596**	416
Other	**23,774**	26,256
Total other non-current liabilities	**1,034,427**	956,902
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**1,728,630**	1,648,718
Long-term debt	**846,089**	847,239
Total capitalization	**2,574,719**	2,495,957
Total liabilities and capitalization	**$ 4,188,688**	$ 4,004,694

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
Total shareholders' equity			**$ 1,728,630**	$ 1,648,718
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.53%	March 15, 2020	**250,000**	250,000
Senior Note	5.64%	March 15, 2040	**300,000**	300,000
Senior Note	4.17%	December 10, 2042	**250,000**	250,000
			800,000	800,000
First Mortgage Bonds ("FMB"):				
FMB Series S	6.82%	April 1, 2018	**14,464**	14,464
FMB Series N	9.63%	May 30, 2020	**10,000**	10,000
FMB Series O	8.46%	September 30, 2022	**12,500**	12,500
FMB Series P	8.09%	September 30, 2022	**5,000**	5,625
FMB Series R	7.50%	December 15, 2025	**8,250**	9,000
Unamortized debt discounts			**(2,750)**	(2,975)
Total debt			**847,464**	848,614
Current portion of long-term debt			**1,375**	1,375
Long-term debt			**846,089**	847,239
Total capitalization			**$ 2,574,719**	$ 2,495,957

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Hedging Activity	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ 56,624**	**$ 2,454**	**$ 1,353,559**	**$ 584**	**$ (98,429)**	**$ (5,608)**	**$ (103,453)**	**$ 99,574**	**$ 1,408,758**
Net income	-	-	-	-	-	-	-	60,696	60,696
Other comprehensive income (loss)									
Unrealized gains on securities, net of $111 tax expense	-	-	-	207	-	-	207	-	207
Change in pension and other postretirement obligations, net of $2,371 tax expense	-	-	-	-	7,850	-	7,850	-	7,850
Reclassification of (gains) losses, net of $191 tax expense	-	-	-	(107)	-	461	354	-	354
Adjustment for pension tracker, net of $54,481 tax expense	-	-	-	-	90,588	-	90,588		90,588
Total comprehensive income									159,695
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2013	**$ 56,624**	**$ 2,454**	**$ 1,353,559**	**$ 684**	**$ 9**	**$ (5,147)**	**$ (4,454)**	**$ 160,160**	**$ 1,568,343**
Net income	-	-	-	-			-	78,563	78,563
Other comprehensive income (loss)									
Unrealized gains on securities, net of $148 tax expense	-	-	-	275	-	-	275	-	275
Change in pension and other postretirement obligations, net of $6 tax expense	-	-	-	-	12	-	12	-	12
Reclassification of (gains) losses, net of $140 tax expense	-	-	-	(227)	-	487	260	-	260
Total comprehensive income									79,110
Share based compensation	-	-	1,375	-	-	-	-	-	1,375
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2014	**$ 56,624**	**$ 2,454**	**$ 1,354,934**	**$ 732**	**$ 21**	**$ (4,660)**	**$ (3,907)**	**$ 238,613**	**$ 1,648,718**
Net income	-	-	-	-			-	78,209	78,209
Other comprehensive income (loss)									
Unrealized gains on securities, net of $157 tax expense	-	-	-	291	-	-	291	-	291
Change in pension and other postretirement obligations, net of $633 tax expense	-	-	-	-	1,176	-	1,176	-	1,176
Reclassification of (gains) losses, net of $177 tax expense	-	-	-	(166)	-	494	328	-	328
Total comprehensive income									80,004
Share based compensation	-	-	18	-	-	-	-	-	18
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2015	**$ 56,624**	**$ 2,454**	**$ 1,354,952**	**$ 857**	**$ 1,197**	**$ (4,166)**	**$ (2,112)**	**$ 316,712**	**$ 1,728,630**

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at March 31, 2015 and 2014.

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

THE NARRAGANSETT ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Narragansett Electric Company ("the Company") is a retail distribution company providing electric service to approximately 495,000 customers and gas service to approximately 263,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all of Rhode Island.

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

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

Management recorded out-of-period adjustments during the current fiscal year that resulted in an increase of net income of $5 million. The adjustments primarily related to correction of a $9 million error in income taxes, partially offset by errors in operations and maintenance expense. Management concluded that the impact of recording these adjustments was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through July 17, 2015, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

As approved by the RIPUC, the Company is allowed to pass through commodity-related costs to customers and also bills for other approved rate adjustment mechanisms. In addition, the Company has a revenue decoupling mechanism ("RDM") which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior fiscal year.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $15.3 million and $12.5 million at March 31, 2015 and 2014, respectively.

Income Taxes

Federal income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by ISO New England, Inc. ("ISO-NE"). Special deposits primarily include collateral paid to the Company's counterparties for outstanding derivative contracts, health insurance and worker's compensation. The Company had restricted cash of $25.3 million at March 31, 2015 and 2014 and special deposits of $19.2 million and $4.6 million at March 31, 2015 and 2014, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

Inventory is comprised of materials and supplies, renewable energy certificates ("RECs"), and gas in storage, Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2015, 2014 or 2013. RECs are used to measure compliance with renewable energy standards and are held primarily for consumption.

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

At March 31, 2015 and 2014, the Company had materials and supplies of $11.0 million and $10.8 million, purchased RECs of $11.0 million and $12.1 million, and gas in storage of $7.4 million and $6.8 million, respectively.

Derivative Contracts

Commodity Derivative Contracts – Regulated Accounting

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

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

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

Commodity Derivative Contracts – Non-Regulated Accounting

The Company also uses derivative contracts related to storage optimization, such as gas purchase and swaps contracts, to reduce the cash flow variability associated with forecasted purchases and sales of various energy-related commodities which do not receive regulatory recovery. All such derivative contracts are accounted for at fair value in the accompanying balance sheets with all changes in fair value reported in the statements of income.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the RIPUC. The average composite rates and average service lives for the years ended March 31, 2015, 2014, and 2013 are as follows:

	Electric			Gas		
	Years Ended March 31,			Years Ended March 31,		
	2015	2014	2013	**2015**	2014	2013
Composite rates	**3.0%**	3.1%	3.1%	**3.5%**	3.2%	3.2%
Average service lives	**44 years**	44 years	44 years	**43 years**	43 years	43 years

Depreciation expense includes a component for estimated future cost of removal which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $186.0 million and $171.5 million at March 31, 2015 and 2014, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income (deductions), net and AFUDC debt is reported as non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $0.3 million, $2.5 million, and $0.5 million and AFUDC related to debt of $35 thousand, $1.8 million, and $0.5 million for the years ended March 31, 2015, 2014, and 2013, respectively. The average AFUDC rates for the years ended March 31, 2015, 2014, and 2013 were 6.2%, 5.9%, and 2.6%, respectively.

Goodwill

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

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

- To estimate fair value utilizing the income approach, the Company used a discounted cash flow methodology incorporating its most recent business plan forecasts together with a projected terminal year calculation. Key assumptions used in the income approach were: (a) expected cash flows for the period from April 1, 2015 to March 31, 2020; (b) a discount rate of 5.2%, which was based on the Company's best estimate of its after-tax weighted-average cost of capital; and (c) a terminal growth rate of 2.25%, based on the Company's expected long-term average growth rate in line with estimated long-term U.S. economic inflation.

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

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

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

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 3,151**	$ 3,441
Accretion expense	**210**	211
Liabilities settled	**(2,245)**	(501)
Liabilities incurred in the current year	**945**	-
Balance as of the end of the year	**$ 2,061**	$ 3,151

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

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

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

Accounting Guidance Not Yet Adopted

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

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments also require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after

December 15, 2016 and interim periods thereafter. The application of this guidance is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Revenue Recognition

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

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Derivative contracts	**$ 25,208**	$ 4,727
Gas costs adjustment	**14,103**	42,453
Rate adjustment mechanisms	**71,158**	31,088
Renewable energy certificates	**10,611**	11,155
Revenue decoupling mechanism	**9,610**	1,095
Other	**1,469**	-
Total	**132,159**	90,518
Non-current:		
Asset retirement obligation	**3,605**	4,457
Environmental response costs	**136,879**	138,000
Postretirement benefits	**274,434**	212,576
Regulatory deferred tax asset	**13,691**	14,406
Storm costs	**82,444**	76,338
Other	**10,487**	8,229
Total	**521,540**	454,006
Regulatory liabilities:		
Current:		
Energy efficiency	**7,222**	34,014
Rate adjustment mechanisms	**27,764**	21,151
Revenue decoupling mechanism	**27,389**	16,880
Other	**1**	2,600
Total	**62,376**	74,645
Non-current:		
Cost of removal	**186,013**	171,491
Environmental response fund	**4,048**	2,369
Postretirement benefits	**15,554**	19,267
Other	**10,767**	13,845
Total	**216,382**	206,972
Net regulatory assets	**$ 374,941**	$ 262,907

Asset retirement obligation: Represents accretion expense deferred as part of the Company's asset retirement obligation and is recovered through rates as part of depreciation expense.

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

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

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

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $4.4 million per year, with variances deferred for future recovery from or return to customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Environmental response fund: This amounts represent the amount of customer contributions and insurance proceeds recovered to pay for costs to investigate and perform certain remediation activities at sites with which it may be associated.

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

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

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the RIPUC. Rate adjustment mechanisms include the Renewable Energy Standard Charge, a charge designed to cover our compliance costs associated with state renewable portfolio standards and the under or over recovery of electricity supply costs.

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

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with Rhode Island's Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Revenue decoupling mechanism: As approved by the RIPUC, the Company has a RDM which allows for annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: Represents the incremental costs to restore power to customers resulting from major storms. The Company's most recent settlement with the RIPUC included storm fund recovery at a level of $4.8 million per year through December 31, 2013, and then increased to $7.3 million per year effective January 1, 2014. This level of recovery will remain in place at least through January 31, 2018 and will be subject to RIPUC review at that time.

The Company records carrying charges on regulatory balances related to rate adjustment mechanisms, storm costs, postretirement benefits, and environmental response costs for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

On April 11, 2013, the RIPUC issued an order approving the agreement among the Division, the Department of the Navy, and the Company, which provided for an increase in electric base distribution revenue of $21.5 million and an increase in gas base distribution revenue of $11.3 million based on a 9.5% allowed return on equity ("ROE") and a common equity ratio of approximately 49.1%, effect retroactively on February 1, 2013. The order also included reinstatement of base rate recovery of storm fund contributions and implementation of a Pension Adjustment Mechanism for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business.

New England East-West Solution ("NEEWS") Project

In September 2008, the Company, its affiliate, New England Power ("NEP"), and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, 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 Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is approximately $575 million. The Company is fully reimbursed for its transmission revenue requirements on a monthly basis by NEP through NEP's Tariff No. 1. Effective 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 in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. In conformance with the provisions of NEP's Tariff No. 1 as stated above, NEP has made a FERC filing to reduce the Company's base ROE. On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets to a maximum ROE of 11.74%, effective immediately It is currently unclear whether the FERC will also require retroactive reductions to the NEEWS ROE incentive for the 15-month period from October 1, 2011 through December 31, 2012.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Plant and machinery	**$ 2,886,100**	$ 2,695,582
Land and buildings	**117,816**	114,485
Assets in construction	**216,959**	148,380
Software and other intangibles	**30,161**	30,144
Property held for future use	**15,016**	15,016
Total property, plant and equipment	**3,266,052**	3,003,607
Accumulated depreciation and amortization	**(900,044)**	(866,267)
Property, plant and equipment, net	**$ 2,366,008**	$ 2,137,340

6. DERIVATIVE CONTRACTS

The Company utilizes derivative contracts, such as gas future contracts, gas swap contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.
The Company's financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company engages in risk management activities only in commodities and financial markets where it has an exposure, and only in terms and volumes consistent with its core business.

Volumes

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

	March 31,	
	2015	2014
	(in thousands)	
Gas future contracts	**20,340**	19,730
Gas swap contracts	**14,549**	12,722
Gas purchase contracts	**1,247**	3,701
Total	**36,136**	36,153

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2015	2014		**2015**	2014
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**$ 116**	$ 2,679	Gas future contracts	**$ 10,511**	$ 145
Gas swap contracts	**11**	2,982	Gas swap contracts	**7,658**	157
Gas purchase contracts	**2**	-	Gas purchase contracts	**-**	9,908
Contracts not subject to rate recovery:			Contracts not subject to rate recovery:		
Gas swap contracts	**376**	207	Gas swap contracts	**798**	69
Gas purchase contracts	**21**	375	Gas purchase contracts	**17**	93
	526	6,243		**18,984**	10,372
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**428**	200	Gas future contracts	**6,289**	366
Gas swap contracts	**-**	38	Gas swap contracts	**1,307**	50
	428	238		**7,596**	416
Total	**$ 954**	$ 6,481	Total	**$ 26,580**	$ 10,788

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. For the years ended March 31, 2015, 2014 and 2013, the Company recorded losses of $0.8 million, gains of $0.7 million, and losses of $0.4 million, respectively, within purchased gas in the accompanying statements of income for changes in fair value for contracts not subject to rate recovery.

Credit and Collateral

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

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

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

The Company's credit exposure for all derivative contracts and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was $11.7 million and $2.1 million as of March 31, 2015 and 2014, respectively.

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

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support, and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The aggregate fair value of the Company's derivative contracts with credit-risk-related contingent features that were in a liability position at March 31, 2015 and 2014 was $9.4 million and $0.5 million, respectively. The Company had no collateral posted for these instruments at March 31, 2015 or 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $9.8 million and $0.6 million additional collateral to its counterparties at March 31, 2015 and 2014, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative contracts:						
Gas future contracts	$ 544	$ -	$ 544	$ -	$ 544	$ -
Gas swap contracts	387	-	387	-	11	376
Gas purchase contracts	23	-	23	-	-	23
Total	$ 954	$ -	$ 954	$ -	$ 555	$ 399

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilites presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative contracts:						
Gas future contracts	$ (16,800)	$ -	$ (16,800)	$ -	$ (16,800)	$ -
Gas swap contracts	(9,763)	-	(9,763)	-	(9)	(9,754)
Gas purchase contracts	(17)	-	(17)	-	-	(17)
Total	$ (26,580)	$ -	$ (26,580)	$ -	$ (16,809)	$ (9,771)

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

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative contracts:						
Gas future contracts	$ 2,879	$ -	$ 2,879	$ -	$ 2,879	$ -
Gas swap contracts	3,227	-	3,227	-	35	3,192
Gas purchase contracts	375	-	375	-	-	375
Total	$ 6,481	$ -	$ 6,481	$ -	$ 2,914	$ 3,567

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilites presented in the Balance Sheets C=A+B	Financial Instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative contracts:						
Gas future contracts	$ (511)	$ -	$ (511)	$ -	$ (511)	$ -
Gas swap contracts	(276)	-	(276)	-	(43)	(233)
Gas purchase contracts	(10,001)	-	(10,001)	-	-	(10,001)
Total	$ (10,788)	$ -	$ (10,788)	$ -	$ (554)	$ (10,234)

7. FAIR VALUE MEASUREMENTS

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

	March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts:				
Gas future contracts	$ 544	$ -	$ -	$ 544
Gas swap contracts	-	387	-	387
Gas purchase contracts	-	3	20	23
Available-for-sale securities	2,261	2,970	-	5,231
Total	2,805	3,360	20	6,185
Liabilities:				
Derivative contracts:				
Gas future contracts	16,800	-	-	16,800
Gas swap contracts	-	9,763	-	9,763
Gas purchase contracts	-	15	2	17
Total	16,800	9,778	2	26,580
Net (liabilities) assets	$ (13,995)	$ (6,418)	$ 18	$ (20,395)

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts:				
Gas future contracts	$ 2,879	$ -	$ -	$ 2,879
Gas swap contracts	-	3,119	108	3,227
Gas purchase contracts	-	292	83	375
Available-for-sale securities	2,031	2,741	-	4,772
Total	4,910	6,152	191	11,253
Liabilities:				
Derivative contracts:				
Gas future contracts	511	-	-	511
Gas swap contracts	-	276	-	276
Gas purchase contracts	-	13	9,988	10,001
Total	511	289	9,988	10,788
Net assets (liabilities)	$ 4,399	$ 5,863	$ (9,797)	$ 465

Derivative Contracts: The Company's Level 1 fair value derivative contracts consist of active exchange-based derivatives (e.g. natural gas futures traded on NYMEX) valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

The Company's Level 2 fair value derivative contracts consist of over-the-counter ("OTC") gas swaps and gas purchase contracts with pricing inputs obtained from the NYMEX and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative contracts. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

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

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

Changes in Level 3 Derivative Contracts

	Years Ended March 31, 2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (9,797)**	$ -
Total gains or losses included in regulatory assets and liabilities	**(3,080)**	(14,163)
Settlements:		
included in earnings	**306**	73
included in regulatory assets and liabilities	**12,589**	4,293
Balance as of the end of the year	**$ 18**	$ (9,797)
The amount of total gains or losses for the year included in net income attributed to the change in unrealized gains or losses related to non-regulatory assets and liabilities at year-end	$ -	$ -

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

Quantitative Information About Level 3 Fair Value Measurements

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

Commodity	Level 3 Position	Fair Value as of March 31, 2015 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(thousands of dollars)					
Gas	Purchase contracts	$ 20	$ (2)	$ 18	Discounted Cash Flow	Forward Curve	$1.340 - $1.740/dth
	Total	$ 20	$ (2)	$ 18			

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
			(thousands of dollars)				
Gas	Purchase contracts	$ -	$ (9,907)	$ (9,907)	Discounted Cash Flow	LNG Forward Curve	$3.5490 - $11.01/dth
Gas	Purchase contracts	83	(81)	2	Discounted Cash Flow	Forward Curve	$2.534 - $4.544/dth
Gas	Swap contracts	108	-	108	Discounted Cash Flow	Forward Curve	($1.070) - ($0.610)/dth
	Total	$ 191	$ (9,988)	$ (9,797)			

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

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2015 and 2014 was $1.0 billion and $905.3 million, respectively.

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

8. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory Pension and PBOP plan (together with the Pension Plan (the "Plan")), covering substantially all employees.

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2015, 2014, and 2013, the Company made contributions of approximately $20.4 million, $23.9 million, and $45.3 million, respectively, to the Plan.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas and electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP expense is included in operations and maintenance expense in the accompanying statements of income.

The NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2015 and 2014 as follows:

	March 31,	
	2015	2014
	(in thousands of dollars)	
Pension	**$ 602,142**	$ 402,928
PBOP	**447,780**	302,360
	$ 1,049,922	$ 705,288

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2015, 2014, and 2013 are as follows:

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Pension	**$ 15,804**	$ 20,503	$ 23,135
PBOP	**6,763**	7,392	11,423
	$ 22,567	$ 27,895	$ 34,558

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2015, 2014, and 2013, the Company recognized an expense in the accompanying statements of income of $2.7 million, $2.5 million, and $2.0 million, respectively, for matching contributions.

Other Benefits

At March 31, 2015 and 2014, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $2.8 million and $4.5 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the year ended March 31, 2015:

	Pension Benefits	Hedging	Other Investments	Total
		(in thousands of dollars)		
Balance as of the beginning of the year	$ 21	$ (4,660)	$ 732	$ (3,907)
Other comprehensive income before reclassifications:				
Unrecognized net acturial loss (net of $625 tax expense)	1,161	-	-	1,161
Gain on investment (net of $157 tax expense)	-	-	291	291
Amounts reclassified from other comprehensive income:				
Amortization of net actuarial loss (net of $8 tax expense)	15	-	-	15
Amortization of treasury lock (net of $266 tax expense)[1]	-	494	-	494
Gain on investment (net of $89 tax benefit)[2]	-	-	(166)	(166)
Net current period other comprehensive income	1,176	494	125	1,795
Balance as of the end of the year	1,197	(4,166)	857	(2,112)

(1) Amounts are reported as interest on long-term debt in the accompanying statements of income.
(2) Amounts are reported as other income (deduction), net in the accompanying statements of income.

10. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $400 million of short-term debt, which expired on November 30, 2013. The Company's subsequent request for short-term borrowing authority was approved and became effective January 12, 2015 for a period of two years.

Effective April 25, 2014, the Company entered into an Equity Contribution Agreement with the Parent which provided the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit, until such time as regulatory approval for short-term borrowing was regained. The Company did not make use of this Equity Contribution Agreement. Since the Company has regained its short-term borrowing authority, as of January 12, 2015, the Equity Contribution Agreement is no longer in effect. The Company had no short-term debt outstanding to third-parties as of March 31, 2015 or 2014.

First Mortgage Bonds

At March 31, 2015, the Company had $50.2 million of First Mortgage Bonds ("FMB") outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. Interest rates on these FMB range from 6.82% to 9.63%. Maturities range on these FMB from April 2018 to December 2025. The FMB 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, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2015 and 2014, the Company was in compliance with this covenant. At March 31, 2015 and 2014 the Company's debt-to-capitalization ratio was 33% and 34%, respectively.

Debt Maturities

The aggregate maturities of long-term debt for the years subsequent to March 31, 2015 are as follows:

(in thousands of dollars) Years Ending March 31,	
2016	$ 1,375
2017	1,375
2018	1,375
2019	15,839
2020	1,375
Thereafter	828,875
Total	$ 850,214

The Company is obligated to meet certain financial and non-financial covenants. During the years ended March 31, 2015, 2014 and 2013, the Company was in compliance with all such covenants.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2015 and 2014 was approximately 67% and 66%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2015 or 2014**.**

Cumulative Preferred Stock

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

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		Call
Series	**2015**	2014	**2015**	2014	Price
	(in thousands of dollars, except per share and number of shares data)				
$50 par value - 4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	55.000

The Company did not redeem any preferred stock during the years ended March 31, 2015, 2014 or 2013. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2015, 2014, and 2013.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Current federal tax expense (benefit)	**$ 13,226**	$ (10,431)	$ (48,770)
Deferred federal tax expense	**17,129**	49,993	82,387
Amortized investment tax credits, net (1)	**(180)**	(303)	(449)
Total deferred tax expense	**16,949**	49,690	81,938
Total income tax expense	**$ 30,175**	$ 39,259	$ 33,168

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

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended March 31, 2015, 2014, and 2013 is 27.8%, 33.5%, and 35.3%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Computed tax at the statutory rate	**$ 37,933**	$ 41,023	$ 32,854
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(87)**	(771)	(128)
Investment tax credits	**(180)**	(303)	(449)
Adjustments related to prior years, federal	**(7,935)**	(572)	226
Other items, net	**444**	(118)	665
Total	**(7,758)**	(1,764)	314
Federal and state income taxes	**$ 30,175**	$ 39,259	$ 33,168

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

In September 2013, the U.S. Department of the Treasury issued final tangible property regulations which provide guidance for the application of IRC §162(a) and IRC §263(a) to amounts paid to acquire, produce, or improve tangible property. In August 2014, the U.S. Department of the Treasury also finalized the depreciable property disposition regulations. Both sets of regulations become effective for tax years beginning on or after January 1, 2014, which, for the Company, is the fiscal year ended March 31, 2015. The Company intends to adopt these regulations with its fiscal year 2015 federal tax return and has estimated a favorable §481(a) adjustment of $20.1 million related to dispositions of depreciable property and unfavorable §481(a) adjustment of $13.0 million related to repairs deduction following casualty loss.

