COLONIAL CONSOLIDATED GAS COMPANY
FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 1, 2007
THROUGH MARCH 31, 2008
AND INDEPENDENT AUDITORS' REPORT

COLONIAL CONSOLIDATED GAS COMPANY

INDEX

	Page No.
Consolidated Statement of Income For the Period August 25, 2007 – March 31, 2008 For the Period January 1, 2007 – August 24, 2007 Twelve Months Ended December 31, 2006	2
Consolidated Balance Sheet as of March 31, 2008 and December 31, 2006	3 - 4
Consolidated Statement of Cash Flows For the Period August 25, 2007 – March 31, 2008 For the Period January 1, 2007 – August 24, 2007 Twelve Months Ended December 31, 2006	5
Consolidated Statement of Retained Earnings For the Period August 25, 2007 – March 31, 2008 For the Period January 1, 2007 – August 24, 2007 Twelve Months Ended December 31, 2006	6
Consolidated Statement of Capitalization as of March 31, 2008 and December 31, 2006	6
Notes to Financial Statements	7 – 28
Report of Independent Auditors	29

COLONIAL CONSOLIDATED GAS COMPANY
CONSOLIDATED STATEMENT OF INCOME

(In Thousands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Operating Revenues	$ 271,173	$ 238,178	$ 303,739
Operating Expenses:			
Purchased gas for resale	194,827	176,286	217,524
Operations and maintenance	24,275	27,018	38,651
Depreciation and amortization	12,260	12,828	19,024
Other	2,186	2,358	2,987
Total Operating Expenses	233,548	218,490	278,186
Gain (Loss) on sale of assets	-	(10)	-
Operating Income	37,625	19,678	25,553
Interest Charges	5,725	8,968	10,281
Other Income and Deductions	1,387	1,751	4,194
Earnings Before Income Taxes	33,287	12,461	19,466
Income Taxes:			
Current income tax expense (benefit)	9,743	13,465	(3,698)
Deferred income tax expense (benefit)	3,476	(8,520)	11,139
Total Income Tax Expense	13,219	4,945	7,441
Net Income	$ 20,068	$ 7,516	$ 12,025

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

COLONIAL CONSOLIDATED GAS COMPANY
CONSOLIDATED BALANCE SHEET

(In Thousands of Dollars)	Successor March 31, 2008	Predecessor December 31, 2006
ASSETS		
Current Assets:		
Accounts receivable	$ 38,317	$ 30,067
Allowance for uncollectible accounts	(4,070)	(1,513)
Unbilled revenue	28,471	28,855
Gas in storage and materials and supplies, at average cost	12,335	13,758
Derivative contracts	7,577	15,346
Regulatory assets	2,560	-
Prepayments	13,109	25,313
Other Assets	-	864
	98,299	112,690
Property, Plant and Equipment:		
Gas plant, at cost	550,453	525,423
Accumulated depreciation	(163,443)	(147,642)
	387,010	377,781
Other Assets:		
Goodwill	200,836	377,652
Regulatory assets, miscellaneous	29,579	20,946
Regulatory assets, derivative contracts	3,728	-
Deferred derivative contracts	39,354	4,344
Deferred charges and other assets	2,687	2,928
	276,184	405,870
Total Assets	$ 761,493	$ 896,341