Deferred Tax Components

	March 31, 2015	March 31, 2014
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 12,201**	$ 10,927
Environmental reserve	**46,405**	44,946
Net operating losses	**91,102**	58,537
Postretirement benefits and other employee benefits	**73,289**	50,727
Other items	**36,800**	15,609
Total deferred tax assets (1)	**259,797**	180,746
Deferred tax liabilities:		
Amortization of goodwill	**42,258**	36,003
Property related differences	**467,379**	420,340
Regulatory assets - environmental	**46,491**	46,171
Regulatory assets - postretirement benefits	**89,767**	62,254
Regulatory assets - storm costs	**29,275**	27,113
Other items	**50,383**	22,152
Total deferred tax liabilities	**725,553**	614,033
Net deferred income tax liabilities	**465,756**	433,287
Deferred investment tax credits	**330**	510
Net deferred income tax liabilities and investment tax credits	**466,086**	433,797
Current portion of deferred income tax liabilities, net	**(2,818)**	32,853
Deferred income tax liabilities, net	**$ 463,268**	$ 466,650

(1) There were no valuation allowances for deferred tax assets at March 31, 2015 or 2014.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2015:

Expiration of net operating losses:	Federal
	(in thousands of dollars)
03/31/2029	$ 2,078
03/31/2030	13,689
03/31/2032	30,224
03/31/2033	50,227
03/31/2034	123,509
03/31/2035	69,553

Unrecognized Tax Benefits

As of March 31, 2015, 2014 and 2013, the Company’s unrecognized tax benefits totaled $27.0 million, $22.7 million and $22.3 million, respectively, none of which would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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

	Years Ended March 31,		
	2015	2014	2013
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 22,651**	$ 22,271	$ 19,811
Gross increases related to prior periods	**2,303**	1,407	313
Gross decreases related to prior periods	**(1,992)**	(1,392)	(536)
Gross increases related to current period	**4,063**	1,773	3,422
Gross decreases related to current period	**-**	-	(739)
Settlements with tax authorities	**-**	(1,408)	-
Balance as of the end of the year	**$ 27,025**	$ 22,651	$ 22,271

As of March 31, 2015, 2014 and 2013, the Company has no interest accrued related to unrecognized tax benefits. During the years ended March 31, 2015, 2014, and 2013, the Company recorded interest expense of zero, interest income of $0.5 million, and interest expense of $0.1 million, respectively. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest, if applicable, in other deductions, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2015, 2014, or 2013.

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

Federal income tax returns have been examined and all appeals and issues have been agreed with the Internal Revenue Service ("IRS") and the NGNA consolidated filing group through March 31, 2007.

During the year ended March 31, 2014, the IRS concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the years ended March 31, 2008 and 2009. These examinations were completed on March 31, 2014, with an agreement on the majority of income tax issues for the years referenced above, as well as an acknowledgment that certain discrete items remain disputed. NGNA is in the process of appealing these disputed issues with the IRS Office of Appeals. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of the appeals. However, pursuant to the Company's tax sharing agreement, the audit or appeals may result in a change to allocated tax. The tax returns for the years ended March 31, 2010 through 2015 remain subject to examination by the IRS.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2008*

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

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), 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. Expenditures incurred for the years ended March 31, 2015, 2014, and 2013 were $0.3 million, $8.0 million, and $1.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $132.9 million and $130.6 million at March 31, 2015 and 2014, respectively. These costs are expected to be incurred over the next 40 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has 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 as a regulatory liability in the accompanying balance sheets. 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. Accordingly, as of March 31, 2015 and 2014, the Company has recorded environmental regulatory assets of $136.9 million and $138.0 million, respectively, and environmental regulatory liabilities of $4.0 million and $2.4 million, respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2015 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2016	$ 301,407	$ 11,995
2017	90,278	-
2018	15,375	-
2019	13,732	-
2020	11,336	-
Thereafter	33,926	-
Total	$ 466,054	$ 11,995

The Company purchases additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the ISO-NE at market prices.

Long-term Contracts for Renewable Energy

Town of Johnston Project

In June 2010, pursuant to a 2009 Rhode Island law that required the Company to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill, the Company entered into a contract with Rhode Island LFG Genco for the Town of Johnston Project, a combined cycle power plant with an average output of 32 megawatts ("MW"). The facility reached commercial operation on May 28, 2013 and is being accounted for as an operating lease.

Deepwater Agreement

The 2009 Rhode Island law 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. The renewable energy generation project also included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, the Company entered into a 20-year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC, which was approved by the RIPUC in August 2010. The Company also negotiated a Transmission Facilities Purchase Agreement ("Facilities Purchase Agreement") with Deepwater Wind Block Island Transmission, LLC ("Deepwater") to purchase from Deepwater the permits, engineering, real estate, and other site development work for construction of the undersea transmission cable (collectively, the "Transmission Facilities"). On April 2, 2014, the Division issued its Consent Decision for the Company to execute the Facilities Purchase Agreement with Deepwater. In July 2014, the Company filed with the FERC to recover the costs associated with the cable in transmission rates. On September 2, 2014, the FERC approved all four agreements required to implement the Company's cost recovery for the project, with no conditions. The agreements went into effect on September 30, 2014. On January 30, 2015, the Company closed on its purchase of the Transmission Facilities from Deepwater.

Annual Solicitations

The 2009 Rhode Island law also requires that, beginning on July 1, 2010, the Company conduct four annual solicitations for proposals from renewable energy developers and, provided commercially reasonable proposals have been received, enter into long-term contracts for the purchase of capacity, energy, and attributes from newly developed renewable energy resources. The Company's first three solicitations have resulted in three PPAs that have been approved by the RIPUC:

- First Solicitation: On July 28, 2011, the RIPUC approved a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project.

- Second Solicitation: On May 11, 2012, the RIPUC approved a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine. The facility reached commercial operation on November 22, 2013.
- Third Solicitation: On October 25, 2013, the RIPUC approved a 15-year PPA with Champlain Wind, LLC for a 48 MW land-based wind project located in Carroll Plantation and Kossuth Township, Maine.

The Renewable Energy Growth Program

The Renewable Energy ("RE") Growth Program was established pursuant to Chapter 26.6 of Title 39 of the Rhode Island General Laws under the recently-enacted Clean Energy Jobs Program Act (the "Act") to encourage growth of renewable generation in Rhode Island by 160 MW. Pursuant to the Act, the Company is required to purchase the output generated by eligible Distributed Generation projects that have been selected for participation in the RE Growth Program and to compensate program applicants in the form of Performance Based Incentive ("PBI") Payments. Participants will be subject to the terms and conditions of the RE Growth Program tariffs approved by the RIPUC and will be compensated via PBI Payments pursuant to those tariffs, which will be in effect for up to 20 years. The Act provides for the recovery of the incremental costs incurred by the Company associated with the implementation and administration of the RE Growth Program from all retail delivery service customers through a fixed monthly charge per customer. Costs eligible for recovery include the PBI Payments less the net proceeds from the sale of the energy and the Renewable Energy Certificates generated by each project into the market, plus all incremental administrative costs. In addition, the Act authorizes the Company to earn 1.75% of the total PBI Payments as remuneration.

Legal Matters

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

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates March 31,		Accounts Payable to Affiliates March 31,	
	2015	2014	**2015**	2014
	(in thousands of dollars)		*(in thousands of dollars)*	
Boston Gas Company	**$ 39**	$ 5,650	**$ -**	$ -
Colonial Gas Company	**-**	1,133	**5**	-
Massachusetts Electric Company	**-**	-	**5,060**	5,391
New England Power Company	**23,775**	11,373	**-**	-
NGUSA Service Company	**-**	-	**2,271**	16,812
Niagara Mohawk Power Company	**-**	1,215	**429**	-
Other	**2,186**	1,993	**3,174**	2,835
Total	**$ 26,000**	$ 21,364	**$ 10,939**	$ 25,038

Recovery of Transmission Costs

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, 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. According to the FERC order, the Company is compensated for its actual monthly transmission costs with its authorized maximum ROE of 11.74% on certain transmission assets. The amounts reimbursed to the Company by NEP for the years ended March 31, 2015, 2014, and 2013 were $114.4 million, $100.7 million, and $84.1 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. NEP will be submitting an amended Tariff No. 1 filing in the near future to reflect the terms of Opinion No. 531-B.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $250 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2015 and 2014, the Company had an outstanding advance from affiliate of zero and $250 million, respectively.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA, and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool borrowings of $237.2 million and investments of $156.9 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.3%, 0.7%, and 0.6% for the years ended March 31, 2015, 2014, and 2013, respectively.

Service Company Charges

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

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2015, 2014 and 2013 were $180.3 million, $197.1 million, and $264.7 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $4.7 million before taxes and $3.1 million after taxes, for the year ended March 31, 2015, and $5.1 million before taxes and $3.3 million after taxes, for each of the years ended March 31, 2014, and 2013, if these amounts allocated to the Company.

nationalgrid

The Narragansett Electric Company

Financial Statements

For the years ended March 31, 2016, 2015, and 2014

THE NARRAGANSETT ELECTRIC COMPANY

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Independent Auditor's Report

To the Board of Directors
of The Narragansett Electric Company

We have audited the accompanying financial statements of The Narragansett Electric Company (the Company), which comprise the balance sheets and statements of capitalization as of March 31, 2016 and 2015, and the related statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the three years in the period ended March 31, 2016.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Narragansett Electric Company at March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 25, 2016

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating revenues:			
Electric services	**$ 946,822**	$ 1,079,955	$ 964,035
Gas distribution	**361,702**	420,080	455,736
Total operating revenues	**1,308,524**	1,500,035	1,419,771
Operating expenses:			
Purchased electricity	**372,846**	499,701	430,387
Purchased gas	**139,547**	206,080	247,982
Operations and maintenance	**382,694**	429,024	391,859
Depreciation and amortization	**96,914**	90,746	85,048
Other taxes	**118,776**	127,924	106,351
Total operating expenses	**1,110,777**	1,353,475	1,261,627
Operating income	**197,747**	146,560	158,144
Other income and (deductions):			
Interest on long-term debt	**(43,963)**	(44,103)	(44,370)
Other interest, including affiliate interest	**(1,558)**	(4,619)	(2,762)
Other income, net	**2,474**	6,559	6,435
Total other deductions, net	**(43,047)**	(42,163)	(40,697)
Income before income taxes	**154,700**	104,397	117,447
Income tax expense	**55,292**	36,715	39,128
Net income	**$ 99,408**	$ 67,682	$ 78,319

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Net income	**$ 99,408**	$ 67,682	$ 78,319
Other comprehensive (loss) income:			
Unrealized (losses) gains on securities	**(62)**	125	48
Change in pension and other postretirement obligations	**9**	1,176	12
Unrealized gains on hedges	**494**	494	487
Total other comprehensive income	**441**	1,795	547
Comprehensive income	**$ 99,849**	$ 69,477	$ 78,866
Related tax benefit (expense):			
Unrealized losses (gains) on securities	**$ 34**	$ (68)	$ (26)
Change in pension and other postretirement obligations	**(5)**	(633)	(6)
Unrealized gains on hedges	**(266)**	(266)	(262)
Total tax expense	**$ (237)**	$ (967)	$ (294)

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 99,408**	$ 67,682	$ 78,319
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**96,914**	90,746	85,048
Regulatory amortizations	**706**	(1,145)	706
Provision for deferred income taxes	**48,106**	23,489	49,559
Bad debt expense	**8,480**	28,269	27,582
Amortization of debt discount and issuance costs	**294**	293	273
Net postretirement benefits (contributions) expense	**(13,738)**	8,518	(3,182)
Net environmental remediation payments	**(3,058)**	(283)	(8,042)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**74,882**	(63,582)	(64,084)
Inventory	**(2,662)**	(725)	6,480
Regulatory assets and liabilities, net	**35,873**	(63,805)	(25,198)
Derivative instruments	**(6,897)**	21,319	7,248
Prepaid and accrued taxes	**(3,490)**	41,190	51,450
Accounts payable and other liabilities	**(46,328)**	36,357	(49,565)
Other, net	**(9,143)**	4,634	(11,369)
Net cash provided by operating activities	**279,347**	192,957	145,225
Investing activities:			
Capital expenditures	**(278,050)**	(281,992)	(199,481)
Changes in restricted cash and special deposits	**29,385**	(14,615)	(5,211)
Affiliated money pool investing and receivables/payables, net	**-**	153,189	(153,189)
Cost of removal	**(17,959)**	(13,260)	(13,026)
Other	**376**	(163)	847
Net cash used in investing activities	**(266,248)**	(156,841)	(370,060)
Financing activities:			
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(1,375)**	(1,375)	(1,375)
Affiliated money pool borrowing and receivables/payables, net	**(16,514)**	222,142	(22,048)
Advance from affiliate	**-**	(250,000)	250,000
Net cash (used in) provided by financing activities	**(17,999)**	(29,343)	226,467
Net (decrease) increase in cash and cash equivalents	**(4,900)**	6,773	1,632
Cash and cash equivalents, beginning of year	**19,310**	12,537	10,905
Cash and cash equivalents, end of year	**$ 14,410**	$ 19,310	$ 12,537
Supplemental disclosures:			
Interest paid	**$ (42,683)**	$ (42,887)	$ (43,908)
Income taxes refunded (paid)	**71**	(17,111)	25,234
Significant non-cash items:			
Capital-related accruals included in accounts payable	**26,990**	16,028	10,572
Share based compensation	**25**	18	1,375

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 14,410**	$ 19,310
Restricted cash and special deposits	**15,113**	44,498
Accounts receivable	**196,654**	272,521
Allowance for doubtful accounts	**(25,404)**	(34,861)
Accounts receivable from affiliates	**18,689**	26,000
Unbilled revenues	**52,063**	69,015
Inventory	**32,458**	29,373
Regulatory assets	**105,176**	132,159
Derivative instruments	**1,316**	526
Other	**9,021**	6,830
Total current assets	**419,496**	565,371
Property, plant and equipment, net	**2,576,636**	2,357,965
Other non-current assets:		
Regulatory assets	**533,442**	520,035
Goodwill	**724,810**	724,810
Derivative instruments	**398**	428
Other	**14,605**	10,531
Total other non-current assets	**1,273,255**	1,255,804
Total assets	**$ 4,269,387**	$ 4,179,140

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

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2016	March 31, 2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 127,141**	$ 149,527
Accounts payable to affiliates	**29,109**	10,939
Current portion of long-term debt	**1,375**	1,375
Taxes accrued	**19,972**	15,822
Customer deposits	**13,496**	13,314
Interest accrued	**5,450**	5,467
Regulatory liabilities	**74,077**	62,376
Intercompany money pool	**195,208**	237,203
Derivative instruments	**18,154**	18,984
Renewable energy certificate obligations	**17,839**	21,633
Other	**20,031**	40,084
Total current liabilities	**521,852**	576,724
Other non-current liabilities:		
Regulatory liabilities	**222,710**	216,382
Deferred income tax liabilities, net	**513,737**	462,745
Postretirement benefits	**181,829**	190,548
Environmental remediation costs	**132,651**	132,859
Derivative instruments	**2,289**	7,596
Other	**27,192**	23,773
Total other non-current liabilities	**1,080,408**	1,033,903
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**1,822,188**	1,722,424
Long-term debt	**844,939**	846,089
Total capitalization	**2,667,127**	2,568,513
Total liabilities and capitalization	**$ 4,269,387**	$ 4,179,140

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2016	March 31, 2015
Total shareholders' equity			**$ 1,822,188**	$ 1,722,424
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.53%	March 15, 2020	**250,000**	250,000
Senior Note	5.64%	March 15, 2040	**300,000**	300,000
Senior Note	4.17%	December 10, 2042	**250,000**	250,000
			800,000	800,000
First Mortgage Bonds ("FMB"):				
FMB Series S	6.82%	April 1, 2018	**14,464**	14,464
FMB Series N	9.63%	May 30, 2020	**10,000**	10,000
FMB Series O	8.46%	September 30, 2022	**12,500**	12,500
FMB Series P	8.09%	September 30, 2022	**4,375**	5,000
FMB Series R	7.50%	December 15, 2025	**7,500**	8,250
			48,839	50,214
Total debt			**848,839**	850,214
Unamortized debt discount			**(2,525)**	(2,750)
Current portion of long-term debt			**1,375**	1,375
Long-term debt			**844,939**	846,089
Total capitalization			**$ 2,667,127**	$ 2,568,513

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ 56,624**	**$ 2,454**	**$ 1,353,559**	**$ 684**	**$ 9**	**$ (5,147)**	**$ (4,454)**	**$ 164,725**	**$ 1,572,908**
Net income	-	-	-	-	-	-	-	78,319	78,319
Other comprehensive income:									
Unrealized gains on securities, net of $26 tax expense	-	-	-	48	-	-	48	-	48
Change in pension and other postretirement obligations, net of $6 tax expense	-	-	-	-	12	-	12	-	12
Unrealized gains on hedges, net of $262 tax expense	-	-	-	-	-	487	487	-	487
Total comprehensive income									78,866
Share based compensation	-	-	1,375	-	-	-	-	-	1,375
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2014	**$ 56,624**	**$ 2,454**	**$ 1,354,934**	**$ 732**	**$ 21**	**$ (4,660)**	**$ (3,907)**	**$ 242,934**	**$ 1,653,039**
Net income	-	-	-	-			-	67,682	67,682
Other comprehensive income:									
Unrealized gains on securities, net of $68 tax expense	-	-	-	125	-	-	125	-	125
Change in pension and other postretirement obligations, net of $633 tax expense	-	-	-	-	1,176	-	1,176	-	1,176
Unrealized gains on hedges, net of $266 tax expense	-	-	-	-	-	494	494	-	494
Total comprehensive income									69,477
Share based compensation	-	-	18	-	-	-	-	-	18
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2015	**$ 56,624**	**$ 2,454**	**$ 1,354,952**	**$ 857**	**$ 1,197**	**$ (4,166)**	**$ (2,112)**	**$ 310,506**	**$ 1,722,424**
Net income	-	-	-	-			-	99,408	99,408
Other comprehensive (loss) income:									
Unrealized losses on securities, net of $34 tax benefit	-	-	-	(62)	-	-	(62)	-	(62)
Change in pension and other postretirement obligations, net of $5 tax expense	-	-	-	-	9	-	9	-	9
Unrealized gains on hedges, net of $266 tax expense	-	-	-	-	-	494	494	-	494
Total comprehensive income									99,849
Share based compensation	-	-	25	-	-	-	-	-	25
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2016	**$ 56,624**	**$ 2,454**	**$ 1,354,977**	**$ 795**	**$ 1,206**	**$ (3,672)**	**$ (1,671)**	**$ 409,804**	**$ 1,822,188**

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at March 31, 2016 and 2015.

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

THE NARRAGANSETT ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Narragansett Electric Company ("the Company") is a retail distribution company providing electric service to approximately 496,000 customers and gas service to approximately 265,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all of Rhode Island.

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

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

The Company has evaluated subsequent events and transactions through August 25, 2016, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2016, except as described in Note 15, "Subsequent Event."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

As approved by the RIPUC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has an electric revenue decoupling mechanism ("RDM") which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's targeted base distribution revenues from the prior fiscal year. Further, the Company has a gas RDM, which requires the Company to adjust its base rates annually to reflect the over or under recovery of the Company's allowed revenue per customer from the year.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $17.3 million and $15.3 million at March 31, 2016 and 2015, respectively.

Income Taxes

Federal income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its current and deferred taxes based on the separate return method, modified by benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. To the extent that the consolidated return group settles cash differently than the amount reported as realized under the benefit-for-loss allocation, the difference is accounted for as either a capital contribution or as a distribution.

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash primarily consist of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits consist of deposits held by ISO New England, Inc. ("ISO-NE"). The Company had restricted cash of $15.1 million and $19.2 million at March 31, 2016 and 2015, respectively, and special deposits of zero and $25.3 million at March 31, 2016 and 2015, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

Inventory is comprised of materials and supplies, renewable energy certificates ("RECs"), and gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016, 2015, or 2014. RECs are stated at cost and are used to measure compliance with renewable energy standards. RECs are held primarily for consumption.

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

At March 31, 2016 and 2015, the Company had materials and supplies of $12.1 million and $11 million, purchased RECs of $11.5 million and $11 million, and gas in storage of $8.9 million and $7.4 million, respectively.

Derivative Instruments

Commodity Derivative Instruments – Regulated Accounting

The Company uses derivative instruments (including purchase, futures, and swaps contracts) to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are recorded in the accompanying balance sheets at their fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company's commodity rate adjustment mechanisms. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract no longer qualifies for the normal purchase normal sale exception, then the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

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

Commodity Derivative Instruments – Non-Regulated Accounting

The Company also uses derivative instruments related to storage optimization, such as gas purchase and swaps contracts, to reduce the cash flow variability associated with forecasted purchases and sales of various energy-related commodities which do not receive regulatory recovery. All such derivative instruments are accounted for at fair value in the accompanying balance sheets with all changes in fair value reported in the accompanying statements of income.

Fair Value Measurements

The Company measures derivative instruments and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

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

- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

Property, Plant and Equipment

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

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and RIPUC. The average composite rates and average service lives for the years ended March 31, 2016, 2015, and 2014 are as follows:

	Electric			Gas		
	Years Ended March 31,			Years Ended March 31,		
	2016	2015	2014	**2016**	2015	2014
Composite rates	**3.0%**	3.0%	3.1%	**3.2%**	3.5%	3.2%
Average service lives	**44 years**	44 years	44 years	**43 years**	43 years	43 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $194.9 million and $186 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $0.8 million, $1.3 million, and $1.6 million and AFUDC related to debt of $0.2 million, $0.6 million, and $1.2 million for the years ended March 31, 2016, 2015, and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015, and 2014 were 0.7%, 6.2%, and 5.9%, respectively.

Goodwill

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

The fair value of the Company was calculated in the annual goodwill impairment test for the year ended March 31, 2016 utilizing both income and market approaches. The Company uses a 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment of the goodwill carrying value was required at March 31, 2016 or 2015.

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 2,061**	$ 3,151
Accretion expense	**119**	210
Liabilities settled	**(243)**	(2,245)
Revaluations to present values of estimated cash flows	**8,143**	-
Liabilities incurred in the current year	**-**	945
Balance as of the end of the year	**$ 10,080**	$ 2,061

At March 31, 2016, a revaluation study of the asset retirement obligations for the Company resulted in an upward revaluation of estimated costs related to its asset retirement obligations. These changes are the result of changes in remediation costs and enhanced asset replacement programs.