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

COLONIAL CONSOLIDATED GAS COMPANY
CONSOLIDATED BALANCE SHEET

(In Thousands of Dollars)	Successor March 31, 2008	Predecessor December 31, 2006
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Current portion of long-term obligations	$ 10,000	$ -
Accounts payable	2,748	7,598
Interest accrued	6,164	3,833
Regulatory liabilities	11,848	-
Other current liability, derivative contracts	327	16,249
Other	2,048	1,233
Accounts payable and money pool - affiliates, net	64,914	64,629
	98,049	93,542
Deferred Credits and Other Liabilities		
Regulatory Liabilities:		
Regulatory liabilities derivative contracts	39,354	1,368
Regulatory liabilities, other	1,874	1,850
Removal costs recovered	62,700	56,600
Environmental liability	7,820	3,402
Deferred income tax	58,983	74,888
Investment tax credits	1,267	1,385
Asset retirement obligations	1,696	1,618
Postretirement benefits obligation	21,939	24,431
Deferred derivative contracts	3,728	-
Other	31	207
	199,392	165,749
Capitalization		
Common stock, 100 shares issued stated at, $100 par value-authorized and outstanding	10	10
Additional paid in capital	304,974	419,419
Retained earnings	20,068	58,621
Total common shareholders' equity	325,052	478,050
Long-term debt	75,000	95,000
Total Capitalization	400,052	573,050
Advance from KeySpan Corporation	64,000	64,000
Total Capitalization and Advance from KeySpan	464,052	637,050
Total Liabilities and Capitalization	$ 761,493	$ 896,341

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

COLONIAL CONSOLIDATED GAS COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Operating Activities			
Net Income	$ 20,068	$ 7,516	$ 12,025
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	12,260	12,828	19,024
Deferred income tax	3,476	(8,520)	11,139
Changes in assets and liabilities			
Accounts receivable, net	(51,538)	44,947	29,330
Materials and supplies and gas in storage	10,204	3,516	(7,184)
Accounts payable and accrued expenses	831	54	(1,668)
Other	(359)	8,860	6,310
Net Cash Provided by (Used in) Operating Activities	(5,058)	69,201	68,976
Investing Activities			
Capital expenditures	(13,247)	(14,055)	(20,095)
Cost of removal	(1,229)	(826)	(1,603)
Net Cash Used in Investing Activities	(14,476)	(14,881)	(21,698)
Financing Activities			
Payment of Long term debt	(10,000)	-	-
Affiliated, money pool borrowing and other	29,534	(54,320)	(47,278)
Net Cash Provided by (Used in) Financing Activities	19,534	(54,320)	(47,278)
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	-
Cash and Cash Equivalents at Beginning of period	-	-	-
Cash and Cash Equivalents at End of period	$ -	$ -	$ -
Interest Paid	$ 5,934	$ 7,861	$ 11,744
Income Tax Paid	$ 7,790	$ -	$ 1,726

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

COLONIAL CONSOLIDATED GAS COMPANY
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(In Thousands of Dollars)	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1, 2007 - August 24, 2007	Predecessor For the Twelve Months Ended December 31, 2006
Balance at beginning of period	$ 66,137	$ 58,621	$ 46,596
Net income	20,068	7,516	12,025
Purchase price adjustment	(66,137)	-	-
Balance at end of period	$ 20,068	$ 66,137	$ 58,621

COLONIAL CONSOLIDATED GAS COMPANY
STATEMENT OF CAPITALIZATION

(In Thousands of Dollars)	Successor March 31, 2008	Predecessor December 31, 2006
Common Shareholders' Equity		
Common Stock, $100 per share		
100 shares issued stated at	10	10
Additional paid in capital	304,974	419,419
Retained earnings	20,068	58,621
Total Common Stockholder's Equity	325,052	478,050
Long-Term Debt		
First Mortgage Bonds:		
8.80%, Series CH, due 2022	25,000	25,000
6.08% - 7.38%, Medium Term Notes, Series A, due 2025 - 2026	30,000	50,000
6.34% - 7.12%, Medium Term Notes, Series B, due 2028	20,000	20,000
Total Long-Term Debt	75,000	95,000
Advance from KeySpan Corporation	64,000	64,000
Total Capitalization and Advance from KeySpan	$ 464,052	$ 637,050

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

COLONIAL CONSOLIDATED GAS COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Organization of the Company

Colonial Gas Company D/B/A KeySpan Energy Delivery New England ("KEDNE") (referred to herein as "Colonial", "the Company", "we", "us" and "our") is a gas distribution company engaged in the transportation and sale of natural gas to residential, commercial and industrial customers. Our service territory includes municipalities located northwest of Boston ("Merrimack Valley Area") and on Cape Cod. The company is a wholly-owned subsidiary of KeySpan New England, LLC ("KNE LLC") and an indirect-owned subsidiary of KeySpan Corporation ("KeySpan").

On August 24, 2007, KeySpan completed its merger (the "Merger") with National Grid plc, a public limited company incorporated under the laws of England and Wales as contemplated by the Agreement and Plan of Merger dated February 25, 2006 (the "Merger Agreement"). The aggregate consideration paid by National Grid plc was approximately $7.6 billion. Pursuant to the Merger Agreement, each outstanding share of common stock of KeySpan was converted into the right to receive $42.00 per share in cash, without interest. As a result of the Merger, KeySpan ceased to be publicly traded and accordingly is no longer listed on the New York Stock Exchange ("NYSE"). Additionally, KeySpan and Colonial have changed their fiscal years from a fiscal year ending December to a fiscal year ending March.

B. Basis of Presentation

Due to the acquisition of KeySpan by National Grid plc and the change in KeySpan's fiscal year, Colonial's Consolidated Statement of Income and its Consolidated Statement of Cash Flows are presented for the following periods: (i) the successor period August 25, 2007 – March 31, 2008; (ii) the predecessor period January 1, 2007 – August 24, 2007; and (iii) the predecessor period twelve months ended December 31, 2006. The Consolidated Balance Sheet is presented at March 31, 2008 as the successor company and December 31, 2006 as the predecessor company.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("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 period. Actual results could differ from those estimates.

Upon acquisition, KeySpan aligned certain of its accounting policies with National Grid plc's policies. Specifically and most importantly, KeySpan adjusted certain assumptions underlying the calculations for its pension and other postretirement reserves to align those assumptions with National Grid plc's pension and postretirement reserve assumptions where appropriate. Additionally, KeySpan adjusted certain assumptions underlying the calculations for its environmental reserve to align those assumptions with National Grid plc's environmental reserve assumptions where appropriate.

The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Massachusetts Department of Public Utilities ("MADPU"). The accounting policies of the Company conform to GAAP and reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). This statement recognizes the ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, we record these future economic benefits and obligations as regulatory assets and regulatory liabilities on the Balance Sheet, respectively.

C. Regulation and Rate Matters

The Company is regulated as to rates, accounting and other matters by the MADPU. Therefore, we account for the economic effects of regulation in accordance with the provisions of SFAS 71. In the event that the Company no longer meets the criteria for following SFAS 71, the accounting impact would be an extraordinary, non-cash charge to operations. Criteria that gives rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts our ability to establish prices to recover specific costs or (2) a significant change in the manner in which rates are set by regulators. We have reviewed these criteria and believe that the continued application of SFAS 71 is appropriate.

Regulatory assets have been established that represent probable future revenue to the Company associated with certain costs that will be recovered from customers through the rate-making process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process.

The following regulatory assets and regulatory liabilities were reflected on the balance sheet as of March 31, 2008 and December 31, 2006:

	March 31, 2008		December 30, 2006
In Thousands of Dollars	Current	Non-Current	Non-Current
Post-retirement benefit costs	$ 2,078	$ 22,271	$ 19,432
Environmental costs	155	5,622	1,499
Derivative contracts	327	3,728	-
Other	-	1,686	15
Total Regulatory Assets	$ 2,560	$ 33,307	$ 20,946
Regulatory liabilities - miscellaneous	$ (4,271)	$ (1,874)	$ (1,850)
Regulatory liabilities - derivative contracts	(7,577)	(39,354)	(1,368)
Total Regulatory Liabilities	$ (11,848)	$ (41,228)	$ (3,218)
Net Regulatory Assets	$ (9,288)	$ (7,921)	$ 17,728
Removal Costs Recovered	0	(62,700)	(56,600)
	$ (9,288)	$ (70,621)	$ (38,872)

As of March 31, 2008, all of our regulatory assets and liabilities for which cash expenditures have been made or cash has been received are reflected in rates charged or credited to customers or are receiving the appropriate carrying charges.