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

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a front-loaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. The new guidance is effective for non-public entities for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

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

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company has corrected the accounting by revising the prior period financial statements presented herein, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's tax provision for amounts included within Accumulated Other Comprehensive Income ("AOCI"), management determined it had incorrectly accounted for the tax related to a transfer of pension tracker amounts from AOCI to non-current regulatory assets during the year ended March 31, 2013. An adjustment of $7.9 million was recorded as a decrease to net income with the correction recorded within income tax expense for the year ended March 31, 2015, and an increase to opening retained earnings (as of March 31, 2013). This error was identified during the preparation of the March 31, 2015 financial statements and was recorded and previously disclosed as an out of period adjustment in that period. As part of the current year revision, this out of period adjustment was corrected and recorded as an increase to opening retained earnings as of March 31, 2013.

In addition, during a review of the Company's open work orders within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $5.2 million (net of income taxes) was recorded, of which $1.4 million was recorded as a decrease to opening retained earnings (as of March 31, 2013), and $2.3 million and $1.5 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

Furthermore, management also identified an error in the amount of capital-related accruals included in accounts payable, which resulted in an overstatement in net cash provided by operating activities and in net cash used in investing activities of $1.4 million and $22 million for the years ended March 31, 2015 and 2014, respectively.

Finally, the Company has also corrected other miscellaneous account balances that were improperly recorded in the previously issued financial statements. A cumulative adjustment of $0.9 million (net of income taxes) was recorded, of which $1.9 million was recorded as a decrease to opening retained earnings (as of March 31, 2013), $0.3 million was recorded as a decrease to net income for the year ended March 31, 2015, and $1.3 million was recorded as an increase to net income for the year ended March 31, 2014.

	As Previously Reported	Adjustments	As Revised
		(in thousands of dollars)	
Statement of Income	**March 2015**		**March 2015**
Total operating expenses	$ 1,345,638	$ 7,837	1,353,475
Operating income	154,397	(7,837)	146,560
Total other deductions, net	(46,013)	3,850	(42,163)
Income before income taxes	108,384	(3,987)	104,397
Income tax expense	30,175	6,540	36,715
Net income	78,209	(10,527)	67,682
Statement of Income	**March 2014**		**March 2014**
Total operating expenses	$ 1,263,508	$ (1,881)	$ 1,261,627
Operating income	156,263	1,881	158,144
Other deductions, net	(38,441)	(2,256)	(40,697)
Income before income taxes	117,822	(375)	117,447
Income tax expense	39,259	(131)	39,128
Net income	78,563	(244)	78,319
Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 197,386	$ (4,429)	$ 192,957
Net cash used in investing activities	(161,270)	4,429	(156,841)
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 170,205	$ (24,980)	$ 145,225
Net cash used in investing activities	(395,040)	24,980	(370,060)

	As Previously Reported[1]	Adjustments	As Revised
		(in thousands of dollars)	
Balance Sheet	**March 2015**		**March 2015**
Property, plant, and equipment, net	$ 2,366,008	$ (8,043)	$ 2,357,965
Total other non-current assets	1,257,309	(1,505)	1,255,804
Total assets	4,188,688	(9,548)	4,179,140
Total other non-current liabilities	1,037,245	(3,342)	1,033,903
Total liabilities and capitalization	4,188,688	(9,548)	4,179,140
Retained Earnings			
March 31, 2015	$ 316,712	$ (6,206)	$ 310,506
March 31, 2014	238,613	4,321	242,934
March 31, 2013	160,160	4,565	164,725
Shareholders' equity			
March 31, 2015	1,728,630	(6,206)	1,722,424
March 31, 2014	1,648,718	4,321	1,653,039
March 31, 2013	1,568,343	4,565	1,572,908

(1) During 2016, the Company early adopted ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" retrospectively (as discussed in Note 10, "Income Taxes"). This change in policy resulted in the reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Derivative instruments	**$ 18,757**	$ 25,208
Gas costs adjustment	**3,276**	14,103
Rate adjustment mechanisms	**59,371**	71,158
Renewable energy certificates	**6,394**	10,611
Revenue decoupling mechanism	**10,087**	9,610
Other	**7,291**	1,469
Total	**105,176**	132,159
Non-current:		
Environmental response costs	**135,785**	136,879
Postretirement benefits	**271,622**	271,683
Storm costs	**96,428**	82,444
Other	**29,607**	29,029
Total	**533,442**	520,035
Regulatory liabilities:		
Current:		
Energy efficiency	**24,596**	7,222
Rate adjustment mechanisms	**35,224**	27,764
Revenue decoupling mechanism	**13,280**	27,389
Other	**977**	1
Total	**74,077**	62,376
Non-current:		
Cost of removal	**194,908**	186,013
Postretirement benefits	**10,317**	15,554
Other	**17,485**	14,815
Total	**222,710**	216,382
Net regulatory assets	**$ 341,831**	$ 373,436

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

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

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

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

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

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

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

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with Rhode Island's Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Revenue decoupling mechanism: As approved by the RIPUC, the Company has an electric RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between annual target revenue and actual billed delivery service revenue. Any difference between the annual target revenue and actual billed delivery service revenue is recorded as a regulatory asset or regulatory liability. The Company also has a gas RDM which allows for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed revenue per customer and actual revenue per customer. Any difference between the allowed revenue per customer and the actual revenue per customer is recorded as a regulatory asset or regulatory liability.

Storm costs: Represents the incremental costs to restore power to customers resulting from major storms. The Company's most recent settlement with the RIPUC included storm fund recovery at a level of $7.3 million per year effective February 1, 2014. This level of recovery will remain in place at least through January 31, 2019 and will be subject to RIPUC review at that time.

The Company records carrying charges on regulatory balances related to rate adjustment mechanisms, storm costs, postretirement benefits, and environmental response costs for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

General Rate Case

The RIPUC approved a settlement agreement among the Division, the Department of the Navy, and the Company, which provided for an increase in electric base distribution revenue of $21.5 million and an increase in gas base distribution revenue of $11.3 million based on a 9.5% allowed return on equity ("ROE") and a common equity ratio of approximately 49.1%, effective February 1, 2013. The settlement also included reinstatement of base rate recovery of storm fund contributions and implementation of a Pension Adjustment Mechanism for pension and PBOP expenses for the electric business identical to the mechanism in place for the gas business.

Recovery of Transmission Costs

New England Power ("NEP"), an affiliate, 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, 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 Open Access Transmission Tariff ("ISO-NE OATT"). The Company is compensated for its actual monthly transmission costs with its authorized ROE ranging from a base of 11.14% to 12.64%. The amounts reimbursed to the Company by NEP for the years ended March 31, 2016, 2015, and 2014 were $129.3 million, $114.4 million, and $100.7 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income. To the extent that the FERC modifies the ROE generally applicable to transmission assets under the ISO-NE OATT, NEP's Tariff No. 1 directs that the ROE earned by the Company will also be modified to the same levels pursuant to a FERC filing under Section 205 of the Federal Power Act ("FPA"). On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC.

In conformance with the terms of NEP's Tariff No. 1, on November 17, 2014, NEP submitted a filing to the FERC under Section 205 of the FPA proposing to reduce the ROE under its Tariff No. 1 formula rates so that they were consistent with those applied under the ISO-NE OATT pursuant to the FERC's Opinion Nos. 531 and 531-A. The FERC rejected NEP's filing on April 16, 2015, finding that it was inconsistent with the FERC's clarifications issued in its Order on Rehearing in Opinion No. 531-B. On January 21, 2016, NEP re-filed proposed amendments to its Tariff No. 1 formula rates for integrated facilities to be consistent with Opinion No. 531-B among other proposed changes. On March 8, 2016, the FERC accepted the filing approving an effective date of October 16, 2014 for the ROE components. NEP will reduce its compensation to the Company in accordance with the Order.

New England East-West Solution ("NEEWS") Project

In September 2008, the Company, NEP, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy 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 Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is approximately $575 million. The Company is fully reimbursed for its transmission revenue requirements on a monthly basis by NEP through NEP's Tariff No. 1. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. As discussed in the preceding section, effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2016	2015
	(in thousands of dollars)	
Plant and machinery	**$ 3,212,116**	$ 2,886,100
Land and buildings	**123,082**	117,816
Assets in construction	**136,360**	209,509
Software and other intangibles	**30,589**	30,161
Property held for future use	**15,127**	15,016
Total property, plant and equipment	**3,517,274**	3,258,602
Accumulated depreciation and amortization	**(940,638)**	(900,637)
Property, plant and equipment, net	**$ 2,576,636**	$ 2,357,965

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

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

Volumes

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

	March 31,	
	2016	2015
	(in thousands)	
Gas future contracts	**14,270**	20,340
Gas purchase contracts	**1,416**	1,247
Gas swap contracts	**22,543**	14,549
Total	**38,229**	36,136

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2016	2015		**2016**	2015
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**$ 903**	$ 116	Gas future contracts	**$ 12,472**	$ 10,511
Gas purchase contracts	**16**	2	Gas purchase contracts	**-**	-
Gas swap contracts	**263**	11	Gas swap contracts	**5,576**	7,658
Contracts not subject to rate recovery:			Contracts not subject to rate recovery:		
Gas purchase contracts	**12**	21	Gas purchase contracts	**-**	17
Gas swap contracts	**122**	376	Gas swap contracts	**106**	798
	1,316	526		**18,154**	18,984
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas future contracts	**-**	428	Gas future contracts	**1,622**	6,289
Gas swap contracts	**398**	-	Gas swap contracts	**667**	1,307
	398	428		**2,289**	7,596
Total	**$ 1,714**	$ 954	Total	**$ 20,443**	$ 26,580

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. For the years ended March 31, 2016, 2015, and 2014, the Company recorded losses of $0.4 million, $0.8 million, and gains of $0.7 million, respectively, within purchased gas in the accompanying statements of income for changes in fair value for contracts not subject to rate recovery.

Credit and Collateral

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

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

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

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

The Company's credit exposure for all commodity derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of $6.8 million and $11.7 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $5.7 million and $9.4 million, respectively. The Company had no collateral posted for these instruments at March 31, 2016 or 2015. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $6.2 million and $9.8 million additional collateral to its counterparties at March 31, 2016 and 2015, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas future contracts	$ 903	$ -	$ 903	$ -	$ 903	$ -
Gas purchase contracts	28	-	28	-	-	28
Gas swap contracts	783	-	783	-	-	783
Total	$ 1,714	$ -	$ 1,714	$ -	$ 903	$ 811

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilites presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas future contracts	$ 14,094	$ -	$ 14,094	$ -	$ 14,094	$ -
Gas swap contracts	6,349	-	6,349	-	-	6,349
Total	$ 20,443	$ -	$ 20,443	$ -	$ 14,094	$ 6,349

March 31, 2015
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas future contracts	$ 544	$ -	$ 544	$ -	$ 544	$ -
Gas purchase contracts	23	-	23	-	-	23
Gas swap contracts	387	-	387	-	11	376
Total	$ 954	$ -	$ 954	$ -	$ 555	$ 399

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilites presented in the Balance Sheets *C=A+B*	Financial Instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas future contracts	$ 16,800	$ -	$ 16,800	$ -	$ 16,800	$ -
Gas purchase contracts	17	-	17	-	-	17
Gas swap contracts	9,763	-	9,763	-	9	9,754
Total	$ 26,580	$ -	$ 26,580	$ -	$ 16,809	$ 9,771

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas future contracts	$ 903	$ -	$ -	$ 903
Gas purchase contracts	-	12	16	28
Gas swap contracts	-	783	-	783
Available-for-sale securities	2,391	3,018	-	5,409
Total	3,294	3,813	16	7,123
Liabilities:				
Derivative instruments				
Gas future contracts	14,094	-	-	14,094
Gas swap contracts	-	6,349	-	6,349
Total	14,094	6,349	-	20,443
Net (liabilities) assets	$ (10,800)	$ (2,536)	$ 16	$ (13,320)

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative instruments				
Gas future contracts	$ 544	$ -	$ -	$ 544
Gas purchase contracts	-	3	20	23
Gas swap contracts	-	387	-	387
Available-for-sale securities	2,261	2,970	-	5,231
Total	2,805	3,360	20	6,185
Liabilities:				
Derivative instruments				
Gas future contracts	16,800	-	-	16,800
Gas purchase contracts	-	15	2	17
Gas swap contracts	-	9,763	-	9,763
Total	16,800	9,778	2	26,580
Net (liabilities) assets	$ (13,995)	$ (6,418)	$ 18	$ (20,395)

Derivative instruments: The Company's Level 1 fair value derivative instruments consist of active exchange-based derivative instruments (e.g. natural gas futures traded on NYMEX) valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and purchase contracts with pricing inputs obtained from the NYMEX and the Intercontinental Exchange ("ICE"), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. The Company may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread for the Company's Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

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

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

Changes in Level 3 Derivative Instruments

	Years Ended March 31, 2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 18**	$ (9,797)
Net losses	**(2,915)**	(3,080)
Settlements:		
included in earnings	**317**	306
included in regulatory assets and liabilities	**2,596**	12,589
Balance as of the end of the year	**$ 16**	$ 18
The amount of total gains or losses for the year included in net income attributed to the change in unrealized gains or losses related to non-regulatory assets and liabilities at year-end	$ -	$ -

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3, during the years ended March 31, 2016, 2015, or 2014.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

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

Commodity	Level 3 Position	Fair Value as of March 31, 2016 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(thousands of dollars)					
Gas	Purchase contracts	$ 16	$ -	$ 16	Discounted Cash Flow	LNG Forward Curve	$1.903-$1.959/dth
	Total	$ 16	$ -	$ 16			

Commodity	Level 3 Position	Fair Value as of March 31, 2015						Valuation Technique(s)	Significant Unobservable Input	Range
		Assets		(Liabilities)		Total				
				(thousands of dollars)						
Gas	Purchase contracts	$	20	$	(2)	$	18	Discounted Cash Flow	Forward Curve	$1.340 - $1.740/dth
	Total	$	20	$	(2)	$	18			

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

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $1 billion.

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

8. EMPLOYEE BENEFITS

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

The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

During the years ended March 31, 2016, 2015, and 2014, the Company made contributions of approximately $30.6 million, $20.4 million, and $23.9 million, respectively, to the Plan.

Plan assets are commingled and cannot be allocated to an individual company. The Plan's costs are first directly charged to the Company based on the Company's employees that participate in the Plan. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas and electric operations. Any differences between actual pension costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP expense are included within operations and maintenance expense in the accompanying statements of income.

NGUSA's unfunded obligations at March 31, 2016 and 2015 are as follows:

	March 31,	
	2016	2015
	(in thousands of dollars)	
Pension	**$ 591,400**	$ 602,142
PBOP	**468,020**	447,780
	$ 1,059,420	$ 1,049,922

The Company's net pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2016, 2015, and 2014 are as follows:

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Pension	**$ 15,706**	$ 21,368	$ 14,373
PBOP	**5,979**	7,283	9,289
	$ 21,685	$ 28,651	$ 23,662

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying statements of income of $2.8 million, $2.7 million, and $2.5 million, respectively, for matching contributions.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $3.2 million and $2.8 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2016 and 2015:

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total
		(in thousands of dollars)		
Balance as of March 31, 2014	**$ 732**	**$ 21**	**$ (4,660)**	**$ (3,907)**
Other comprehensive income before reclassifications:				
Unrecognized net acturial gain (net of $625 tax expense)	-	1,161	-	1,161
Gain on investment (net of $157 tax expense)	291	-	-	291
Amounts reclassified from other comprehensive income (loss):				
Amortization of net actuarial loss (net of $8 tax expense) (1)	-	15	-	15
Amortization of treasury lock (net of $266 tax expense) (2)	-	-	494	494
Gain on investment (net of $89 tax benefit) (1)	(166)	-	-	(166)
Net current period other comprehensive income	125	1,176	494	1,795
Balance as of March 31, 2015	**$ 857**	**$ 1,197**	**$ (4,166)**	**$ (2,112)**
Other comprehensive income before reclassifications:				
Unrecognized net acturial loss (net of $3 tax benefit)	-	(6)	-	(6)
Gain on investment (net of $50 tax expense)	93	-	-	93
Amounts reclassified from other comprehensive income (loss):				
Amortization of net actuarial loss (net of $8 tax expense) (1)	-	15	-	15
Amortization of treasury lock (net of $266 tax expense) (2)	-	-	494	494
Gain on investment (net of $84 tax benefit) (1)	(155)	-	-	(155)
Net current period other comprehensive (loss) income	(62)	9	494	441
Balance as of March 31, 2016	**$ 795**	**$ 1,206**	**$ (3,672)**	**$ (1,671)**

(1) Amounts are reported as other income, net in the accompanying statements of income.

(2) Amounts are reported as interest on long-term debt in the accompanying statements of income.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ 1,375
2018	1,375
2019	15,839
2020	251,375
2021	11,375
Thereafter	567,500
Total	$ 848,839

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2016 and 2015, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $400 million of short-term debt. The authorization is effective for a period of two years, and expires on January 11, 2017. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

First Mortgage Bonds

At March 31, 2016, the Company had $48.8 million of FMB outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. The FMB 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, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2016 and 2015, the Company was in compliance with this covenant. At March 31, 2016 and 2015, the Company's debt-to-capitalization ratio was 32% and 33%, respectively.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. Common stock equity at March 31, 2016 and 2015 was approximately 68% and 67%, respectively, of total capitalization. Accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2016 or 2015**.**

Cumulative Preferred Stock

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

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		Call
Series	**2016**	2015	**2016**	2015	Price
	(in thousands of dollars, except per share and number of shares data)				
$50 par value - 4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	$ 55.000

The Company did not redeem any preferred stock during the years ended March 31, 2016, 2015, or 2014. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2016, 2015, and 2014.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Current federal income tax expense (benefit)	**$ 7,186**	$ 13,226	$ (10,431)
Deferred federal tax expense (benefit)	**48,251**	23,669	49,862
Amortized investment tax credits, net [1]	**(145)**	(180)	(303)
Total deferred tax expense (benefit)	**48,106**	23,489	49,559
Total income tax expense	**$ 55,292**	$ 36,715	$ 39,128

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016, 2015, and 2014 are 35.7%, 35.2%, and 33.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Computed tax	**$ 54,145**	$ 36,538	$ 40,892
Change in computed taxes resulting from:			
Temporary difference flowed through	**1,074**	642	(42)
Other items, net	**73**	(465)	(1,722)
Total	**1,147**	177	(1,764)
Total income tax expense	**$ 55,292**	$ 36,715	$ 39,128

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

Deferred Tax Components

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 46,428**	$ 46,405
Net operating losses	**119,045**	91,102
Postretirement benefits and other employee benefits	**68,775**	73,289
Regulatory liabilities - other	**29,679**	21,650
Other items	**25,010**	29,959
Total deferred tax assets (1)	**288,937**	262,405
Deferred tax liabilities:		
Amortization of goodwill	**48,513**	42,258
Property related differences	**534,658**	467,172
Regulatory assets - environmental	**45,621**	46,491
Regulatory assets - postretirement benefits	**91,237**	89,240
Regulatory assets - other	**79,682**	44,269
Other items	**2,778**	35,390
Total deferred tax liabilities	**802,489**	724,820
Net deferred income tax liabilities	**513,552**	462,415
Deferred investment tax credits	**185**	330
Deferred income tax liabilities, net	**$ 513,737**	$ 462,745

(1) The Company established a valuation allowance for deferred tax assets in the amount of 0.5 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax liabilities and non-current deferred income tax liabilities, net by $2.8 million as of March 31, 2015.

Net Operating Losses

The following table presents the amounts and expiration dates of net operating losses as of March 31, 2016:

Expiration of net operating losses:	Federal
	(in thousands of dollars)
03/31/2029	$ 2,078
03/31/2030	13,689
03/31/2032	30,224
03/31/2033	50,226
03/31/2034	123,509
03/31/2035	89,467
03/31/2036	72,590

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $29.4 million, $27 million, and $22.7 million, respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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

	Years Ended March 31,		
	2016	2015	2014
		(in thousands of dollars)	
Balance as of the beginning of the year	**$ 27,025**	$ 22,651	$ 22,271
Gross increases related to prior periods	**-**	2,303	1,407
Gross decreases related to prior periods	**(1,285)**	(1,992)	(1,392)
Gross increases related to current period	**3,667**	4,063	1,773
Settlements with tax authorities	**-**	-	(1,408)
Balance as of the end of the year	**$ 29,407**	$ 27,025	$ 22,651

As of March 31, 2016, 2015, and 2014, the Company has no interest accrued related to unrecognized tax benefits. During years ended March 31, 2016 and 2015, the Company recorded no interest expense. During the year ended March 31, 2014, the Company recorded interest income of $0.5 million. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other deductions, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2016, 2015, or 2014.

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

The Company is included in NGNA and Subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2010

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), 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. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $3.1 million, $0.3 million, and $8 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $132.7 million and $132.9 million at March 31, 2016 and 2015, respectively. These costs are expected to be incurred over approximately 40 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has 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 as a regulatory liability in the accompanying balance sheets. 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. Accordingly, as of March 31, 2016 and 2015, the Company has recorded environmental regulatory assets of $135.8 million and $136.9 million, respectively, and environmental regulatory liabilities of $5.4 million and $4 million, respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, the Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third-parties. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2017	$ 246,798	$ 43,734
2018	75,694	4,120
2019	14,344	-
2020	13,002	-
2021	9,085	-
Thereafter	29,883	-
Total	$ 388,806	$ 47,854

The Company purchases additional energy to meet load requirements from independent power producers, other utilities, energy merchants or the ISO-NE at market prices.

Long-term Contracts for Renewable Energy

Town of Johnston Project

In June 2010, pursuant to a 2009 Rhode Island law that required the Company to negotiate a contract for an electric generating project fueled by landfill gas from the Rhode Island Central Landfill, the Company entered into a contract with Rhode Island LFG Genco for the Town of Johnston Project, a combined cycle power plant with an average output of 32 megawatts ("MW"). The facility reached commercial operation on May 28, 2013 and is being accounted for as an operating lease.

Deepwater Agreement

The 2009 Rhode Island law 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. The renewable energy generation project also included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, the Company entered into a 20-year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC, which was approved by the RIPUC in August 2010. The Company also negotiated a Transmission Facilities Purchase Agreement ("Facilities Purchase Agreement") with Deepwater Wind Block Island Transmission, LLC ("Deepwater") to purchase from Deepwater the permits, engineering, real estate, and other site development work for construction of the undersea transmission cable (collectively, the "Transmission Facilities"). On April 2, 2014, the Division issued its Consent Decision for the Company to execute the Facilities Purchase Agreement with Deepwater. In July 2014, four agreements were filed with the FERC, in part, for approval to recover the costs associated with the transmission cable and related facilities (the "Project") that will be allocated to the Company and Block Island Power Company through transmission rates. On September 2, 2014, the FERC accepted all four agreements thus approving cost recovery for the Project, with no conditions, that will apply to the Company's costs as well as those of NEP. The agreements went into effect on September 30, 2014. On January 30, 2015, the Company closed on its purchase of the Transmission Facilities from Deepwater.