D. Revenues

Utility gas customers are billed monthly on a cycle basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month. Substantially all of the Company's revenues are derived from sales to firm gas customers.

The cost of gas adjustment clause ("CGAC") requires us to semiannually, and based on certain criteria, monthly adjust rates for firm gas sales in order to track changes in the cost of gas distributed, with an annual adjustment of subsequent rates for any over or under recovery of actual costs incurred. As a result, the cost of any firm gas that has been distributed, but is unbilled at the end of a period, is deferred to the period in which the gas is billed to customers. We recover the gas cost portion of bad debt write-offs through the CGAC. In addition, through a local distribution adjustment clause ("LDAC"), we are allowed to recover the amortization of environmental response cost associated with former manufactured gas plant ("MGP") sites, costs related to our various conservation and load management programs, and other specified costs from our firm sales and transportation customers. We record amounts recoverable under the LDAC as revenue when billed to customers.

E. Seasonal Aspect

The gas distribution business is influenced by seasonal weather conditions. Annual revenues are principally realized during the heating season (November through April) as a result of the large proportion of heating sales in these months. In addition, under the Company's seasonal rate structure, the rates charged to customers during the heating season are higher than the rates charged during the rest of the year. Accordingly, results of operations are most

favorable in the first quarter of the calendar, followed by the fourth quarter. Losses are generally incurred in the second and third calendar quarters.

F. Property and Depreciation

Utility gas property is stated at original cost of construction, which includes allocations of overheads and taxes and an allowance for funds used during construction. The rate at which the Company capitalized interest at March 31, 2008 was 2.7%. Capitalized interest for the period January 1, 2007 through March 31, 2008 and for the year ended December 31, 2006 was $0.2 million and $ 0.1 million respectively and is reflected as a reduction to interest expense. At March 31, 2008, the Company had $539.2 million of utility plant and $11.3 million of construction work in progress on the balance sheet.

Depreciation is provided on a straight-line basis at rates designed to amortize the cost of depreciable property, plant and equipment over their estimated remaining useful lives. The composite depreciation rate, expressed as a percentage of the average depreciable property in service, was approximately 3.79% at March 31, 2008. The cost of repair and minor replacement and renewal of property is charged to maintenance expense.

The Company recovers certain asset retirement costs through rates charged to customers as a portion of depreciation expense. When depreciable properties are retired, the original cost plus cost of removal less salvage is charged to accumulated depreciation. For the period January 1, 2007 through March 31, 2008 and for the year ended December 31, 2006, Colonial had removal costs recovered in excess of removal costs incurred totaling $62.7 million and $56.6 million. These amounts are reflected as a regulatory liability.

G. Hedging and Derivative Financial Instruments

From time to time, we employ derivative instruments to hedge a portion of our exposure to commodity price risk, interest rate risk and weather fluctuations. Whenever hedge positions are in effect, we are exposed to credit risk in the event of nonperformance by counter-parties to derivative contracts, as well as nonperformance by the counter-parties of the transactions against which they are hedged. We believe that the credit risk related to the futures, options and swap instruments is no greater than that associated with the primary commodity contracts which they hedge.

Firm Gas Sales Derivatives Instruments:

We utilize derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of our future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers. Since these derivative instruments are being employed to support our gas sales prices to regulated firm gas sales customers, the accounting for these derivative instruments is similar to our deferral accounting treatment of gas costs. Therefore, changes in the market value of these derivatives are recorded as deferred assets or liabilities on our Balance Sheet. Gains or

losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements.

Physically-Settled Commodity Derivative Instruments:

Certain of our contracts for the physical purchase of natural gas were assessed as not being exempt from the requirements of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 149 "Amendment of Statement 133 Derivative Instruments and Hedging Activities", as normal purchases. As such, these contracts are recorded on the Balance Sheet at fair market value. However, since such contracts were executed for the purchases of natural gas that is sold to regulated firm gas sales customers changes in the fair market value of these contracts are recorded as a regulatory asset or liability on the Balance Sheet.