Annual Solicitations

The 2009 Rhode Island law also requires that, beginning on July 1, 2010, the Company conduct four annual solicitations for proposals from renewable energy developers and, provided commercially reasonable proposals have been received, enter into long-term contracts for the purchase of capacity, energy, and attributes from newly developed renewable energy resources. The Company's four solicitations have resulted in four PPAs that have been approved by the RIPUC:

- First Solicitation: On July 28, 2011, the RIPUC approved a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project.
- Second Solicitation: On May 11, 2012, the RIPUC approved a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine. The facility reached commercial operation on November 22, 2013.
- Third Solicitation: On October 25, 2013, the RIPUC approved a 15-year PPA with Champlain Wind, LLC for a 48 MW land-based wind project located in Carroll Plantation and Kossuth Township, Maine.
- Fourth Solicitation: On October 29, 2015, the RIPUC approved a 15-year PPA with Copenhagen Wind Farm, LLC for an 80 MW land-based wind project located in Denmark, New York.

The Renewable Energy Growth Program

The Renewable Energy ("RE") Growth Program was established pursuant to Chapter 26.6 of Title 39 of the Rhode Island General Laws under the recently-enacted Clean Energy Jobs Program Act (the "Act") to encourage growth of renewable generation in Rhode Island by 160 MW. Pursuant to the Act, the Company is required to purchase the output generated by eligible Distributed Generation projects that have been selected for participation in the RE Growth Program and to compensate program applicants in the form of Performance Based Incentive ("PBI") Payments. Participants will be subject to the terms and conditions of the RE Growth Program tariffs approved by the RIPUC and will be compensated via PBI Payments pursuant to those tariffs, which will be in effect for up to 20 years. The Act provides for the recovery of the incremental costs incurred by the Company associated with the implementation and administration of the RE Growth Program from all retail delivery service customers through a fixed monthly charge per customer. Costs eligible for recovery include the PBI Payments less the net proceeds from the sale of the energy and the Renewable Energy Certificates generated by each project into the market, plus all incremental administrative costs. In addition, the Act authorizes the Company to earn 1.75% of the total PBI Payments as remuneration.

Legal Matters

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

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
KeySpan Home Energy Services	**$ -**	$ -	**$ 651**	$ 651
Massachusetts Electric Company	**-**	-	**20,843**	5,060
National Grid Engineering Services	**1,817**	1,787	**-**	-
National Grid USA Parent	**-**	-	**971**	678
New England Power Company	**16,673**	23,775	**-**	-
NGUSA Service Company	**-**	-	**4,256**	2,271
Valley Appliance & Merchandising Company	**-**	-	**1,661**	1,639
Other	**199**	438	**727**	640
Total	**$ 18,689**	$ 26,000	**$ 29,109**	$ 10,939

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $250 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2016 and 2015, the Company had no outstanding advance from affiliate.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool borrowings of $195.2 million and $237.2 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7%, 0.3% and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively.

Service Company Charges

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

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $217.8 million, $180.3 million, and $197.1 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $3.5 million, $4.7 million, and $5.1 million before taxes and $2.3 million, $3.1 million, and $3.3 million after taxes, for the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.

15. SUBSEQUENT EVENTS

In August 2016, the Rhode Island Department of Revenue issued two notices of agreed deficiency related to the field audit of Company's sales tax returns for the period of September 1, 2008 through June 30, 2015, in the amount totaling of $4.1 million. The Company agreed with the proposed assessment, and as a result, reduced its reserve for the sales tax contingency by $4.2 million in the financial statements for the year ended March 31, 2016. The Company is expecting to pay the agreed assessment for the audit periods within the next 12 months.

THIS FILING IS	
Item 1: ☒ An Initial (Original) Submission	OR ☐ Resubmission No. ____

Form 60 Approved
OMB No. 1902-0215
Expires 04/30/2016

FERC FINANCIAL REPORT
FERC FORM No. 60: Annual Report of Centralized Service Companies

This report is mandatory under the Public Utility Holding Company Act of 2005, Section 1270, Section 309 of the Federal Power Act and 18 C.F.R. § 366.23. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)	Year of Report
National Grid USA Service Company Inc.	Dec 31, 2012

FERC FORM No. 60 (12-06)

FERC FORM NO. 60
ANNUAL REPORT FOR SERVICE COMPANIES

IDENTIFICATION

01 Exact Legal Name of Respondent National Grid USA Service Company Inc.	02 Year of Report Dec 31, 2012
03 Previous Name (If name changed during the year)	04 Date of Name Change / /
05 Address of Principal Office at End of Year (Street, City, State, Zip Code) One Metrotech Center	06 Name of Contact Person Colleen Dowling
07 Title of Contact Person Director- Service Company Integrity	08 Address of Contact Person One Metrotech Center - 12th Floor Brooklyn, NY 11201
09 Telephone Number of Contact Person (718) 403-2812	10 E-mail Address of Contact Person colleen.dowling@nationalgrid.com
11 This Report is: (1) [X] An Original (2) [ ] A Resubmission	12 Resubmission Date (Month, Day, Year) / /
13 Date of Incorporation 09/05/1935	14 If Not Incorporated, Date of Organization / /
15 State or Sovereign Power Under Which Incorporated or Organized MASSACHUSETTS	
16 Name of Principal Holding Company Under Which Reporting Company is Organized: National Grid USA	

CORPORATE OFFICER CERTIFICATION

The undersigned officer certifies that:

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.

17 Name of Signing Officer Bradley B. White	19 Signature of Signing Officer Bradley B. White	20 Date Signed (Month, Day, Year) 10/28/2013
18 Title of Signing Officer VP & Controller US Accounting Services		

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

List of Schedules and Accounts

1. Enter in Column (c) the terms “None” or “Not Applicable” as appropriate, where no information or amounts have been reported for certain pages.

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule I - Comparative Balance Sheet

1. Give balance sheet of the Company as of December 31 of the current and prior year.

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
1		Service Company Property			
2	101	Service Company Property	103	825,082,764	123,669,456
3	101.1	Property Under Capital Leases	103		
4	106	Completed Construction Not Classified			
5	107	Construction Work In Progress	103	74,243,833	210,601,559
6		Total Property (Total Of Lines 2-5)		899,326,597	334,271,015
7	108	Less: Accumulated Provision for Depreciation of Service Company Property	104	115,188,811	7,888,881
8	111	Less: Accumulated Provision for Amortization of Service Company Property		52,805,005	15,832,116
9		Net Service Company Property (Total of Lines 6-8)		731,332,781	310,550,018
10		Investments			
11	123	Investment In Associate Companies	105		
12	124	Other Investments	105	53,510,489	53,160,390
13	128	Other Special Funds	105	148,416,758	124,561,801
14		Total Investments (Total of Lines 11-13)		201,927,247	177,722,191
15		Current And Accrued Assets			
16	131	Cash			2,551,803
17	134	Other Special Deposits		3,475,905	2,845,905
18	135	Working Funds		300,000	300,000
19	136	Temporary Cash Investments			
20	141	Notes Receivable			
21	142	Customer Accounts Receivable			
22	143	Accounts Receivable		53,443,754	1,043,757
23	144	Less: Accumulated Provision for Uncollectible Accounts			
24	146	Accounts Receivable From Associate Companies	106	4,829,367,629	366,258,791
25	152	Fuel Stock Expenses Undistributed	107		
26	154	Materials And Supplies		345,771	
27	163	Stores Expense Undistributed	108		
28	165	Prepayments		35,060,237	24,790,921
29	171	Interest And Dividends Receivable			
30	172	Rents Receivable			3,231
31	173	Accrued Revenues			
32	174	Miscellaneous Current and Accrued Assets			
33	175	Derivative Instrument Assets	109		
34	176	Derivative Instrument Assets – Hedges			
35		Total Current and Accrued Assets (Total of Lines 16-34)		4,921,993,296	397,794,408
36		Deferred Debits			
37	181	Unamortized Debt Expense			
38	182.3	Other Regulatory Assets		2,050,251	2,169,363
39	183	Preliminary Survey And Investigation Charges			
40	184	Clearing Accounts		(21,825,245)	(2,320,967)
41	185	Temporary Facilities			
42	186	Miscellaneous Deferred Debits		450,687,318	237,032,375
43	188	Research, Development, or Demonstration Expenditures	110		
44	189	Unamortized loss on reacquired debt	111		
45	190	Accumulated Deferred Income Taxes		562,547,018	172,197,108
46		Total Deferred Debits (Total of Lines 37-45)		993,459,342	409,077,879
47		TOTAL ASSETS AND OTHER DEBITS (TOTAL OF LINES 9, 14, 35 and 46)		6,848,712,666	1,295,144,496

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National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule I - Comparative Balance Sheet (continued)

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
48		Proprietary Capital			
49	201	Common Stock Issued	201	32,723,994	75
50	204	Preferred Stock Issued	201		
51	211	Miscellaneous Paid-In-Capital	201	445,761,953	10,667,312
52	215	Appropriated Retained Earnings	201		
53	216	Unappropriated Retained Earnings	201	67,553,403	393,750
54	219	Accumulated Other Comprehensive Income	201	(298,479,919)	7,024,239
55		Total Proprietary Capital (Total of Lines 49-54)		247,559,431	18,085,376
56		Long-Term Debt			
57	223	Advances From Associate Companies	202	475,044,311	80,000,000
58	224	Other Long-Term Debt	202		
59	225	Unamortized Premium on Long-Term Debt			
60	226	Less: Unamortized Discount on Long-Term Debt-Debit			
61		Total Long-Term Debt (Total of Lines 57-60)		475,044,311	80,000,000
62		Other Non-current Liabilities			
63	227	Obligations Under Capital Leases-Non-current			
64	228.2	Accumulated Provision for Injuries and Damages		3,225,033	1,565,000
65	228.3	Accumulated Provision For Pensions and Benefits		21,418,137	
66	230	Asset Retirement Obligations		4,026,408	
67		Total Other Non-current Liabilities (Total of Lines 63-66)		28,669,578	1,565,000
68		Current and Accrued Liabilities			
69	231	Notes Payable			
70	232	Accounts Payable		683,227,111	143,444,525
71	233	Notes Payable to Associate Companies	203	3,217,672,855	419,050,000
72	234	Accounts Payable to Associate Companies	203	1,195,266,773	14,368,507
73	236	Taxes Accrued		39,854,039	(799,935)
74	237	Interest Accrued		1,584,574	13,916
75	241	Tax Collections Payable		2,457,411	(145,877)
76	242	Miscellaneous Current and Accrued Liabilities	203	112,463,619	87,517,690
77	243	Obligations Under Capital Leases – Current			
78	244	Derivative Instrument Liabilities			
79	245	Derivative Instrument Liabilities – Hedges			
80		Total Current and Accrued Liabilities (Total of Lines 69-79)		5,252,526,382	663,448,826
81		Deferred Credits			
82	253	Other Deferred Credits		723,745,582	494,675,266
83	254	Other Regulatory Liabilities		32,697,752	34,548,767
84	255	Accumulated Deferred Investment Tax Credits			
85	257	Unamortized Gain on Reacquired Debt			
86	282	Accumulated deferred income taxes-Other property		117,683,533	36,173,364
87	283	Accumulated deferred income taxes-Other		(29,213,903)	(33,352,103)
88		Total Deferred Credits (Total of Lines 82-87)		844,912,964	532,045,294
89		TOTAL LIABILITIES AND PROPRIETARY CAPITAL (TOTAL OF LINES 55, 61, 67, 80, AND 88)		6,848,712,666	1,295,144,496

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule II - Service Company Property

1. Provide an explanation of Other Changes recorded in Column (f) considered material in a footnote.
2. Describe each construction work in progress on lines 18 through 30 in Column (b).

Line No.	Acct # (a)	Title of Account (b)	Balance at Beginning of Year (c)	Additions (d)	Retirements or Sales (e)	Other Changes (f)	Balance at End of Year (g)
1	301	Organization	77,594,230	280,902,555		18,734,354	377,231,139
2	303	Miscellaneous Intangible Plant				142,546,354	142,546,354
3	306	Leasehold Improvements	16,366,396	304,121		183,227,812	199,898,329
4	389	Land and Land Rights	853,154			6,666,682	7,519,836
5	390	Structures and Improvements	38,273				38,273
6	391	Office Furniture and Equipment	108,890	105,013		4,877,023	5,090,926
7	392	Transportation Equipment					
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment	11,397,045	3,304,902		31,307,431	46,009,378
10	395	Laboratory Equipment	16,986,718				16,986,718
11	396	Power Operated Equipment				376,024	376,024
12	397	Communications Equipment				732,986	732,986
13	398	Miscellaneous Equipment	268,088			21,293,898	21,561,986
14	399	Other Tangible Property				5,928,221	5,928,221
15	399.1	Asset Retirement Costs				988,577	988,577
16		Total Service Company Property (Total of Lines 1-15)	123,612,794	284,616,591		416,679,362	824,908,747
17	107	Construction Work in Progress:					
18		Building & Structures	610,695	32,755,347			33,366,042
19		Capitalized Software	209,955,767	(169,182,011)			40,773,756
20		Office Furniture & Equipment	35,097	68,938			104,035
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31		Total Account 107 (Total of Lines 18-30)	210,601,559	(136,357,726)			74,243,833
32		Total (Lines 16 and Line 31)	334,214,353	148,258,865		416,853,379	899,152,580

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

Schedule Page: 103 Line No.: 16 Column: g

Total Service Company property does not include Non Utility Property.

Account Balance	Title of Account	Balance at December 31, 2011	Additions	Other Changes	Balance at December 31, 2012
	Total Line 16 of Page 103	123,612,794	284,616,591	416,679,362	824,908,747
121	Non Utility Property	56,662	44,823	72,532	174,017
	Total Service Company Property Per Schedule. 1	123,669,456	284,661,414	416,751,894	825,082,764

Other Changes reflect the effect on Plant of the Merger described in Schedule XIV Note. 1

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule III – Accumulated Provision for Depreciation and Amortization of Service Company Property

1. Provide an explanation of Other Charges in Column (f) considered material in a footnote.

Line No.	Account Number (a)	Description (b)	Balance at Beginning of Year (c)	Additions Charged To Account 403-403.1 404-405 (d)	Retirements (e)	Other Changes Additions (Deductions) (f)	Balance at Close of Year (g)
1	301	Organization					
2	303	Miscellaneous Intangible Plant	15,517,402	26,634,689		10,024,208	52,176,299
3	306	Leasehold Improvements					
4	389	Land and Land Rights				(13,107)	(13,107)
5	390	Structures and Improvements	2,063,655	1,685,207		61,939,373	65,688,235
6	391	Office Furniture and Equipment	5,965,369	3,869,865		22,712,143	32,547,377
7	392	Transportation Equipment		2,381		317,567	319,948
8	393	Stores equipment		4,641		220,043	224,684
9	394	Tools, Shop and Garage Equipment	16,998	126,501		9,516,028	9,659,527
10	395	Laboratory Equipment		26,875		2,312,598	2,339,473
11	396	Power Operated Equipment					
12	397	Communications Equipment	144,562	122,493		4,324,043	4,591,098
13	398	Miscellaneous Equipment	16,278	44,927		1,173,175	1,234,380
14	399	Other Tangible Property					
15	399.1	Asset Retirement Costs	(3,268)	2,915		(773,745)	(774,098)
16		Total	23,720,996	32,520,494		111,752,326	167,993,816

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

Schedule Page: 104 Line No.: 16 Column: f

Other Changes reflect the effect on Plant of the Merger described in Schedule XIV Note. 1

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule IV – Investments

1. For other investments (Account 124) and other special funds (Account128), in a footnote state each investment separately, with description including the name of issuing company, number of shares held or principal investment amount.
2. For temporary cash investments (Account 136), list each investment separately in a footnote.
3. Investments less than $50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	123	Investment In Associate Companies		
2	124	Other Investments	53,160,390	53,510,489
3	128	Other Special Funds	124,561,801	148,416,758
4	136	Temporary Cash Investments		
5		(Total of Lines 1-4)	177,722,191	201,927,247

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

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General American Life Insurance Company	
Net Cash Surrender Value	$21,174,892
Confederation Life Insurance Company	
Net Cash surrender Value	3,958,630
Aurora National Life Assurance Company	
Net Cash Surrender Value	13,481,979
Metropolitan Life Insurance Company	
Net Cash Surrender Value	7,975,819
Pacific Mutual Life Insurance Company deferred Compensation	
Life Insurance Investments & Net Cash Surrender Value	-1,342,014
Security Life of Denver	
Net Cash Surrender Value	4,772,963
Guardian Life Insurance Company	
Net Cash Surrender Value	393,269
Allamerica Financial Life Insurance Company	
Net Cash Surrender Value	1,118,405
CRG Life Insurance Company	
Net Cash Surrender Value	1,687,740
GAMCH	(61,293)
Total	$53,160,390

Unresolved issue with distribution check form GAMCH in the amount of $61,293 requires clarification.

Schedule Page: 105 Line No.: 2 Column: d

General American Life Insurance Company	
Net Cash Surrender Value	22,548,351
Confederation Life Insurance Company	
Net Cash surrender Value	4,188,186
Aurora National Life Assurance Company	
Net Cash Surrender Value	14,615,746
Metropolitan Life Insurance Company	
Net Cash Surrender Value	7,961,165
Pacific Mutual Life Insurance Company deferred Compensation	
Life Insurance Investments & Net Cash Surrender Value	(1,063,693)
Security Life of Denver	
Net Cash Surrender Value	2,870,687
Guardian Life Insurance Company	
Net Cash Surrender Value	238,326
Allamerica Financial Life Insurance Company	
Net Cash Surrender Value	296,611
CRG Life Insurance Company	
Net Cash Surrender Value	1,855,111
Total	$ 53,510,489

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

Schedule Page: 105 Line No.: 3 Column: d

Schedule Page 105 Line No. 3 Column c:

Supplemental Retirement/Deferred Compensation Plan Trust Fund	$141,553,304.00
Other Investments roll forward KS	7,018,366.79

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule V – Accounts Receivable from Associate Companies

1. List the accounts receivable from each associate company.
2. If the service company has provided accommodation or convenience payments for associate companies, provide in a separate footnote a listing of total payments for each associate company.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	146	Accounts Receivable From Associate Companies		
2		Associate Company:		
3		National Grid USA	5,342,076	407,457,920
4		Nantucket Electric Company	(88,623)	(3,291,111)
5		Massachusetts Electric Company	29,950,313	56,691,314
6		New England Hydro-Trans Elec Co., Inc.	290,726	1,251,796
7		New England Hydro-Trans Corporation	88,576	178,490
8		New England Power Company	23,599,251	35,585,647
9		New England Electric Trans Corporation	792,252	1,168,001
10		National Grid Trans Service	1,229	134
11		Niagara Mohawk Holdings Inc.	159	(15,111,179)
12		Niagara Mohawk Power Corp	7,113,394	90,748,775
13		Opinac North America, Inc		65
14		Granite State Electric Company	(114,306)	1,681,204
15		Narragansett Gas Company	1,305,748	
16		Narragansett Electric Company	(381,062)	33,721,426
17		Wayfinder	(8,607)	11,184
18		Valley Appliance & Merchandise	(4,522)	203,916
19		National Grid PLC	25,837,714	35,662,294
20		GridAmerica Holdings, Inc.	25	24,265
21		NEES Energy	241	1,378
22		EUA Energy Inv.	335	1,824
23		Prudence Corporation	187,770	187,808
24		Patience Corporation	7,646	8,739
25		Newport America Corporation	4,732	4,732
26		Metrowest Realty	(2,669)	81,305
27		Boston Gas	14,388,586	113,580,348
28		Essex Gas	76,817	
29		Colonial Gas-Lowell	1,988,493	21,719,204
30		Colonial Gas-Cape Cod	40,528	
31		EnergyNorth	1,007,517	(797,791)
32		Keyspan Corporate	1,765,313	
33		Keyspan Electric	1,930,853	125,308,705
34		Keyspan Generation	534,755	37,905,157
35		KEDC Holdings	8,182	
36		Keyspan Gas East	1,799,840	115,009,552
37		Brooklyn Union Gas	3,579,309	149,835,176
38				
39				

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule V – Accounts Receivable from Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	146	Accounts Receivable From Associate Companies		
2		Associate Company:		
3		KS Energy Trading	2,561	541,645
4		Keyspan-Glennwood	9,704	208,620
5		Keyspan-Port Jefferson	9,068	197,506
6		Keyspan Services	19,766	1,733,652
7		Keyspan Corporation	2,906,513	251,458,873
8		Seneca-Upshur Petroleum	(2,492)	1
9		KeySpan LNG LP Reg Ent	2,974	133,442
10		KeySpan Utility Services	13,064	
11		KeySpan Eng Services	29,969	3,597,517
12		NGHI	60	
13		NGUSLLC	13	30
14		NG NEHoldings 2 LLC		10,253,429
15		Granite St Elec-Post Sale		2,298,928
16		EnergyNorth Gas-Post Sale		1,453,466
17		NG Exploration&Production		(2,313)
18		Transgas Inc		1,313,443
19		KS Energy Corp-West Hold		(293,766)
20		NG Development Holdings Corp		1,202,816
21		NG North East Ventures		9
22		NG Energy Services LLC		314
23		NG Energy Management LLC		53,760
24		LIPA KS Gen Services, LLC		1,945
25		NG North America Inc.		518
26		Detail of Convenience payments included above - see footnote	0	0
27		Notes Receivable from Associated Companies	242,225,000	3,346,383,516
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40	**Total**		**366,258,791**	**4,829,367,629**

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

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National Grid USA	27,963,822
Nantucket Electric Company	1,693,196
Massachusetts Electric Company	129,511,921
NE Hydro-Trans Elec Co, Inc.	597,734
NE Hydro-Trans Corporation	92,329
New England Power Company	117,574,624
NE Electric Trans Corporation	1,486,635
National Grid Trans Services	169
Niagara Mohawk Holdings, Inc	70
Niagara Mohawk Power Corp	298,219,013
Opinac North America, Inc.	4,200
Granite State Electric Company	11,951,745
Narragansett Gas Company	43,849,286
Narragansett Electric Company	149,519,542
Wayfinder Group, Inc.	166
National Grid Billing Entity	220,104
NEES Energy, Inc.	2
EUA Energy Investment	1
Metrowest Realty LLC	54,803
Boston Gas	2,987,994
Essex Gas	63,150
Colonial Gas-Lowell	294,115
Colonial Gas-Cape Cod Division	54,870
EnergyNorth	649,759
Keyspan Corporate	7,352,022
KeySpan Engineering Services LLC	18,456
KeySpan Electric Services LLC	1,751,993
KeySpan Generation LLC	616,876
KEDC Holdings Corp	42,080
KeySpan Gas East Corp - KEDLI	1,239,962
Brooklyn Union Gas Co - KEDNY	2,439,815
KS Energy Trading Services LLC	2,758
KS-Glenwood Energy Center, LLC	8,780
KS-Port Jefferson Energy Cntr	8,672
KeySpan Services, Inc.	760,502
KeySpan Corporation	441,819
Seneca-Upshur Petroleum, Inc	166,409
KeySpan LNG LP RegulatedEntity	12,345
	$ 801,651,739

Schedule Page: 106.1 Line No.: 26 Column: d

National Grid USA	7,539,518
Nantucket Electric Company	2,299,042
Massachusetts Electric Company	143,342,119
NE Hydro-Trans Elec Co, Inc.	(200,280)
NE Hydro-Trans Corporation	56,441
New England Power Company	99,890,574
NE Electric Trans Corporation	730,576

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National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

National Grid Trans Services	73
Niagara Mohawk Holdings, Inc	283
Niagara Mohawk Power Corp	339,638,150
Opinac North America, Inc.	4,265
Granite State Electric Company	2,598,620
Narragansett Gas Company	37,631,296
Narragansett Electric Company	148,691,997
Wayfinder Group, Inc.	(135)
National Grid Billing Entity	167,129
NEES Energy, Inc.	1
Patience Corporation	725
Metrowest Realty LLC	118,634
Boston Gas	1,889,102
Essex Gas	32,052
Colonial Gas-Lowell	269,385
Colonial Gas-Cape Cod Division	47,507
EnergyNorth	13,581
Keyspan Corporate	4,946,668
KeySpan Electric Services LLC	586,246
KeySpan Generation LLC	318,957
KEDC Holdings Corp	1,382
KeySpan Gas East Corp - KEDLI	674,465
Brooklyn Union Gas Co - KEDNY	1,117,255
KS Energy Trading Services LLC	(250)
KS-Glenwood Energy Center, LLC	4,541
KS-Port Jefferson Energy Cntr	3,518
KeySpan Energy Supply, LLC	47,488
KeySpan Services, Inc.	681,475
KeySpan Corporation	423,828
Seneca-Upshur Petroleum, Inc	15,104
KeySpan LNG LP RegulatedEntity	(232)
	$ 793,581,096

Schedule Page: 106.1 Line No.: 27 Column: c

Account 146 Accounts Receivable from Associated Companies total includes $242,225,000 Notes Receivable shown below:

Massachusetts Electric Company	50,813,000.00
NE Hydro-Trans Elec Co, Inc.	6,000,000.00
NE Hydro-Trans Corporation	2,725,000.00
New England Power Company	13,737,000.00
Narragansett Electric Company	168,950,000.00
	242,225,000.00

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Account 146 Accounts Receivable from Associated Companies total includes $3,346.383,516 Notes Receivable. See individual companies net Money pool position on Footnote 4 to the Financial Statments.