Weather Derivatives Instruments:

The Company's utility tariffs do not contain a weather normalization adjustment. As a result, fluctuations from normal weather may have a significant positive or negative effect on the results of our operations. To mitigate the effect of fluctuations from normal weather on our financial position and cash flows, we may enter into weather related derivative instruments from time to time. Based on the terms of the contracts, we account for these instruments pursuant to the requirements of Emerging Issues Task Force ("EITF") 99-2 "Accounting for Weather Derivatives." In this regard, we account for weather derivatives using the "intrinsic value method" as set forth in such guidance

H. Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities." This Statement amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses of derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This Statement shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement will have no impact on results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin 51 "Consolidated

Financial Statements." The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Currently, Colonial does not have any subsidiaries.

In February 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the Statement. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. Colonial has not elected the fair value method.

In September 2006, the FASB issued SFAS 157 "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value. SFAS 157 expands the disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the period. The guidance in SFAS 157 also applies for derivatives and other financial instruments measured at fair value under Statement 133 at initial recognition and in all subsequent periods. This Statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Colonial has not elected the fair value method.

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. KeySpan adopted the provisions of FIN 48 on January 1, 2007 and there was no impact to Colonial's results of operations, financial position or cash flows.

Note 2. Income Taxes

The Company files a consolidated income tax return with KeySpan. Under the KeySpan tax sharing agreement, the allocation of the realized tax liability or asset on the consolidated income tax return will be based upon the separate return contributions of each company in the consolidated group to the taxable income or loss.

A summary of the provision for income taxes for the periods ended March 31, 2008, August 24, 2007 and December 31, 2006 is as follows:

(In Thousands of Dollars)	For the Period August 25, 2007 - March 31,2008	For the Period January 1, 2007 - August 24, 2007	For the Twelve MonthsEnded December 31, 2006
Current-			
Federal	$ 7,960	$ 10,861	$ (3,850)
State	1,783	2,604	152
Total current (benefit)	9,743	13,465	(3,698)
Deferred-			
Federal	2,819	(6,876)	9,946
State	657	(1,644)	1,193
Total deferred provision	3,476	(8,520)	11,139
Provision for income taxes	$ 13,219	$ 4,945	$ 7,441

The income tax amounts included in the Statement of Income differ from the amounts which result from applying the statutory federal income tax rate to income before income tax.

The following is a reconciliation between reported income tax and tax computed at the statutory rate of 35%:

(In Thousands of Dollars)	For the Period August 25, 2007 - March 31, 2008	For the Period January 1, 2007 - August 24, 2007	For the Twelve Months Ended December 31,2006
Earnings Before Taxes	$ 33,287	$ 12,461	$ 19,466
Computed at the statutory rate	11,650	4,362	6,813
Adjustments related to:			
State income tax, net of federal benefit	1,586	624	874
Tax credits	(119)	-	(203)
Other items - net	102	(41)	(43)
Total income tax	$ 13,219	$ 4,945	$ 7,441
Effective income tax rate (1)	39.7%	39.7%	38.2%

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Investment tax credits are deferred and credited to income over the lives of the property giving rise to such credits.

For income tax purposes, we use accelerated depreciation and shorter depreciation lives, as permitted by the Internal Revenue Code. Deferred federal and state taxes are provided for the tax effects of all temporary differences between financial reporting and taxable income.