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule VI – Fuel Stock Expenses Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to fuel stock expenses during the year and indicate amount attributable to each associate company.
2. In a separate footnote, describe in a narrative the fuel functions performed by the service company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	152	Fuel Stock Expenses Undistributed			
2		Associate Company:			
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39					
40	**Total**				

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule VII – Stores Expense Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to stores expense during the year and indicate amount attributable to each associate company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	163	Stores Expense Undistributed			
2		Associate Company:			
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36					
37					
38					
39					
40	**Total**				

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule VIII - Miscellaneous Current and Accrued Assets

1. Provide detail of items in this account. Items less than $50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	174	Miscellaneous Current and Accrued Assets	[redacted]	[redacted]
2		Item List:		
3				
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38				
39				
40	**Total**			

Name of Respondent National Grid USA Service Company Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2012

Schedule IX - Miscellaneous Deferred Debits

1. Provide detail of items in this account. Items less than $50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	186	Miscellaneous Deferred Debits		
2		Items List:		
3		Prepaid Pension Cost	236,870,460	449,290,431
4		Other	105,033	1,396,887
5		Unbilled Computer Information System Cost	56,882	
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
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36				
37				
38				
39				
40	**Total**		**237,032,375**	**450,687,318**

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule X - Research, Development, or Demonstration Expenditures

1. Describe each material research, development, or demonstration project that incurred costs by the service corporation during the year. Items less than $50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Amount (c)
1	188	Research, Development, or Demonstration Expenditures	
2		Project List:	
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
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32			
33			
34			
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36			
37			
38			
39			
40	**Total**		

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XI - Proprietary Capital

1. For miscellaneous paid-in capital (Account 211) and appropriate retained earnings (Account 215), classify amounts in each account, with a brief explanation, disclosing the general nature of transactions which give rise to the reported amounts.
2. For the unappropriated retained earnings (Account 216), in a footnote, give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentages, amount of dividend, date declared and date paid.

Line No.	Account Number (a)	Title of Account (b)	Description (c)	Amount (d)
1	201	Common Stock Issued	Number of Shares Authorized	4,000
2			Par or Stated Value per Share	25.00
3			Outstanding Number of Shares	250
4			Close of Period Amount	32,723,994
5		Preferred Stock Issued	Number of Shares Authorized	
6			Par or Stated Value per Share	
7			Outstanding Number of Shares	
8			Close of Period Amount	
9	211	Miscellaneous Paid-In Capital		445,761,952
10	215	Appropriated Retained Earnings		
11	219	Accumulated Other Comprehensive Income		(298,479,919)
12	216	Unappropriated Retained Earnings	Balance at Beginning of Year	525,000
13			Net Income or (Loss)	67,553,403
14			Dividend Paid	(525,000)
15			Balance at Close of Year	67,553,403

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
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FOOTNOTE DATA

Schedule Page: 201 Line No.: 15 Column: d

The current year activity in account 216 Unnappropriated Retained Earnings reflects net income for the year of $41,149,081 and Equity adjustments of $19,735,559 due to the merger of Service Companies described in Schedule XIV-Notes to Financial Statements Note 1.

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National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XII – Long Term Debt

1. For the advances from associate companies (Account 223), describe in a footnote the advances on notes and advances on open accounts. Names of associate companies from which advances were received shall be shown under the class and series of obligation in Column (c).
2. For the deductions in Column (h), please give an explanation in a footnote.
3. For other long-term debt (Account 224), list the name of the creditor company or organization in Column (b).

Line No.	Account Number (a)	Title of Account (b)	Term of Obligation Class & Series of Obligation (c)	Date of Maturity (d)	Interest Rate (e)	Amount Authorized (f)	Balance at Beginning of Year (g)	Additions Deductions (h)	Balance at Close of Year (i)
1	223	Advances from Associate Companies							
2		Associate Company:							
3			25 Years	04/01/2035	5.80300	80,000,000	80,000,000		80,000,000
4			10 Years	11/29/2022	3.28000	395,044,311	395,044,311		395,044,311
5									
6									
7									
8									
9									
10									
11									
12									
13		TOTAL					475,044,311		475,044,311
14	224	Other Long-Term Debt							
15		List Creditor:							
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28		TOTAL							

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
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FOOTNOTE DATA

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AMENDED AND RESTATED PROMISSORY NOTE

$313,044,311.00 **October 30, 2012**

FOR VALUE RECEIVED, **NATIONAL GRID CORPORATE SERVICES LLC** (the "*Borrower*"), with an office located at 40 Sylvan Road, Waltham, Massachusetts 02451, promises to pay to the order of **KEYSPAN CORPORATION** (the "*Lender*") on October 30, 2022 (the "*Maturity Date*"), in lawful money of the United States of America, in immediately available funds, the principal sum of THREE HUNDRED THIRTEEN MILLION FORTY-FOUR THOUSAND THREE HUNDRED ELEVEN DOLLARS AND NO CENTS ($313,044,311.00), or such lesser amount as may then be the aggregate unpaid principal balance of the loan made by Lender to the Borrower hereunder (the "*Loan*"). The Lender and the Borrower agree that interest shall accrue on the unpaid principal balance of the Loan at the rate of 3.28 percent (3.28%) per annum. Interest payments hereunder shall be due on the 1st of each April and October. If the Maturity Date or any interest payment date falls on a day on which the banks in the State of New York are required or permitted by law to remain closed, such payment shall be made on the next succeeding day on which such banks are open. In no event shall interest payable hereunder be in excess of the maximum rate of interest permitted under applicable law.

The Borrower shall have the right to prepay any portion of the principal amount of the Loan before the Maturity Date without prepayment penalty. The date and amount of each prepayment of principal shall be recorded by the Lender at the time of each prepayment.

The Borrower hereby waives presentment, demand for payment, protest, notice of protest, notice of dishonor, and any or all other notices or demands except as otherwise expressly provided for herein.

The occurrence and continuance of any of the following events with respect to the Borrower shall constitute an event of default ("*Event of Default*"):

1. Borrower shall fail to pay any principal or interest when the same becomes due and payable hereunder; or

2. The Borrower shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; any proceeding shall be instituted by or against the Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

property) shall occur.

If any Event of Default shall occur and be continuing, then, and in any such event, the Lender may declare the entire unpaid principal of the Loan and accrued interest thereon, if any, immediately due and payable by providing written notice to the Borrower; provided, however, that upon the occurrence of an Event of Default described in subparagraph 2, above, the entire unpaid principal of the Loan and accrued interest thereon, if any, shall automatically be due and payable without notice of any kind.

This Promissory Note shall be construed and interpreted in accordance with the laws of the State of New York.

The failure of the Lender to insist upon strict performance of any or all of the terms and conditions hereof shall not be construed or deemed to be a waiver of any such term or condition. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

This Promissory Note may only be amended, modified or canceled in writing signed by an authorized representative of Lender.

In the event that any provision of this Promissory Note is deemed unenforceable, all other provisions of this Promissory Note shall remain in full force and effect.

NATIONAL GRID CORPORATE SERVICES LLC

By:_____________________________________
Name:
Title:

PROMISSORY NOTE

$82,000,000.00 **October 30 , 2012**

FOR VALUE RECEIVED, **NATIONAL GRID USA SERVICE COMPANY, INC.** (the "*Borrower*"), with an office located at 40 Sylvan Road, Waltham, Massachusetts 02451, promises to pay to the order of **KEYSPAN CORPORATION** (the "*Lender*") on October 30, 2022 (the "*Maturity Date*"), in lawful money of the United States of America, in immediately available funds, the principal sum of EIGHTY-TWO MILLION AND NO/100 DOLLARS ($82,000,000.00), or such lesser amount as may then be the aggregate unpaid principal balance of the loan made by Lender to the Borrower hereunder (the "*Loan*"). The Lender and the Borrower agree that interest shall accrue on the unpaid principal balance of the Loan at the rate of 3.28 percent (3.28%) per annum. Interest payments hereunder shall be due on the 1st of each April and October. If the Maturity Date or any interest payment date falls on a day on which the banks in the State of New York are required or permitted by law to remain closed, such payment shall be made on the next succeeding day on

Name of Respondent National Grid USA Service Company Inc.	This Report is: (1) X An Original (2) __ A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2012

FOOTNOTE DATA

which such banks are open. In no event shall interest payable hereunder be in excess of the maximum rate of interest permitted under applicable law.

The Borrower shall have the right to prepay any portion of the principal amount of the Loan before the Maturity Date without prepayment penalty. The date and amount of each prepayment of principal shall be recorded by the Lender at the time of each prepayment.

The Borrower hereby waives presentment, demand for payment, protest, notice of protest, notice of dishonor, and any or all other notices or demands except as otherwise expressly provided for herein.

The occurrence and continuance of any of the following events with respect to the Borrower shall constitute an event of default ("*Event of Default*"):

1. Borrower shall fail to pay any principal or interest when the same becomes due and payable hereunder; or

2. The Borrower shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; any proceeding shall be instituted by or against the Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur.

If any Event of Default shall occur and be continuing, then, and in any such event, the Lender may declare the entire unpaid principal of the Loan and accrued interest thereon, if any, immediately due and payable by providing written notice to the Borrower; provided, however, that upon the occurrence of an Event of Default described in subparagraph 2, above, the entire unpaid principal of the Loan and accrued interest thereon, if any, shall automatically be due and payable without notice of any kind.

This Promissory Note shall be construed and interpreted in accordance with the laws of the State of New York.

The failure of the Lender to insist upon strict performance of any or all of the terms and conditions hereof shall not be construed or deemed to be a waiver of any such term or condition. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

This Promissory Note may only be amended, modified or canceled in writing signed by an authorized representative of Lender.

In the event that any provision of this Promissory Note is deemed unenforceable, all other provisions of

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
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FOOTNOTE DATA

this Promissory Note shall remain in full force and effect.

NATIONAL GRID USA SERVICE COMPANY, INC.

By:____________________________________
Name:
Title:

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Schedule XIII – Current and Accrued Liabilities

1. Provide the balance of notes and accounts payable to each associate company (Accounts 233 and 234).
2. Give description and amount of miscellaneous current and accrued liabilities (Account 242). Items less than $50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	233	Notes Payable to Associates Companies	419,050,000	3,217,672,855
2				
3				
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12				
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19				
20				
21				
22				
23				
24	234	Accounts Payable to Associate Companies	14,368,507	1,195,266,773
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41	242	Miscellaneous Current and Accrued Liabilities	87,517,690	112,463,619
42				
43				
44				
45				
46				
47				
48				
49				
50		(Total)	520,936,197	4,525,403,247

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National Grid USA	208,415,000
New England Electric Transmission Corporation	825,000
Granite State Electric Company	2,425,000
Wayfinder Group, Inc.	31,385,000
EUA Energy Inv.	24,175,000
Metrowest Realty	18,775,000
Nantucket Electric Company	17,800,000
Niagara Mohawk Power Corporation	115,250,000
TOTAL	$ 419,050,000

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Each company has a Money Pool Net Payable - Receivable position, as reflected in Schedule XIV - Notes to Financial Statements Note 4.

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National Grid USA	1,067,736
Nantucket Electric Company	1,163
Massachusetts Electric Company	1,302,427
New England Hydro-Transmission Electric Co., Inc.	3,206
New England Hydro-Transmission Corporation	1,833
New England Power Company	289,868
New England Electric Transmission Corporation	2,273
National Grid Transmission Services	71
Niagara Mohawk Power Corporation Holdings Inc	3,987,712
Niagara Mohawk Power Corporation	4,639,657
Opinac North America, Inc	900
Granite State Electric Company	8,457
The Narragansett Gas Company	66,753
The Narragansett Electric Company	134,364
Wayfinder Group, Inc.	879
Valley Appliance	14
GridAmerica Hold	149
Prudence Corporation	23
Patience	162
Newport America Corporation	462
Metrowest Realty	246
Boston Gas Company	73,952
Essex Gas Company	2,616
Colonial Gas-Lowell Division	26,726
Colonial Gas-Cape Cod Division	1
EnergyNorth Natural Gas, Inc	7,797
KeySpan New England LLC	90
KeySpan Corporate Services LLC	1,086,915
KeySpan Utility Services, LLC	5,066
KeySpan Engineering Srvcs, LLC	5,927
KeySpan Electric Services LLC	113,225
KeySpan Generation LLC	42,702
KeySpan Gas East Corp - KEDLI	47,010
Brooklyn Union Gas Co - KEDNY	88,589
KeySpan-Glenwood Energy Center, LLC	846
KeySpan-Port Jefferson Energy Cntr	790
KeySpan Services, Inc.	11,684

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KeySpan Corporation		1,337,660
Seneca-Upshur Petroleum, Inc		2,695
KeySpan Energy Solutions, LLC		4,902
KeySpan LNG LP RegulatedEntity		398
Transgas, Inc		559
	TOTAL	$ 14,368,507

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NG North America Inc.	4,523
National Grid USA Parent	4,139,368
Niagara Mohawk Holdings	3,987,712
KeySpan Corporation	1,066,354,668
NG NEHoldings 2 LLC	637,132
Engineering Serv Co	1,193,018
Niagara Mohawk Power Corp	10,356,269
Brooklyn Union Gas-KEDNY	11,681,018
KS Gas East Corp-KEDLI	22,067,926
NG Electric Services LLC	29,976,877
Massachusetts Electric Co	10,215,073
Nantucket Electric Co	182,455
Boston Gas Company	18,459,535
Colonial Gas Company	3,677,801
Narragansett Electric Co	5,769,975
Granite State Electric Co	(852,878)
Granite St Elec-Post Sale	811,561
EnergyNorth Natural Gas	3,348
EnergyNorth Gas-Post Sale	294,828
New England Power Company	1,010,924
NE Hydro-Trans Elec Co	46,096
NE Hydro-Trans Corp	27,405
NE Electric Trans Corp	(465,721)
NG LNG LP RegulatedEntity	1,895
NG Generation LLC	1,331,023
NG Glenwood Energy Center	24,550
NG Port Jeff Energy Cente	59,666
National Grid US LLC	20
NG Trans Services Corp	202
Metrowest Realty LLC	(352,141)
Wayfinder Group, Inc.	2,425
Prudence Corporation	23
Patience Corporation	212
Newport America Corp	462
NEES Energy, Inc.	5
GridAmerica Holdings Inc.	43,692
Opinac North America, Inc	900
NG Energy Trading Service	398,918
Transgas Inc	901,576
NG Development Holdings C	75,946
NG Services, Inc.	137,414
KS Home Energy Srvcs, LLC	4,902
NG Energy Services LLC	10,747

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NG Energy Management LLC		(14,630)
Valley Appliance & Merch		593
NG Billing Entity		3,059,460
	TOTAL	$ 1,195,266,773

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Accrued Bonuses		34,623,791
Accrued Payroll and Employee Benefits		52,715,018
Other Accounts Payable		178,881
	TOTAL	$ 87,517,690

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Accrued Bonuses		39,710,057
Accrued Payroll and Employee Benefits		71,446,192
Other Account Payable		1,307,370
	TOTAL	$ 112,463,619

Name of Respondent National Grid USA Service Company Inc.	This Report is: (1) X An Original (2) __ A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2012

Schedule XIV- Notes to Financial Statements

1. Use the space below for important notes regarding the financial statements or any account thereof.
2. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year.
3. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year.
4. Furnish particulars as to any amounts recorded in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.
5. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.
6. Describe the annual statement supplied to each associate service company in support of the amount of interest on borrowed capital and compensation for use of capital billed during the calendar year. State the basis for billing of interest to each associate company. If a ratio, describe in detail how ratio is computed. If more than one ratio explain the calculation. Report the amount of interest borrowed and/or compensation for use of capital billed to each associate company.

SCHEDULE XIV - NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization of the Company

National Grid USA Service Company Inc. (or the "Company") is a wholly-owned subsidiary of National Grid USA ("NGUSA" or the "Parent"), a holding company under the Public Utility Holding Company Act of 2005 ("PUHCA 2005"). The primary operating companies of the Parent are New England Power Company, Massachusetts Electric Company, Nantucket Electric Company, Narragansett Electric Company, Granite State Electric Company, Niagara Mohawk Power Corporation, New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corporation and New England Hydro Finance Company, Inc. Additionally, NGUSA is the parent of KeySpan Corporation, a public utility holding company that, through its subsidiaries, distributes natural gas to customers in New York City, Long Island, Massachusetts, and owns electric generating plants on Long Island. The primary operating companies of KeySpan include the Brooklyn Union Gas Company, KeySpan Gas East Corporation, Boston Gas Company, Colonial Gas Company, National Grid Generation LLC, and National Grid Electric Services LLC.

NGUSA is a public utility holding company with regulated subsidiaries engaged in the transmission, distribution and sale of both natural gas and electricity. NGUSA is a wholly owned subsidiary of National Grid plc., a public limited company incorporated under the laws of England and Wales.

Pursuant to PUHCA 2005, the Federal Energy Regulatory Commission ("FERC") has jurisdiction over certain holding company activities, including (i) regulating certain transactions among affiliates within NGUSA's holding company system, including KeySpan Corporation; (ii) governing the issuance, acquisition and disposition of securities and assets by certain of NGUSA and KeySpan Corporation's public utility subsidiaries; and (iii) approving certain utility mergers and acquisitions.

Moreover, NGUSA's affiliate transactions also remain subject to certain regulations of the Public Service Commission of the State of New York ("NYPSC"), the Massachusetts Department of Public Utility ("MADPU"), the Rhode Island Public Utilities Commission ("RIPUC") and in addition to FERC.

As of November 5, 2012 National Grid Corporate Services LLC and National Grid Utility Services LLC were merged into National Grid USA Service Company, Inc. The information included in this schedule reflects the figures for the merged service companies for November and December, 2012. Separate Form No. 60s have been filed for National Grid Corporate Services LLC and National Grid Utility Services LLC for that portion of 2012 prior to the effective date of the merger.

Description of Business

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Schedule XIV- Notes to Financial Statements

Pursuant to Service Agreements between the Company, the Parent and KeySpan Corporation and all affiliated companies (collectively, the "Client Companies"), the Company provides the following services to the Client Companies: (a) corporate affairs (b) executive and administration (c) corporate audit (d) customer services (e) financial services (f) information technology (g) security (h) procurement (i) human resources (j) legal and regulatory (k) network strategy and services (l) operating services (m) safety, health, and environment and (n) shared services.

Services provided to Client Companies are allocated to each company in accordance with applicable federal and state laws. Costs are: (1) directly assigned where possible; (2) allocated using a reasonable and equitable allocation ratio based upon a cost-causation relationship; or (3) allocated broad based. Service allocation ratios are defined in the Service Agreements. Cost of service will include all costs of doing business incurred by Service Company, including a reasonable return on capital.

Basis of Presentation

The financial statements supporting this filing were prepared in conformity with generally accepted accounting principles ("GAAP") in the United States under the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts for Centralized Service Companies. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements presented herein include the years ended December 31, 2012 and 2011.

The accounting records of the Company are maintained in accordance with the FERC Uniform System of Accounts for Centralized Service Companies under PUHCA.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and temporary investments purchased with the original maturity of three months or less.

Income Taxes

The Parent and its subsidiaries file a consolidated federal income tax return. In accordance with current accounting guidance for income taxes, the Company utilizes a tax sharing agreement for the allocation of a realized tax liability or benefit based upon separate return contributions of each subsidiary to the consolidated taxable income or loss in the consolidated tax return. Deferred income taxes are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Company Property

The Company's property includes capital leases related to computer information systems as well as some

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communication towers, software and hardware. The Company's property is stated at original cost, which includes labor, material, applicable taxes, and allocations of overhead. Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property. The cost of property retired, plus the cost of removal less salvage, is charged to accumulated depreciation. Amortization of the capital lease is charged to rent expense.

Note 2. Postretirement Benefits

Pension: The Company's employees are members of the Parent's noncontributory defined benefit pension plans covering substantially all employees associated with the Parent. Benefits are based on years of service and compensation. Pension costs are allocated to the Company; related pension obligations and assets are commingled and are not allocated to the individual sponsors (i.e. the Company). Pension expense attributed to the Company for the years ended December 31, 2012 and 2011, was approximately $122.7 million and $47.0 million, respectively. These costs are then allocated to affiliated companies as burden costs based upon direct labor costs of the Company. Funding for pensions is in accordance with requirements of federal law and regulations.

Other Postretirement Benefits: The Company employees are members of NGUSA's noncontributory defined benefit plans under which are provided certain health care and life insurance benefits for retired employees of NGUSA. Other postretirement benefit costs are allocated to the Company; related pension obligations and assets are commingled and are not allocated to the individual sponsors (i.e. the Company). NGUSA has been funding a portion of future benefits over employees' active service lives through Voluntary Employee Beneficiary Association (VEBA) trusts. Contributions to VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code. Other postretirement benefit expense attributed to the Company for the years ended December 31, 2012 and 2011 was approximately $137 million and $22.5 million, respectively. These costs are then allocated to affiliated companies as burden costs based upon direct labor costs of the Company.

.**Note 3. Other Investments**

The Company has corporate assets recorded on the balance sheet, in Other Investments and Other Special Funds primarily representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies, mutual funds and other securities.

Note 4. Notes Payable - Notes Receivable to Associate Companies (Money Pool)

The Company and NGUSA has established a utility money pool (which is recorded in "Notes Receivable and Payable to Associated Companies") to coordinate short-term borrowings for certain subsidiaries. The money pool and advances from the parent provides a more efficient use of cash resources of NGUSA and its affiliates and reduces outside borrowings. The money pool is administered by the Company and funded, as needed, through the intercompany loans with NGUSA or National Grid plc. Interest charged on outstanding borrowings is generally equal to NGUSA's short term borrowing rate, plus a proportional share of the administrative costs incurred in obtaining the required funds.

Money Pool

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National Grid USA Service Company, Inc. ("Company") is designated to administer the National Grid USA money pool as agent for the member companies. The Company has classified money pool transactions of the member companies on a net basis in the current and prior year balance sheets.

At December 31, 2012 the detail of this money pool was as follows:

Investments	NGUSA Service Company	128,710,167	
	NG Engineering Srvcs, LLC	42,780,289	
	Niagara Mohawk Power Corp	148,328,749	
	Brooklyn Union Gas-KEDNY	114,168,193	
	Nantucket Electric Co	9,037,841	
	Boston Gas Company	21,489,268	
	Colonial Gas Company	8,721,489	
	NE Electric Trans Corp	623,018	
	NG LNG LP RegulatedEntity	19,059,332	
	NG LNG GP LLC	8,968,929	
	NG Generation LLC	341,307,465	
	NG Glenwood Energy Center	56,431,324	
	NG Port Jeff Energy Center	73,219,460	
	NG IGTS Corp.	4,640,122	
	NG Millennium LLC	20,720,118	
	North East Transmission Co	69,856,163	
	Metrowest Realty LLC	18,509,881	
	Wayfinder Group, Inc.	31,422,821	
	EUA Energy Investment	24,278,410	
	NG Energy Trading Srvcs	6,464,152	
	KeySpan MHK, Inc.	876,336	
	NG Islander East Pipeline	4,937,927	
	KEDC Holdings Corp	460,273,058	
	NG North East Ventures	8,857,635	
	NG Services, Inc.	39,963,663	
	KeySpan Energy Services	9,332,218	
	Metro Energy L.L.C.	195,423	
	Northeast Gas Markets LLC	1,701,251	
	KS CI Midstream Limited	8,850,267	
	Nicodama Beheer V.B.V.	8,345,988	
	KeySpan C.I., LTD	8,608,065	
	KeySpan C.I. II, LTD	824,088	
			1,701,503,111
Borrowings			
	National Grid USA Parent	(728,264,775)	
	KS Gas East Corp-KEDLI	(273,435,090)	
	NG Electric Services LLC	(349,366,031)	
	Massachusetts Electric Co	(137,968,699)	
	Narragansett Electric Co	(27,543,006)	
	New England Power Company	(137,968,699.04)	
	NE Hydro-Trans Elec Co	(7,373,942)	

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	NE Hydro-Trans Corp	(5,684,892)	
	Niagara Mohawk Holdings	(2,649)	
	NG NE Holdings 2 LLC	(55,286,345)	
	NE Hydro Finance Co, Inc.	(1,748,722)	
	NG LNG LP LLC - Unregulated	(7,596,503)	
	Opinac North America, Inc.	(173,965)	
	NG Exploration&Production	(1,610,510)	
	PCC Land Company, Inc.	(650,277)	
	Philadelphia Coke Co.	(2,236,872)	
	Transgas Inc	(1,136,120)	
	KS Energy Corp-West Hold	(122,387,649)	
	NG Technologies Inc	(5,371,534)	
	Broken Bridge Corp.	(150,675)	
	NG Energy Supply LLC	(12,913,790)	
	KSI Mechanical, LLC	(198,880)	
	KS Home Energy Srvcs, LLC	(5,291)	
	NG Energy Management LLC	(463,409)	
	KeySpan Midstream, Inc.	(5,522,894)	
	KS Luxembourg S.A.R.L.	(12,906,173)	
	KS Energy Devlp Co (NS)	(4,249,403)	
	KS International Corp	(2,370,441)	
	Valley Appliance & Merch	(9,645)	
Total Borrowings			(1,701,503,111)

Note 5. Income Tax

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

	Calendar Year Ended December 31,		
(In thousands of dollars)	**2012**		2011
	(In thousands of dollars)		
Current tax expense (benefit):			
Federal	**$2,958**	**$**	**19,382**
State	**6,170**		**(6)**
Total current tax expense (benefit)	**9,128**	**$**	**19,376**
Deferred tax expense (benefit):			
Federal	**19,205**		**(30,063)**
State	**(59,217)**		**-**
Total deferred tax expense (benefit)	**(40,012)**		**(30,063)**
Total income tax expense (benefit)		**$**	**(10,687)**
Total income taxes in the consolidated statements of operations:			
Income taxes charged to operations	**(30,884)**	**$**	**(10,687)**
Income taxes credited to "other income (deductions)"	-		-
Total	**(30,884)**	**$**	**(10,687)**

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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, 2012 and December 31, 2011 is as follows:

	Calendar Year Ended December 31, 2012	2011
	(In thousands of dollars)	
Computed tax	4,182	(3,557)
Change in computed taxes resulting from:		
State deferred tax adjustment, net	(35,111)	-
Direct Tax Expense on Allocated Expenses	-	(5,256)
State income tax, net of federal benefit	631	-
Other items - net	(586)	(1,874)
Total	(35,066)	(7,130)
Federal and state income taxes	$(30,884)	(10,687)

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

	Calendar Year Ended December 31, 2012	2011
	(In thousands of dollars)	
Deferred tax assets:		
Pensions, OPEB and other employee benefits	$ 552,375	$ 151,958
Future federal benefit on state taxes	(31,803)	-
Reserves and Other Items	41,975	20,239
Total deferred tax assets (1)	562,547	172,197
Deferred tax liabilities:		
Property related differences	117,684	36,173
Regulatory assets - pension & OPEB	(23,220)	(30,375)
Reserves and other items	(5,994)	(2,977)
Total deferred tax liabilities	88,470	2,821
Net deferred income tax assets	$ 474,077	$ 169,376

(1) There were no valuation allowances for deferred tax assets at December 31, 2012 or 2011.

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

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

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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.As of December 31, 2012 and December 31, 2011, the Company did not have any unrecognized tax benefits on a FERC basis.

It is reasonably possible that other events will occur during the next 12 months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to their results of operations, financial position, or liquidity.

Federal income tax returns have been examined and all issues have been agreed with the Internal Revenue Service (“IRS”)and the NGNA consolidated filing group through March 31, 2004. During the year ended December 31, 2010, the NGNA 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.

NGNA is 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.

The consolidated federal income tax returns for the years ended March 31, 2008 and March 31, 2009 are under examination by the IRS. The tax returns for the years ended March 31, 2010 through March 31,2012 remain subject to examination by the IRS.

The Company is a member of the National Grid USA Service Company Massachusetts unitary group since December 2010. Prior to filing as a member of this unitary group, the Company filed on a separate basis. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2012 remain subject to examination by the State of Massachusetts.

The Company is in the process of appealing certain adjustments made by the Massachusetts Department of Revenue ("MADOR") for the years ended March 31, 2003 through March 31, 2005. The Company is currently under audit by the MADOR for years ended March 31, 2006 through March 31, 2008.

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Schedule XV- Comparative Income Statement

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
1		SERVICE COMPANY OPERATING REVENUES		
2	400	Service Company Operating Revenues	1,137,058,471	923,207,999
3		SERVICE COMPANY OPERATING EXPENSES		
4	401	Operation Expenses	1,084,159,203	914,070,808
5	402	Maintenance Expenses		
6	403	Depreciation Expenses	2,098,549	
7	403.1	Depreciation Expense for Asset Retirement Costs		
8	404	Amortization of Limited-Term Property		
9	405	Amortization of Other Property	5,045,085	
10	407.3	Regulatory Debits		
11	407.4	Regulatory Credits		
12	408.1	Taxes Other Than Income Taxes, Operating Income	33,001,256	18,613,468
13	409.1	Income Taxes, Operating Income	9,127,748	19,375,996
14	410.1	Provision for Deferred Income Taxes, Operating Income	(42,144,744)	12,211,163
15	411.1	Provision for Deferred Income Taxes – Credit , Operating Income	2,132,581	(42,273,862)
16	411.4	Investment Tax Credit, Service Company Property		
17	411.6	Gains from Disposition of Service Company Plant		
18	411.7	Losses from Disposition of Service Company Plant		
19	411.10	Accretion Expense		
20	412	Costs and Expenses of Construction or Other Services		
21	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work		
22		TOTAL SERVICE COMPANY OPERATING EXPENSES (Total of Lines 4-21)	1,093,419,678	921,997,573
23		NET SERVICE COMPANY OPERATING INCOME (Total of Lines 2 less 22)	43,638,793	1,210,426
24		OTHER INCOME		
25	418.1	Equity in Earnings of Subsidiary Companies		
26	419	Interest and Dividend Income	167,685	
27	419.1	Allowance for Other Funds Used During Construction	(57)	
28	421	Miscellaneous Income or Loss	(3,424)	
29	421.1	Gain on Disposition of Property		
30		TOTAL OTHER INCOME (Total of Lines 25-29)	164,204	
31		OTHER INCOME DEDUCTIONS		
32	421.2	Loss on Disposition of Property		
33	425	Miscellaneous Amortization		
34	426.1	Donations	(223,168)	239,481
35	426.2	Life Insurance		
36	426.3	Penalties		
37	426.4	Expenditures for Certain Civic, Political and Related Activities	827	
38	426.5	Other Deductions	25,876	21,437
39		TOTAL OTHER INCOME DEDUCTIONS (Total of Lines 32-38)	(196,465)	260,918
40		TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS		

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Schedule XV- Comparative Income Statement (continued)

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
41	408.2	Taxes Other Than Income Taxes, Other Income and Deductions		
42	409.2	Income Taxes, Other Income and Deductions		
43	410.2	Provision for Deferred Income Taxes, Other Income and Deductions		
44	411.2	Provision for Deferred Income Taxes – Credit, Other Income and Deductions		
45	411.5	Investment Tax Credit, Other Income Deductions		
46		TOTAL TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS (Total of Lines 41-45)		
47		INTEREST CHARGES		
48	427	Interest on Long-Term Debt		
49	428	Amortization of Debt Discount and Expense	(246)	
50	429	(less) Amortization of Premium on Debt- Credit		
51	430	Interest on Debt to Associate Companies	244,293	
52	431	Other Interest Expense	3,503,866	424,508
53	432	(less) Allowance for Borrowed Funds Used During Construction-Credit	897,532	
54		TOTAL INTEREST CHARGES (Total of Lines 48-53)	2,850,381	424,508
55		NET INCOME BEFORE EXTRAORDINARY ITEMS (Total of Lines 23, 30, minus 39, 46, and 54)	41,149,081	525,000
56		EXTRAORDINARY ITEMS		
57	434	Extraordinary Income		
58	435	(less) Extraordinary Deductions		
59		Net Extraordinary Items (Line 57 less Line 58)		
60	409.4	(less) Income Taxes, Extraordinary		
61		Extraordinary Items After Taxes (Line 59 less Line 60)		
62		NET INCOME OR LOSS/COST OF SERVICE (Total of Lines 55-61)	41,149,081	525,000

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FOOTNOTE DATA

Schedule Page: 301 Line No.: 2 Column: c

Misc Income from billing to Non-Associate Companies in the amount of $111,662 was recorded for

Customer	$
AAT COMMUNICATIONS	2,203
ASHBURNHAM MUNICIPAL LIGHT PLA	16,400
DANVERS ELECTRIC LIGHT DEPARTMENT	19,925
ELECTRIC COUNCIL OF NEW ENGLAND	4,071
LIBERTY UTLILITIES CORP.	15,022
NSTAR ELECTRIC & GAS CORPORATION	4,200
SPRINT NATIONAL LEASE MANAGEMENT	2,901
T-MOBILE	42,840
VERMONT ELECTRIC COOPERATIZE	4,100
TOTAL	111,662

Also, analysis of billing for Non-Associate Companies is provided on page 308

Schedule Page: 301 Line No.: 2 Column: d

Misc Income from billing to Non-Associate Companies in the amount of $145,352 was recorded for

Customer	$
AAT COMMUNICATIONS	39,887
DANVERS ELECTRIC LIGHT DEPARTMENT	10,770
ENERGY COUNCIL OF THE NORTHEAST	4,612
NSTAR ELECTRIC & GAS CORPORATION	4,200
PEABODY MUNICIPAL LIGHT PLANT	9,875
PRINCETON MUNICIPAL LIGHT PLANT	8,975
QUEST COMMUNICATIONS	9,390
SPRINT NATIONAL LEASE MANAGEMENT	2,901
T-MOBILE	41,192
UNITED ILLUMINATING	7,400
VERMONT ELECTRIC COOPERATIZE	6,150
TOTAL	145,352

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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies

1. Total cost of service will equal for associate and nonassociate companies the total amount billed under their separate analysis of billing schedules.

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
1	403-403.1	Depreciation Expense	2,098,549		2,098,549			
2	404-405	Amortization Expense	5,045,085		5,045,085			
3	407.3-407.4	Regulatory Debits/Credits – Net						
4	408.1-408.2	Taxes Other Than Income Taxes	33,001,256		33,001,256			
5	409.1-409.3	Income Taxes						
6	410.1-411.2	Provision for Deferred Taxes						
7	411.1-411.2	Provision for Deferred Taxes – Credit						
8	411.6	Gain from Disposition of Service Company Plant						
9	411.7	Losses from Disposition of Service Company Plant						
10	411.4-411.5	Investment Tax Credit Adjustment						
11	411.10	Accretion Expense						
12	412	Costs and Expenses of Construction or Other Services						
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies						
14	418	Non-operating Rental Income						
15	418.1	Equity in Earnings of Subsidiary Companies						
16	419	Interest and Dividend Income						
17	419.1	Allowance for Other Funds Used During Construction						
18	421	Miscellaneous Income or Loss	(3,424)		(3,424)			
19	421.1	Gain on Disposition of Property						
20	421.2	Loss on Disposition Of Property						
21	425	Miscellaneous Amortization						
22	426.1	Donations	(223,169)		(223,169)			
23	426.2	Life Insurance						
24	426.3	Penalties						
25	426.4	Expenditures for Certain Civic, Political and Related Activities	827		827			
26	426.5	Other Deductions	25,875		25,875			
27	427	Interest On Long-Term Debt						
28	428	Amortization of Debt Discount and Expense						
29	429	Amortization of Premium on Debt – Credit						
30	430	Interest on Debt to Associate Companies						
31	431	Other Interest Expense	274,579		274,579			
32	432	Allowance for Borrowed Funds Used During Construction						
33	500-509	Total Steam Power Generation Operation Expenses						
34	510-515	Total Steam Power Generation Maintenance Expenses						

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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
35	517-525	Total Nuclear Power Generation Operation Expenses						
36	528-532	Total Nuclear Power Generation Maintenance Expenses						
37	535-540.1	Total Hydraulic Power Generation Operation Expenses						
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses						
39	546-550.1	Total Other Power Generation Operation Expenses						
40	551-554.1	Total Other Power Generation Maintenance Expenses						
41	555-557	Total Other Power Supply Operation Expenses						
42	560	Operation Supervision and Engineering						
43	561.1	Load Dispatch-Reliability						
44	561.2	Load Dispatch-Monitor and Operate Transmission System						
45	561.3	Load Dispatch-Transmission Service and Scheduling						
46	561.4	Scheduling, System Control and Dispatch Services						
47	561.5	Reliability Planning and Standards Development						
48	561.6	Transmission Service Studies						
49	561.7	Generation Interconnection Studies						
50	561.8	Reliability Planning and Standards Development Services						
51	562	Station Expenses (Major Only)						
52	563	Overhead Line Expenses (Major Only)						
53	564	Underground Line Expenses (Major Only)						
54	565	Transmission of Electricity by Others (Major Only)						
55	566	Miscellaneous Transmission Expenses (Major Only)						
56	567	Rents						
57	567.1	Operation Supplies and Expenses (Nonmajor Only)						
58		Total Transmission Operation Expenses						
59	568	Maintenance Supervision and Engineering (Major Only)						
60	569	Maintenance of Structures (Major Only)						
61	569.1	Maintenance of Computer Hardware						
62	569.2	Maintenance of Computer Software						
63	569.3	Maintenance of Communication Equipment						
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant						
65	570	Maintenance of Station Equipment (Major Only)						
66	571	Maintenance of Overhead Lines (Major Only)						
67	572	Maintenance of Underground Lines (Major Only)						
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)						

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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
69	574	Maintenance of Transmission Plant (Nonmajor Only)						
70		Total Transmission Maintenance Expenses						
71	575.1-575.8	Total Regional Market Operation Expenses						
72	576.1-576.5	Total Regional Market Maintenance Expenses						
73	580-589	Total Distribution Operation Expenses						
74	590-598	Total Distribution Maintenance Expenses						
75		Total Electric Operation and Maintenance Expenses	40,226,426		40,226,426			
76	700-798	Production Expenses (Provide selected accounts in a footnote)						
77	800-813	Total Other Gas Supply Operation Expenses						
78	814-826	Total Underground Storage Operation Expenses						
79	830-837	Total Underground Storage Maintenance Expenses						
80	840-842.3	Total Other Storage Operation Expenses						
81	843.1-843.9	Total Other Storage Maintenance Expenses						
82	844.1-846.2	Total Liquefied Natural Gas Terminaling and Processing Operation Expenses						
83	847.1-847.8	Total Liquefied Natural Gas Terminaling and Processing Maintenance Expenses						
84	850	Operation Supervision and Engineering						
85	851	System Control and Load Dispatching.						
86	852	Communication System Expenses						
87	853	Compressor Station Labor and Expenses						
88	854	Gas for Compressor Station Fuel						
89	855	Other Fuel and Power for Compressor Stations						
90	856	Mains Expenses						
91	857	Measuring and Regulating Station Expenses						
92	858	Transmission and Compression of Gas By Others						
93	859	Other Expenses						
94	860	Rents						
95		Total Gas Transmission Operation Expenses						
96	861	Maintenance Supervision and Engineering						
97	862	Maintenance of Structures and Improvements						
98	863	Maintenance of Mains						
99	864	Maintenance of Compressor Station Equipment						
100	865	Maintenance of Measuring And Regulating Station Equipment						
101	866	Maintenance of Communication Equipment						
102	867	Maintenance of Other Equipment						
103		Total Gas Transmission Maintenance Expenses						
104	870-881	Total Distribution Operation Expenses						

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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
105	885-894	Total Distribution Maintenance Expenses						
106		Total Natural Gas Operation and Maintenance Expenses						
107	901	Supervision						
108	902	Meter reading expenses						
109	903	Customer records and collection expenses						
110	904	Uncollectible accounts						
111	905	Miscellaneous customer accounts expenses						
112	906	Total Customer Accounts Operation Expenses						
113	907	Supervision						
114	908	Customer assistance expenses						
115	909	Informational And Instructional Advertising Expenses						
116	910	Miscellaneous Customer Service And Informational Expenses						
117		Total Service and Informational Operation Accounts						
118	911	Supervision						
119	912	Demonstrating and Selling Expenses						
120	913	Advertising Expenses						
121	916	Miscellaneous Sales Expenses						
122		Total Sales Operation Expenses						
123	920	Administrative and General Salaries	352,525,750		352,525,750			
124	921	Office Supplies and Expenses	195,133,887	802,688	195,936,575			
125	923	Outside Services Employed	269,226,149		269,226,149			
126	924	Property Insurance	3,368,248	81	3,368,329			
127	925	Injuries and Damages	17,624,036	(737)	17,623,299			
128	926	Employee Pensions and Benefits	182,610,327		182,610,327			
129	928	Regulatory Commission Expenses						
130	930.1	General Advertising Expenses						
131	930.2	Miscellaneous General Expenses	6,061,527	(1,906)	6,059,621			
132	931	Rents	56,809,155		56,809,155			
133		Total Administrative and General Operation Expenses	1,083,359,079	800,126	1,084,159,205			
134	935	Maintenance of Structures and Equipment						
135		Total Administrative and General Maintenance Expenses	1,083,359,079	800,126	1,084,159,205			
136		Total Cost of Service	1,123,585,505	800,126	1,124,385,631			

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
1	403-403.1	Depreciation Expense	2,098,549		2,098,549
2	404-405	Amortization Expense	5,045,085		5,045,085
3	407.3-407.4	Regulatory Debits/Credits – Net			
4	408.1-408.2	Taxes Other Than Income Taxes	33,001,256		33,001,256
5	409.1-409.3	Income Taxes			
6	410.1-411.2	Provision for Deferred Taxes			
7	411.1-411.2	Provision for Deferred Taxes – Credit			
8	411.6	Gain from Disposition of Service Company Plant			
9	411.7	Losses from Disposition of Service Company Plant			
10	411.4-411.5	Investment Tax Credit Adjustment			
11	411.10	Accretion Expense			
12	412	Costs and Expenses of Construction or Other Services			
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies			
14	418	Non-operating Rental Income			
15	418.1	Equity in Earnings of Subsidiary Companies			
16	419	Interest and Dividend Income			
17	419.1	Allowance for Other Funds Used During Construction			
18	421	Miscellaneous Income or Loss	(3,424)		(3,424)
19	421.1	Gain on Disposition of Property			
20	421.2	Loss on Disposition Of Property			
21	425	Miscellaneous Amortization			
22	426.1	Donations	(223,169)		(223,169)
23	426.2	Life Insurance			
24	426.3	Penalties			
25	426.4	Expenditures for Certain Civic, Political and Related Activities	827		827
26	426.5	Other Deductions	25,875		25,875
27	427	Interest On Long-Term Debt			
28	428	Amortization of Debt Discount and Expense			
29	429	Amortization of Premium on Debt – Credit			
30	430	Interest on Debt to Associate Companies			
31	431	Other Interest Expense	274,579		274,579
32	432	Allowance for Borrowed Funds Used During Construction			
33	500-509	Total Steam Power Generation Operation Expenses			
34	510-515	Total Steam Power Generation Maintenance Expenses			

Name of Respondent National Grid USA Service Company Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2012

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
35	517-525	Total Nuclear Power Generation Operation Expenses			
36	528-532	Total Nuclear Power Generation Maintenance Expenses			
37	535-540.1	Total Hydraulic Power Generation Operation Expenses			
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses			
39	546-550.1	Total Other Power Generation Operation Expenses			
40	551-554.1	Total Other Power Generation Maintenance Expenses			
41	555-557	Total Other Power Supply Operation Expenses			
42	560	Operation Supervision and Engineering			
43	561.1	Load Dispatch-Reliability			
44	561.2	Load Dispatch-Monitor and Operate Transmission System			
45	561.3	Load Dispatch-Transmission Service and Scheduling			
46	561.4	Scheduling, System Control and Dispatch Services			
47	561.5	Reliability Planning and Standards Development			
48	561.6	Transmission Service Studies			
49	561.7	Generation Interconnection Studies			
50	561.8	Reliability Planning and Standards Development Services			
51	562	Station Expenses (Major Only)			
52	563	Overhead Line Expenses (Major Only)			
53	564	Underground Line Expenses (Major Only)			
54	565	Transmission of Electricity by Others (Major Only)			
55	566	Miscellaneous Transmission Expenses (Major Only)			
56	567	Rents			
57	567.1	Operation Supplies and Expenses (Nonmajor Only)			
58		Total Transmission Operation Expenses			
59	568	Maintenance Supervision and Engineering (Major Only)			
60	569	Maintenance of Structures (Major Only)			
61	569.1	Maintenance of Computer Hardware			
62	569.2	Maintenance of Computer Software			
63	569.3	Maintenance of Communication Equipment			
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant			
65	570	Maintenance of Station Equipment (Major Only)			
66	571	Maintenance of Overhead Lines (Major Only)			
67	572	Maintenance of Underground Lines (Major Only)			
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)			

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
69	574	Maintenance of Transmission Plant (Nonmajor Only)			
70		Total Transmission Maintenance Expenses			
71	575.1-575.8	Total Regional Market Operation Expenses			
72	576.1-576.5	Total Regional Market Maintenance Expenses			
73	580-589	Total Distribution Operation Expenses			
74	590-598	Total Distribution Maintenance Expenses			
75		Total Electric Operation and Maintenance Expenses	40,226,426		40,226,426
76	700-798	Production Expenses (Provide selected accounts in a footnote)			
77	800-813	Total Other Gas Supply Operation Expenses			
78	814-826	Total Underground Storage Operation Expenses			
79	830-837	Total Underground Storage Maintenance Expenses			
80	840-842.3	Total Other Storage Operation Expenses			
81	843.1-843.9	Total Other Storage Maintenance Expenses			
82	844.1-846.2	Total Liquefied Natural Gas Terminaling and Processing Operation Expenses			
83	847.1-847.8	Total Liquefied Natural Gas Terminaling and Processing Maintenance Expenses			
84	850	Operation Supervision and Engineering			
85	851	System Control and Load Dispatching.			
86	852	Communication System Expenses			
87	853	Compressor Station Labor and Expenses			
88	854	Gas for Compressor Station Fuel			
89	855	Other Fuel and Power for Compressor Stations			
90	856	Mains Expenses			
91	857	Measuring and Regulating Station Expenses			
92	858	Transmission and Compression of Gas By Others			
93	859	Other Expenses			
94	860	Rents			
95		Total Gas Transmission Operation Expenses			
96	861	Maintenance Supervision and Engineering			
97	862	Maintenance of Structures and Improvements			
98	863	Maintenance of Mains			
99	864	Maintenance of Compressor Station Equipment			
100	865	Maintenance of Measuring And Regulating Station Equipment			
101	866	Maintenance of Communication Equipment			
102	867	Maintenance of Other Equipment			
103		Total Gas Transmission Maintenance Expenses			
104	870-881	Total Distribution Operation Expenses			

Name of Respondent National Grid USA Service Company Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2012

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
105	885-894	Total Distribution Maintenance Expenses			
106		Total Natural Gas Operation and Maintenance Expenses			
107	901	Supervision			
108	902	Meter reading expenses			
109	903	Customer records and collection expenses			
110	904	Uncollectible accounts			
111	905	Miscellaneous customer accounts expenses			
112	906	Total Customer Accounts Operation Expenses			
113	907	Supervision			
114	908	Customer assistance expenses			
115	909	Informational And Instructional Advertising Expenses			
116	910	Miscellaneous Customer Service And Informational Expenses			
117		Total Service and Informational Operation Accounts			
118	911	Supervision			
119	912	Demonstrating and Selling Expenses			
120	913	Advertising Expenses			
121	916	Miscellaneous Sales Expenses			
122		Total Sales Operation Expenses			
123	920	Administrative and General Salaries	352,525,750		352,525,750
124	921	Office Supplies and Expenses	195,133,887	802,688	195,936,575
125	923	Outside Services Employed	269,226,149		269,226,149
126	924	Property Insurance	3,368,248	81	3,368,329
127	925	Injuries and Damages	17,624,036	(737)	17,623,299
128	926	Employee Pensions and Benefits	182,610,327		182,610,327
129	928	Regulatory Commission Expenses			
130	930.1	General Advertising Expenses			
131	930.2	Miscellaneous General Expenses	6,061,527	(1,906)	6,059,621
132	931	Rents	56,809,155		56,809,155
133		Total Administrative and General Operation Expenses	1,083,359,079	800,126	1,084,159,205
134	935	Maintenance of Structures and Equipment			
135		Total Administrative and General Maintenance Expenses	1,083,359,079	800,126	1,084,159,205
136		Total Cost of Service	1,123,585,505	800,126	1,124,385,631

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XVII - Analysis of Billing – Associate Companies (Account 457)

1. For services rendered to associate companies (Account 457), list all of the associate companies.

Line No.	Name of Associate Company (a)	Account 457.1 Direct Costs Charged (b)	Account 457.2 Indirect Costs Charged (c)	Account 457.3 Compensation For Use of Capital (d)	Total Amount Billed (e)
1	National Grid USA Parent	83,068,758	28,193	21,740	83,118,691
2	Nantucket Electric Co	2,178,381	1,025	18,800	2,198,206
3	Massachusetts Electric Co	213,406,260	119,300	2,111,803	215,637,363
4	NE Hydro-Trans Elec Co	4,098,016	3,238	9,143	4,110,397
5	NE Hydro-Trans Corp	1,838,653	(67)	6,278	1,844,864
6	New England Power Company	82,217,154	65,224	226,588	82,508,966
7	NE Electric Trans Corp	537,635	(201)	4,297	541,731
8	NG Trans Services Corp	32,630			32,630
9	Niagara Mohawk Holdings	93			93
10	Niagara Mohawk Power Corp	278,681,330	108,900	2,023,700	280,813,930
11	Opinac North America, Inc.	297			297
12	Granite State Electric Co	4,612,810	(3,801)	3,402	4,612,411
13	Granite St Elec-Post Sale	1,344,465	983	373	1,345,821
14	Narragansett Electric Co	124,519,352	63,630	796,342	125,379,324
15	Wayfinder Group, Inc.	74,093	2	12	74,107
16	Valley Appliance & Merch	137,131	201	(90)	137,242
17	NG Billing Entity	1,969,335	(2,099)	1,245	1,968,481
18	GridAmerica Holdings Inc.	(42,762)			(42,762)
19	NEES Energy, Inc.	3,427			3,427
20	EUA Energy Investment	4,587			4,587
21	Prudence Corporation	38			38
22	Patience Corporation	(4)			(4)
23	Metrowest Realty LLC	95,688	(134)	30	95,584
24	Boston Gas Company	93,217,271	(3,347)	546,733	93,760,657
25	Colonial Gas Company	18,981,262	(888)	81,643	19,062,017
26	EnergyNorth Natural Gas	3,751,983	(1,379)	1,021	3,751,625
27	NG NE Holdings 2 LLC	591			591
28	NG Corporate Services LLC	884,726	(1,024)		883,702
29	NG Engineering Srvcs, LLC	(302,440)			(302,440)
30	NG Electric Services LLC	84,906,929	(4,581)	1,029,944	85,932,292
31	NG Generation LLC	13,895,468	(1,482)	313,776	14,207,762
32	NG Development Holdings Corp	979,818	89	3,996	983,903
33	KS Gas East Corp-KEDLI	48,014,801	(1,717)	721,585	48,734,669
34	Brooklyn Union Gas-KEDNY	63,824,742	(3,535)	999,994	64,821,201
35	KS Energy Corp-West Hold	1,233			1,233
36	NG Energy Trading Srvcs	132,371	(2)	2,005	134,374
37	NG Glenwood Energy Center	532,541	(11)	10,101	542,631
38	NG Port Jeff Energy Center	223,874	(18)	10,080	233,936
39	NG Services, Inc.	(2,188,097)	(7)	2,040	(2,186,064)

Name of Respondent National Grid USA Service Company Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2012

Schedule XVII - Analysis of Billing – Associate Companies (Account 457) (continued)

Line No.	Name of Associate Company (a)	Account 457.1 Direct Costs Charged (b)	Account 457.2 Indirect Costs Charged (c)	Account 457.3 Compensation For Use of Capital (d)	Total Amount Billed (e)
1	KeySpan Corporation	1,221,679	(1)	2,000	1,223,678
2	Seneca-Upshur Petroleum	149,468	(132)	57	149,393
3	EnergyNorth Gas-Post Sale	638,033	71	30	638,134
4	NG Energy Management LLC	(16,699)			(16,699)
5	NG LNG LP RegulatedEntity	(94,303)			(94,303)
6	Transgas Inc	208,810			208,810
7	LIPA KS Gen Services, LLC	1,945			1,945
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40	**Total**	**1,127,743,373**	**366,430**	**8,948,668**	**1,137,058,471**

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
National Grid USA Service Company Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	Dec 31, 2012

Schedule XVIII – Analysis of Billing – Non-Associate Companies (Account 458)

1. For services rendered to nonassociate companies (Account 458), list all of the nonassociate companies. In a footnote, describe the services rendered to each respective nonassociate company.

Line No.	Name of Non-associate Company (a)	Account 458.1 Direct Costs Charged (b)	Account 458.2 Indirect Costs Charged (c)	Account 458.3 Compensation For Use of Capital (d)	Account 458.4 Excess or Deficiency on Servicing Non-associate Utility Companies (e)	Total Amount Billed (f)
1	AAT COMMUNICATIONS	2,203				2,203
2	ASHBURNHAM MUNICIPAL LIGHT PLA	16,400				16,400
3	DANVERS ELECTRIC LIGHT DEPARTMENT	19,925				19,925
4	ELECTRIC COUNCIL OF NEW ENGLAND	4,071				4,071
5	LIBERTY UTLILITIES CORP.	15,022				15,022
6	NSTAR ELECTRIC & GAS CORPORATION	4,200				4,200
7	SPRINT NATIONAL LEASE MANAGEMENT	2,901				2,901
8	T-MOBILE	42,840				42,840
9	VERMONT ELECTRIC COOPERATIZE	4,100				4,100
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40	**Total**	111,662				111,662

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

FOOTNOTE DATA

Schedule Page: 308 Line No.: 40 Column: b

Customer	Charges
AAT COMMUNICATIONS	Rent - Microwave Dishes & Equipment Cabinet at 25 Research Drive, Westborough, MA
ASHBURNHAM MUNICIPAL LIGHT PLA	Training services at the National Grid Training Center
DANVERS ELECTRIC LIGHT DEPARTMENT	Training services at the National Grid Training Center
ELECTRIC COUNCIL OF NEW ENGLAND	Training services at the National Grid Training Center
LIBERTY UTLILITIES CORP.	Training services at the National Grid Training Center
NSTAR ELECTRIC & GAS CORPORATION	Rent - West Bridgewater Communications Tower
SPRINT NATIONAL LEASE MANAGEMENT	Rent - West Bridgewater Communications Tower
T-MOBILE	Rent - West Bridgewater Communications Tower
VERMONT ELECTRIC COOPERATIZE	Training services at the National Grid Training Center

Name of Respondent	This Report Is:	Resubmission Date (Mo, Da, Yr)	Year/Period of Report
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Schedule XIX - Miscellaneous General Expenses - Account 930.2

1. Provide a listing of the amount included in Account 930.2, "Miscellaneous General Expenses" classifying such expenses according to their nature. Amounts less than $50,000 may be grouped showing the number of items and the total for the group.
2. Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. 441(b)(2)) shall be separately classified.

Line No.	Title of Account (a)	Amount (b)
1	Management	1,604,596
2	Customer Service	1,038,847
3	Environmental	268,542
4	Insurance/Claims	2,418,936
5	Payment processing	737,229
6	Other	(8,529)
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40	**Total**	6,059,621

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

Schedule XX - Organization Chart

1. Provide a graphical presentation of the relationships and inter relationships within the service company that identifies lines of authority and responsibility in the organization.

NATIONAL GRID USA SERVICE COMPANY INC

ORGANIZATION CHART

For the Year Ended December 31, 2012

Appointment Category	Appointed As
Board Positions	Director
Board Positions	Director
Board Positions	Director
Officers	President
Officers	Chief Operating Officer
Officers	Executive Vice President
Officers	Executive Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President
Officers	Senior Vice President and Chief Procurement Officer
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

Schedule XX - Organization Chart

Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
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Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President
Officers	Vice President and Controller
Officers	Vice President and Treasurer
Officers	Secretary
Officers	Assistant Secretary
Officers	Assistant Secretary
Officers	Assistant Secretary
Officers	Assistant Secretary

Name of Respondent National Grid USA Service Company Inc.	This Report is: (1) X An Original (2) __ A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2012
Schedule XX - Organization Chart			

Officers	Assistant Secretary
Officers	Assistant Secretary
Officers	Master Electrician

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
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Schedule XXI - Methods of Allocation			

1. Indicate the service department or function and the basis for allocation used when employees render services to more than one department or functional group. If a ratio, include the numerator and denominator.
2. Include any other allocation methods used to allocate costs.

NATIONAL GRID USA SERVICE COMPANY, INC.

METHODS OF ALLOCATION

For the Year Ended December 31, 2012

1. Cost Allocation Principles

The following principles guide the allocation of costs of products or services provided by the Service Companies to the Client or Operating Companies. These principles also pertain to transactions among Operating Companies such as storm restoration services.

a. Direct charging or direct assignment is the preferred allocation methodology and should be used if the cost of providing a product or service can be identified with the specific affiliates receiving the benefit of that product or service. Direct charging should only be used if the cost of providing a product or service to an individual Client Company can be isolated and reported separately from costs to provide other products or services and from costs to provide the same product and service to other Client Companies.

b. The costs of products and services that cannot be direct charged should be allocated based on cost causative allocation bases representative of the underlying cost drivers of that product or service.

c. The cost allocation methodology should be comprehensive, transparent, stable and administratively manageable and cost effective.

d. The calculation of the cost allocation bases should be supported by a clearly defined methodology, model and supporting policy and procedure documentation.

e. The cost allocation methodology should accommodate changes in the size of the allocation bases from period to period based on changes in the underlying cost drivers; the allocation bases should not vary significantly from period to period for uncontrollable factors not related to the underlying cost drivers. For example, you would not choose an allocation basis that fluctuates significantly from period to period based on changes in weather if weather is not a cost driver for that activity.

f. The calculation of the allocation bases should be updated at least annually and more frequently if needed to reflect significant events (e.g., the sale of a significant affiliate).

2. Services Provided by the Service Company - Description and Allocation Methodology

a. The following table lists those services provided by the Service Company and the Client Companies to whom these services are provided. These services are provided in accordance with the service agreements filed with the Commissions. In addition, the provision of these services is governed by Service Level Agreements. Service Level Agreement are legal agreements between the Service Companies and the Client Companies which describe the services offered, services selected, compensation and billing, terms, and cost accumulation, assignment and allocation methodologies. Also referred to as Service Contracts. The documents are filed with the utility

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

Schedule XXI - Methods of Allocation

regulatory commissions and serve as the basis for the FERC Form 60 disclosures.

Services Provided By Service Company

Function / Department	***Description of Services Provided***	***Client Companies***
FINANCE		
Jurisdictional Finance Business Partners	Provide financial services at the jurisdictional level which includes: • Provide variance reporting and variance forecasting on income statement • Perform regulatory strategy/rate of return analyses • Perform revenue/margin analysis • Manage LIPA MSA, i.e. financial statements, variance analysis, contract costs and updates to contract profitability when necessary • Provide support to rate filings and rate cases	LDCs in MA, NY, RI, NH, FERC regulated companies and LIPA
Decision Support/Finance Business Partners	Provide decision support at the functional level which includes: • Provide operating and capital budgets decisions and management reporting activities • Perform economic and financial analysis, and short and long-term financial forecasting • Align financial support functions with strategic plans, policies, procedures and internal controls • Perform benchmarking and monitoring of operations metrics to help the business achieve targeted results • Identify savings and potential efficiencies	Internal Business Functions
Accounting Services	Maintain the general ledger for the 18 regulated utilities; Carry out specialized	Regulated and non-regulated utilities

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

Schedule XXI - Methods of Allocation

	accounting; Produce external reports for regulated utilities as well as PSC and FERC reports; Maintain plant accounting, billing systems, revenue accounting and reconciliations.	
IS Finance	Provide decision support related to IS initiatives; Manage IS project planning, budgeting, forecasting and accounting; Maintain hardware and ongoing infrastructure services.	Indirectly serve all companies
US Treasury	Provide services related to cash management, capital markets and compliance; pension and 401k investment management; and energy risk management and reporting (Regulated entities only).	All US entities
US Tax	Provide income tax compliance; income tax audit defense and controversy resolution; income tax accounting and financial reporting; income tax budgeting and forecasting; and income tax research and planning	All companies
US Insurance	Manage the overall purchase and procurement of different types of insurance.	All companies UK/US depending on the type of insurance
Corporate Planning and Reporting	Develop corporate Balance Sheets and Cash Flows used to develop forecasts, budget and variance reports; Report on financial statements; Manage business planning process including calendar and deliverables.	Mostly Regulated companies; consolidated US operations and internal customers
Regulatory Accounting	Prepare rate orders and compliance requirements that create regulatory deferrals; Ensure proper accounting of regulatory assets and liabilities; Perform secondary review of FERC Form 1.	Regulated companies
Global Corporate Audit		
Internal Audit	Periodically conduct operating audits and audits of the accounting records and other records maintained by the operating companies. Issue audit reports and provide recommendations, as appropriate, on improving processes and the internal control framework.	All companies
SHE Audit	Periodically conduct Safety, Health and Environmental compliance audits at operating company facilities.	All companies

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Human Resources		
Labor and Employee Relations	Advise and assist the operating companies with: • Labor contract negotiations and administration • Investigations into specific instances of misconduct or malfeasance • Employee grievances, arbitration and external complaint administration and management • Litigation	All regulated and non-regulated companies
HR Business Partners	Assist with the development of the annual and five-year human resources plan and workforce strategy; Facilitate the succession planning process and organizational design; Drive the performance management process.	All regulated and non-regulated companies
Recruiting, inclusion and diversity	Identify recruitment needs and create regional recruiting strategies to source those needs, including external sourcing management, internal sourcing management and the testing and hiring and testing of union employees; Advise and assist operating companies in the administration of the design and implementation of diversity and EEO programs.	All companies
HR Operations	Provide overall direction and leadership for the HR function while managing internal HR metrics and performance management.	All companies
Compensation, Benefits and Pension	Provide central administration for payroll and employee benefit and pension plans including: • Design and implementation of Total Rewards packages • Compliance with requirements of regulatory bodies	All companies
Technical Training	Assist with the design and delivery of technical training programs for Gas, Electric, Safety, Process support and Professional development.	All companies

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US Regulation and Pricing		
Regulatory Strategy	Assess revenue requirements, design pricing structures, and file and defend rate cases. Compile earnings reports, compliance filings, special filings and any other filings required by the PUC on a yearly basis.	Regulated companies
Pricing and Federal Affairs	Develop long-term regulatory goals and filing plans consistent with business plans, trends, pricing and policy; Manage regulatory relationships; and provide strategic and policy advice to the regulated entities.	Regulated companies
Shared Services		
Employee Services (TDC)	Provide employee services including: • Manage employee data within the HRIS • Provide employees and retirees with information and services related to payroll and year-end tax reporting; medical, dental and life insurance; retirement and pensions • Maintain and administer payments to current and retired employees	All operating companies
Procure to pay (TDC)	Maintain and administer the non-inventory procurement process; Maintain vendor master files; and administer the P-Card process, processing of invoices and review of expenses.	All regulated companies
Response Team (TDC)	Responsible for intake of incoming contact center calls for procurement, vendors.	All companies
Billing Operations (TDC)	Process, review and issue customer invoices for retail and wholesale electric and gas sales; Provide maintenance of customer systems; Process billing exceptions, shared metering and mixed metering; Process special billing related to line extensions, pole rentals, water heaters, DOT work (outside companies).	All operating companies including LIPA
Credit and Collections (TDC)	Process employee services transactions, commercial and industrial credit and collections, and collections invoices; Devise strategy for field collections and residential collections.	All operating companies

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Customer Care	Manage customer inquiries made either in-person, by telephone, by mail and by email; Manage emergency contact center; Manage outsourcing and move/connect inbound and outbound calls.	All regulated companies
Business Process Excellence	Develop and implement reporting/communications, quality and benchmarking strategies for Shared Services; Develop and provide Training programs for shared services; Lead all continuous improvement activities; Develop and coordinate the US Service Level Agreement governance process.	Shared Services
Property Strategy	Recommend strategies to optimize the use of the property portfolio.	All entities
Facilities Management	Provide building maintenance services; provide capital improvements to NG USA facilities.	All entities
Operations		
Resource Planning	Prepare resource work plans; Assist on forecasting of capital spend five year plan; Manage scheduling and work coordination; Manage project control and regulatory reporting of operations projects.	Regulated entities
Emergency Planning PMO	Develop emergency response plans and support storm restoration activities.	Gas and electric entities
Maintenance and Construction	Provides electric and gas maintenance of facilities and infrastructure and non-complex construction services; Conduct emergency response activities when necessary	Gas and electric utilities
Operations Performance	Provides quality assurance and control services for fieldwork; Manage operations metrics; Provide project management and construction services for complex projects; Develop and report of KPIs.	Regulated entities
Control Center Operations	Operate gas and electric transmission and distribution networks and provide meter data management services.	Electric and Gas utilities
Power Plant Operations	Operate and maintain power plants under contract with National Grid.	LIPA

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LNG Operations	Operate and maintain LNG and propane air plants; Ensure adequate regulation, compliance and training related to the LNG facilities.	Regulated gas companies
Operations Support	Provide fleet, aviation, materials and logistics, technical labs and testing services; Manage connections process for new gas and electric customers; Provide clerical support to all operations.	Regulated entities including LIPA
Network Strategy		
Asset Management	Develop and deliver asset strategies and policies, procedures and work plans to manage the lifecycle of company assets enabling system performance and the reliable energy supplies; Develop strategies and plans around smart grid technologies; Manage vegetation and maintenance programs.	Regulated entities
Gas Systems Engineering	Provides engineering and design services for gas distribution to deliver new customers connections and asset investment projects; Analyze data to ensure gas supplies are sufficient to support growth and maintain system reliability.	Regulated Gas entities
Electric Systems Engineering	Provides planning, engineering and design services for electric transmission and distribution; Work with NERC, FERC and other working committees.	T&D companies
Investment Planning	Develop capital plans for both electric and gas entities and monitor their long-term investment strategies and work plans; Manage sanctioning process.	Regulated entities
FERC	Develop strategy impact analyses on assets under FERC jurisdiction.	Entities under FERC jurisdiction
Standards, Codes and Policies	Develop and communicate work and materials standards for gas and electric transmission and distribution engineering and operations; Provide training of new materials; Write procedures for gas and T&D organizations; Manage third party pole attachments.	Gas and electric entities
Regulatory Support and Reporting	Provide Regulatory Rate Case support e.g. technical support, expert witness support and input to discovery questions; Gather information and compile reports for required	Regulated entities

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	regulatory reporting.	
Safety, Health and Environment		
Safety	Manage overall and specific safety programs; ensure field identification of hazards and safety performance; Develop and manage safety communications.	All companies
Health	Manage the wellness program and related health services; Support the delivery of health services relating to absences due to both occupational (workers comp) and non-occupational illnesses; Provide medical screening services; Administer the drug and alcohol program.	All companies
Environment	Ensure environmental compliance with all federal, state and local regulations including developing policies and procedures, training, and reporting; Manage licensing and permitting processes; Responsible for all site investigation and remediation activities.	All companies
Legal		
Real Estate	Provide legal advice and counsel in connection with real property matters affecting National Grid's businesses.	All entities
Corporate Counsel	Provide advice and support related to financing activity such as debt issuances, mergers and acquisitions, and commercial activities such as contracting and procurement.	All entities
Litigation, Environment and Employment	Provide legal advice and counsel regarding litigation, environment, labor and employment issues, including issues related to National Grid's MSA with LIPA.	All entities
Federal and State Regulatory	Provide legal strategic guidance and support on all regulatory issues related to jurisdictional operations on matters before state utility commissions and related regulators, FERC and other federal agencies.	Regulated entities
Ethics and Business Conduct	Provide advice and counsel related to business ethics and compliance.	All entities

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Records Management	Provides records management services to meet business needs and ensure regulatory compliance.	All entities
Strategy and Business Development		
Mergers and Acquisitions	Coordinate purchases and divestitures (Direct charged to the US Holding Companies).	All entities
Business Development	Devise and implement business development efforts (Direct charged to the US Holding Companies).	All entities
Strategy	Coordinate development of US strategic plan.	All entities
Global Technology	Set the technology strategy and develop technology partnerships.	All entities
Corporate Affairs		
Communications and Brand	Formulate and assist with communication programs and administer corporate philanthropic programs.	All entities
Federal Affairs	Manage relationships with the Federal government, agencies and legislative bodies.	Regulated entities
Government Relations	Manage relationships with State and local governments, agencies and legislative bodies.	Regulated entities
Media Relations	Manage the relationship with the media including crisis and risk communications.	All entities
Customer		
Energy Solutions Delivery	Responsible for the increase in gas margin and energy efficiency products and solutions sales.	All utilities
Energy Products	Provide product knowledge and technical expertise for all growth programs; Manage the planning and evaluation of electric and gas energy efficiency, demand reduction, and climate change policy initiatives; Design new and manage existing portfolio of customer-focused programs for business and residential markets.	All utilities, LIPA
Market Strategy and	Develop and implement market research and	Regulated entities

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Implementation	intelligence, market strategy, trade marketing, web marketing initiatives and overall communications.	
Customer and Business Strategy	Design emergency programs for each jurisdiction; Serve as energy efficiency regulatory leader, collecting expenses related to energy efficiency; Manage solar and electric vehicles programs; Conceptualize corporate image; Manage relationships with and supports through economic development activities the local communities in which NG operates.	All entities
Energy Procurement	Plan for and acquire energy (gas and electric) and related commodities; Manage jurisdictional and seasonal contracts as well as FERC compliance activities including training; Handle RFPs in MA and RI to contract with renewable energy suppliers (Solar, Wind, etc.); Manage long term gas planning processes including planning for peak loads, handling long-haul gas pipeline and market area storage.	Regulated Utilities, LIPA
Lead Intake	Contact center for prospective gas conversion customers.	Regulated gas utilities
Customer Analytics and risk management	Provides market analytics, electricity and gas forecasting; Customer Choice studies and administration of CC program, commercial and wholesale electric market policy services; Perform research trends on energy usage.	Regulated and unregulated companies
Global Information Services		
Solution Delivery	Provides centralized IS project management, application development and application support services.	All entities
Service Delivery	Manages all IT infrastructure including data centers and voice and data networks.	All entities
Relationship Management	Manages the relationships between IS and its internal customers.	All entities
IS Security	Provides IS security services.	All entities
Global Procurement		

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Procurement Strategy	Provide strategic direction and oversight for the procurement function.	All entities
Sourcing	Responsible for procuring and contracting for goods and services.	All entities

The following table describes the cost allocation methods used for each of the services listed above.

Cost Allocation Methodology for Services Provided

Function / Department	***Cost Allocation Methodologies***
FINANCE	
Jurisdictional Finance Business Partners	• Direct Charge • Total T&D Expenditures • General Allocator
Decision Support/Finance Business Partners	• Direct Charge • Total T&D Expenditures • General Allocator
Accounting Services	• Direct Charge • # of GL Transactions (future implementation) • Capital Expenditures • Dollar Value of Property Owned • General Allocator
Regulatory Accounting	• Direct Charge • General Allocator
IS Finance	• Direct Charge • General Allocator
US Treasury	• Direct Charge • Average Level of Debt Outstanding
US Tax	• Direct Charge • # of Employees • Dollar Value of Property Owned • General Allocator
US Insurance	• Direct Charge

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	• # of Claims Processed • Dollar Value of Property Owned • General Allocator
Corporate Planning and Reporting	• Direct Charge • General Allocator
Global Corporate Audit	
Internal Audit	• Direct Charge • Other Allocation Bases Depending on Nature of Audit • General Allocator
SHE Audit	• Direct Charge • # of Employees • Dollar value of Property Owned • Total T&D Expenditures
Human Resources	
Labor Relations and Employee Relations	• Direct Charge • # of Employees
HR Business Partners	• Direct Charge • # of Employees
Recruiting, Inclusion, and Diversity	• Direct Charge • # of Employees
HR Operations	• Direct Charge • # of Employees
Compensation, Benefits and Pension	• Direct Charge • # of Employees
Technical Training	• Direct Charge • # of Employees
US Regulation and Pricing	

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Regulatory Strategy	• Direct Charge • General Allocator
Pricing and Federal Affairs	• Direct Charge • General Allocator
Shared Services	
Employee Services (TDC)	• Direct Charge • # of Employees
Procure to Pay (TDC)	• Direct Charge • # of Customers/Meters • # of Invoice Lines Processed (future implementation) • # of PO Lines (future implementation)
Response Team (TDC)	• Direct Charge • # of Customers/Meters
Billing Operations (TDC)	• Direct Charge • # of Customers/Meters • # of Bills • # of Joint Use Poles
Credit and Collections (TDC)	• Direct Charge • Call Minutes • # of Customers/Meters • # of Inbound and Outbound Collection Calls
Customer Care	• Direct Charge • Number of Inbound Call Minutes • # of Customers/Meters
Business Process Excellence	• Direct Charge • Follows TDC direct and cost causative charges
Property Strategy	• Direct Charge • Dollar Value of Property Owned
Facilities Management	• Direct Charge • [Periodic Square Footage Study]

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Operations	
Resource Planning	• Direct Charge • Dollar Value of Property Owned (Utilities) • Total T&D Expenditures • General Allocator
Emergency Planning PMO	• Direct Charge • Miles of Overhead Lines
Maintenance and Construction	• Direct Charge • Total T&D Expenditures • Capital Expenditures
Operations Performance	• Direct Charge • Total T&D Expenditures • Dollar Value of Property Owned
Control Center Operations	• Direct Charge • # of Customers/Meters
Power Plant Operations	• Direct Charge
LNG Operations	• Direct Charge
Operations Support	• Direct Charge • Total T&D Expenditures • # of Customers/Meters
Network Strategy	
Asset Management	• Direct Charge • Dollar Value of Property Owned • Miles of Overhead Lines
Gas Systems Engineering	• Direct Charge • Capital Expenditures •
Electric Systems Engineering	• Direct Charge • Capital Expenditures •

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Investment Planning	• Direct Charge • Dollar Value of Property Owned
FERC	• Direct Charge • Total T&D Expenditures
Standards, Codes, and Policies	• Direct Charge • Total T&D Expenditures • Capital Expenditures • Dollar value of Property Owned (Utilities) • # of Joint Use Poles
Regulatory Support and Reporting	• Direct Charge • General Allocator
Safety, Health and Environment	
Safety	• Direct Charge • # of Employees • Total T&D Expenditures
Health	• Direct Charge • # of Employees
Environment	• Direct Charge • Dollar value of Property Owned • Total T&D Expenditures
Legal	
Real Estate	• Direct Charge • General Allocator
Corporate Counsel	• Direct Charge • General Allocator
Litigation, Environment and Employment	• Direct Charge • # of Employees • General Allocator
Federal and State Regulatory	• Direct Charge • General Allocator
Ethics and Business Conduct	• Direct Charge

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	• General Allocator
Records Management	• Direct Charge • General Allocator
Mergers & Acquisitions	• M&A related work not allocated to operating companies
Strategy and Business Development	
Mergers and Acquisitions	• M&A related work not allocated to operating companies
Business Development	• Direct Charge (generally to Corporate) • General Allocator
Strategy	• Direct Charge • General Allocator
Global Technology	• Direct Charge • General Allocator
Corporate Affairs	
Communications and Brand	• Direct Charge • # of Customers/Meters • General Allocator
Federal Affairs	• Direct Charge • General Allocator
Government Relations	• Direct Charge • General Allocator
Media Relations	• Direct Charge • General Allocator
Customer	
Energy Solutions Delivery	• Direct Charge • # of Customers/Meters
Energy Products	• Direct Charge • # of Customers/Meters •
Market Strategy and Implementation	• Direct Charge • # of Customers/Meters

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Customer and Business Strategy	• Direct Charge • # of Customers/Meters
Energy Procurement	• Direct Charge • # of Customers/Meters •
Lead Intake	• Direct Charge • # of Customers/Meters
Customer Analytics and Risk Management	• Direct Charge • # of Customers/Meters •
Global Information Services	
Solution Delivery	• Direct Charge • Mainframe Profile (future implementation) • Server Profile (future implementation) • # of Employees
Service Delivery	• Direct Charge • Mainframe Profile (future implementation) • Server Profile (future implementation) • # of Employees
Relationship Management	• Direct Charge • Mainframe Profile (future implementation) • Server Profile (future implementation)
IS Security	• Direct Charge • Mainframe Profile (future implementation) • Server Profile (future implementation) • # of Employees • General Allocator
Global Procurement	
Procurement Strategy	• Direct Charge • # of PO Lines (future implementation)

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Sourcing	• Direct Charge • # of PO Lines (future implementation)

3. Approved Cost Allocation Bases – SAP Internal Order Code (Allocation Basis Field), Description and Source

SAP Allocation Code	Description	Definition / Source
G-xxx through G-nnn	Net margin, net plant, & Net O&M expenses (GENERAL ALLOCATOR)	"Net Margins" are Total Operating Revenues less "Cost of Goods Sold" and revenues related to recovery of stranded costs. "Net Plant" is the sum of Net Utility Plant and Net Non-Utility Plant . "Net O&M Expenses" are all non "Cost of Goods Sold" expenses less costs allocated from the Service Company distributed to the Affiliate companies using the general allocator. A Special Report will be created to identify the amount to be excluded for Service Company Charges based on the General Allocator.
D-xxx through D-nnn	# of Outbound and Inbound Collection Calls	Number of inbound and outbound collection telephone calls by utility as a percent of the total based on call center telephone statistics. The source for this allocation basis is the TDC (Planning and Analysis Group).
H-xxx through H-nnn	# of Bills	Number of bills issued to customers by utility as a percent of the total bills in a given year. The source for this allocation basis is the TDC (Billing operations Group).
Deferred Implementation	# of P.O. Lines	Number of purchase order lines for stock and non-stock materials and supplies and services by Company as a percent of the total. The source for this allocation basis is the TDC (Procure to pay/Payment Processing Group).

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Deferred Implementation	# of Invoice Lines Processed	Number of individual invoice lines processed by company as a percent of the total. Invoices may contain items purchased; each line represents the purchase of a specific good or service on behalf of a specific company. The source for this allocation basis is the TDC (Procure to Pay/Payment Processing Group).
F-xxx through F-nnn	# of Inbound Call Minutes	Number of minutes call center representatives are on the telephone with specific operating companies' customers based on contact center reporting systems as a percent of the total. The source for this allocation basis is the TDC (Planning and Analysis Group).
C-xxx through C-nnn	# of Customers	Number of retail and wholesale customers (via count of service meters) receiving utility services by company as a percent of the CYE total. The source for this allocation basis is the TDC (Billing operations Group).
X-xxx through X-nnn	Capital Expenditures	Capital expenditures by company as a percent of the total. The source for this allocation basis is the CAPEX based on "Cash Outflows for Plant" from the FERC Form 1 Statement of Cash Flows If this information is not available, use the Budgeted CAPEX from Financial Forecasts.
Deferred Implementation	Dollar Value of Service Company Costs Direct Charged and Allocated	Based on the aggregate amount of Service Company costs direct charged or allocated prior to the allocation of costs accumulated in this billing pool. A special report will be developed to retrieve this data from SAP. The source for this allocation basis is the US Finance (Service Company and Regulatory Accounting group).
N-xxx through N-nnn	# of Employees	Total number of employees by company excluding the service company as a percent of the total. Count part time employees the same as full time employees. The source for this allocation basis is the TDC (Employee Services Group).
Deferred Implementation	Mainframe Profile	Based on Company / Function use of mainframe services. The source for this allocation basis is the US Finance (IS Finance Group). [IT allocation bases subject to change as part of IT Transformation initiative]

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Deferred Implementation	Server Profile	Based on Company / Function use of server services. The source for this allocation basis is the US Finance (IS Finance Group). [IT allocation bases subject to change as part of IT Transformation initiative]
Q-xxx through Q-nnn	# of Claims Processed	Number of claims processed by company based on claims department claims tracking system as a percent of the total. The source for this allocator basis is the US Finance (Claims group).
E-xxx, E-nnn	# of Joint Use Poles	# of electric poles with 3rd party attachments (joint use poles) by Company as a percent of total joint use poles. The source for this allocation basis is the Network Strategy (Standards Codes and Procedures group).
K-xxx through K-nnn	Level of Debt Outstanding	Average level of long-term debt and short-term borrowing levels for prior CY by Company as a percent of the average level of long-term debt for all companies and short-term borrowing levels for all companies. • The source for the components of this allocation basis is the US Finance (Treasury group).
I-xxx through I-nnn	Dollar Value of Property Owned	A ratio based on gross fixed assets, valued at original acquisition costs, and investments owned in other companies, including construction work in progress, at the end of the calendar year, the numerator of which is for a specific client company and the denominator being all recipient client companies. The source for the calculation of this ratio will be based on FERC Form 1 reports and State regulatory Gas Company reports.
Deferred Implementation	# of General Ledger Transactions	The number of general ledger transactions by Company as a percent of total GL transactions for all companies. The source of this allocation basis will be SAP (still to be developed).
T-xxx through T-nnn	Total T&D Expenditures	Sum of T&D capital expenditures and O&M expenditures by Utility as a percent of total Utility T&D capital and O&M expenditures. The source of this allocation basis is the CAPEX based on “Cash Outflows for Plant” from FERC Form 1 Statement of Cash Flows and T&D O&M costs in the FERC reports.

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L-xxx through L-nnn	Miles of Overhead Lines	Number of miles of overhead transmission and distribution lines by utility as a percent of the total. The source for this allocation basis is the Network Strategy (Standards Policies and Codes)
J-xxx through J-nnn	Square Feet	Number of occupied square feet per facility for each department or company using the facility. Periodically done on a facility by facility basis. The source of the most recent data is provided by the Decision Support business partner serving the Facilities organization.

4. Definitions

a. Act – Any State or Federal law or regulation providing guidance and requirements related to cost allocations or the pricing of services provided among affiliates.

National Grid is required to comply with the Federal Energy Regulatory Commission's (FERC) Regulations Under the Public Utility Holding Company Act of 2005 (PUHCA 2005) and cross-subsidization restrictions on affiliate transactions. Specifically, these include compliance with: (1) cross-subsidization restrictions on affiliate transactions under 18 C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under C.F.R. Part 366; (3) Uniform System of Accounts (USofA) for centralized service companies under 18 C.F.R. Part 367; and preservation of records requirements for holding companies and service companies under C.F.R. part 368.

In the State of New York, the following sources provide substantive guidance and requirements on cost allocations.

- Public Service Law, §110(3)
- Case 06-M-0878, Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations, Merger & Gas Revenue Requirement Joint Proposal (dated July 6, 2007)
- Cases 12-E-0201 and 12-G-0202, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service and Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Gas Service, Rate Plan Provisions (Appendix 7 to Joint Proposal adopted by the New York Public Service Commission in its Order dated March 15, 2013)

b. Affiliates – Companies that are related to each other due to common ownership or control. For example, affiliates include National Grid USA Service Company, Niagara Mohawk Power Corporation, Massachusetts Electric, Boston Gas Company, Narragansett Electric Company, Narragansett Gas Company, KeySpan Energy

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Delivery of New York (KEDNY) and KeySpan Energy Delivery of Long Island (KEDLI). Public Utility Holding Company Act (PUHCA) 2005 defines the term “affiliate” of a company as any company, 5 percent or more of the outstanding voting securities of which are owned, controlled, or held with power to vote, directly or indirectly, by such company.

c. **Associate Company** – According to PUHCA 2005, the term “associate company” refers to any company in the same holding company system with such company.

d. **Attributable Cost** – Costs which are incurred for activities and services which benefit the client companies. Some costs are directly attributable to the client companies; other costs such as corporate governance costs are indirectly attributable to the client companies.

e. **Client Companies** – Affiliates which receive services provided by the Service Companies.

f. **Cost Causative Allocation Factor** – Methodology used to allocate directly attributable costs based upon measurable cost causing relationships; for example, payroll department costs are allocated on the number of employees for each entity to which the Service Company provides this service.

g. **Commission** – The State utility regulatory commissions in the states in which National Grid operates. These include the New York Public Service Commission, the Massachusetts Department of Public Utilities and the Rhode Island Public Utilities Commission. National Grid also provides services which are regulated by the Federal Energy Regulatory Commission.

h. **Cost Allocation Manual (CAM)** - An indexed compilation and documentation of the Company's cost allocation policies and related procedures.

i. **Cost Allocations** - The methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

j. **Common Costs** - Costs associated with services or products that jointly benefit all regulated and non-regulated business units.

k. **Cost Driver** - A measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves; for example, number of invoices processed is a cost driver for the Accounts Payable department. To the extent possible, the allocation basis should reflect the underlying cost driver if the cost cannot be direct charged.

l. **Cross-subsidization** – The offering of a competitive product or service by an electric or gas public utility, or an affiliate, which relies in whole or in part on the use of utility employees, equipment or other assets, and for which full compensation (via cost allocation or direct payment), has not been provided resulting in the inappropriate transfer of benefits from the utility ratepayers to the competitive affiliate. See 18 C.F.R. Part 35 (2008) for FERC rules regarding cross-subsidization restrictions on affiliate transactions.

m. **Direct Costs** - Costs which can be specifically identified with a particular service or product and the Client Company(s) to which that product or service is provided. These costs are charged directly to the Client Company(s).

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n. **Fully Allocated Costs** – The sum of the direct, indirect and other economic costs of all equipment, vehicles, labor, related fringe benefits and overheads, real estate, furniture, fixtures and other administrative resources utilized, and other assets utilized and costs incurred, directly or indirectly in the providing of services from the service company to an affiliate.

o. **Functions** – Refers to the National Grid internal organizational structures under which National Grid USA conducts business.

p. **General Allocator** – Methodology used to indirectly allocate attributable costs to entities. For National Grid USA, the general allocator is the ratio of net plant , net margins and net O&M expenses, equally weighted.

q. **Holding Company** – PUHCA 2005 defines "holding company" as "any company that directly or indirectly owns, controls, or holds, with power to vote, 10 percent or more of the outstanding voting securities of a public-utility company or of a holding company of any public-utility company" and any person who exercises "a controlling influence over the management or policies of any public-utility company or holding company as to make it necessary or appropriate for the rate protection of utility customers with respect to rates…"

r. **Indirect Costs** - Costs that cannot be directly identified with the provision of a particular product or service. This includes but is not limited to governance costs, insurance, and taxes as well the cost of services supporting the Service Company such as Service Company accounting and recruiting for Service Company positions.

s. **Jurisdictions** – Refers to the geographic areas in which National Grid USA operates. Jurisdictions are comprised of one or more utility companies.

t. **Non-Regulated** – Those entities, products and services which are not subject to regulation by regulatory authorities.

u. **Operating Companies** – Companies to whom the Service Companies provide products and services. Operating Companies include, but are not limited to, Niagara Mohawk Power Corporation, Massachusetts Electric, and KeySpan Energy Delivery of Long Island (KEDLI). Also referred to as Client Companies.

v. **PUHCA 2005** – 18 C.F.R. Title 18: Conservation of Power and Water Resources, PART 366 – PUBLIC UTILITY HOLDING COMPANY ACT OF 2005

w. **Regulated** - That which is subject to regulation by regulatory authorities such as the New York Public Service Commission.

x. **Service** – Any managerial, financial, legal, engineering, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, or any other service (including supervision or negotiation of construction or of sales), information or data, which is sold or furnished for a charge. (PUHCA 2005)

y. **Service Agreement** – Legal agreements between the Service Companies and the Client Companies which describe the services offered, services selected, compensation and billing, terms, and cost accumulation, assignment and allocation methodologies. Also referred to as Service Contracts. The documents are filed with the utility regulatory commissions and serve as the basis for the FERC Form 60 disclosures.

z. **Service Company** – An affiliate which provides support services to its utility and other affiliates. This includes both the National Grid USA Service Company and the National Grid USA Engineering Services Company.

Name of Respondent	This Report is:	Resubmission Date (Mo, Da, Yr)	Year of Report
National Grid USA Service Company Inc.	(1) X An Original (2) __ A Resubmission	/ /	2012

Schedule XXI - Methods of Allocation

aa. Service Level Agreements (SLAs) – Non-binding agreements between the functional service providers and jurisdictional presidents that define the services provided and the financial and non-financial attributes of those services.

ab. Support Services – Administrative and support services that do not involve merchant functions; for example: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management. Support Services typically refers to those services offered by the Service Company.

ac. Utility Companies – Legal entities providing regulated wholesale and retail utility services.

5. Manual Allocations

There will be instances in which employees will choose to assign costs in a manner that is different from the allocation bases described above in order to ensure that costs are properly allocated among companies. To accomplish this requires a Manual Allocation. When employees choose to use a non-standard cost driver to allocate costs, the basis for that decision and the method used to allocate costs among companies should be thoroughly documented, approved by department supervision and sent to the Service Company Integrity Department in a timely manner for review.

6. SAP Service Company Orders and Work Breakdown Structure

National Grid USA uses Service Company Order and Work Breakdown Structure (WBS) elements within SAP as the mechanisms by which the appropriate allocation bases are applied to resources consumed. Individual Orders/WBS have been established for each cost center based on the work performed, the nature of resources consumed (e.g., labor, materials, outside services) in performing that work, and the operating companies benefitting from the work performed. Embedded in the WBS is the allocation code associated with the “operating companies benefitting from the work performed”.