Significant components of the net deferred tax liabilities at March 31, 2008 and December 31, 2006 are as follows:

In Thousands of Dollars	March 31, 2008	December 31, 2006
Reserves not currently deductible	$ (42)	$ 7,663
State income taxes	(5,601)	(5,495)
Property related differences	80,692	59,718
Employee benefits and compensation	(3,570)	10,961
Other items, net	(12,496)	2,041
Net deferred tax liability	$ 58,983	$ 74,888

In 2008 the Company performed a comprehensive analysis and reconciliation of its income tax accounts which included a reconciliation of its book accounts to tax returns. The reconciliation resulted in a $0.8 million adjustment to income tax expense related to 2006 and prior periods which is recorded in the period January 1, 2007 to August 24, 2007 and offsetting adjustments to deferred income tax and accrued taxes.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Financial Interpretation (“FIN”) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in

accordance with Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, assuming the taxing authority has full knowledge of all relevant information and that any dispute with a taxing authority is resolved by the court of last resort. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Recognized tax benefits are measured as the largest amount of tax benefit that is more likely than not to be realized upon settlement with the taxing authority, assuming the taxing authority has full knowledge of all relevant information. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.
The Company adopted the provisions of FIN 48 on January 1, 2007. The Company recorded no change to the liability for unrecognized tax benefits or retained earnings as a result of the implementation of FIN 48.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the period:

(In Thousands)		
Unrecognized Tax Benefit - January 1, 2007	$	7,333
Gross increases - tax positions in prior period		-
Gross decreases - tax positions in prior period		-
Gross increases - tax positions in current period		2,001
Gross decreases - tax positions in current period		-
Settlements		-
Lapse of statute of limitations		-
Unrecognized Tax Benefit - March 31, 2008	$	9,334

Included in the balance of unrecognized tax benefits at March 31, 2008 are tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred income tax accounting, other than for interest and penalties, the disallowance of the shorter deductibility period would not affect the effective income tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. Included in the balance of unrecognized tax benefits at March 31, 2008 are $1.2 million of tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits within the interest expense line and other expense line, respectively, in the accompanying consolidated statement of operations for the periods ended August 24, 2007 and March 31, 2008. Accrued interest and penalties are included within the related liability lines in the consolidated balance sheet as of March 31, 2008. The Company has accrued no penalties

related to the unrecognized tax benefits noted above. The Company accrued interest of $0.6 million and $0.7 million during the periods ended August 24, 2007 and March 31, 2008, respectively. In total, the Company has recognized a liability for interest of $2.6 million as of March 31, 2008.

The Company believes that it is not reasonably possible that the tax liability for unrecognized tax benefits will significantly increase or decrease by March 31, 2009.

The Company is subject to taxation in the US and Massachusetts. The Company's federal tax returns for tax years 2000 forward and Massachusetts tax returns for tax years 2001 forward are subject to examination by the federal and state tax authorities.

Note 3. Long-term Debt

Long-term Obligations:

The following table provides information on long-term obligations as of March 31, 2008 and December 31, 2006:

(In Thousands of Dollars)	March 31,2008	December 31, 2006
First Mortgage Bonds:		
8.80%, Series CH, due 2022	$ 25,000	$ 25,000
6.08%—7.38%, Medium-Term Notes, Series A, due 2008—2026	40,000	50,000
6.34%—7.12%, Medium-Term Notes, Series B, due 2028	20,000	20,000
	$ 85,000	$ 95,000
Less: Current Portion of Long Term Debt	10,000	-
	$ 75,000	$ 95,000

The first mortgage bonds are collateralized by utility property. The Company's first mortgage bond indenture includes, among other provisions, limitations on the issuance of long-term debt, leases and the payment of dividends from retained earnings.

Maturity Schedule:

There is $10 million of Medium Term Notes, Series A due to be repaid on November 19, 2008. In addition, $20 million of bonds due in 2028 can be redeemed by the holder in 2008.

Advance from KeySpan Corporation:

The Company currently has a $64 million advance payable due to KeySpan. As part of the acquisition by KeySpan in November 2000, the Company recorded a $250 million advance payable to KeySpan. Since that time, $186 million was repaid to KeySpan. Interest charges equal interest incurred by KeySpan on debt borrowings issued by KeySpan. The interest rate

charged to the Company was 7.625% on $ 50 million of the advance and 7.25% on the remaining $ 14 million of the advance.

Note 4. Derivative Instruments

Weather Derivatives:

Colonial's utility tariffs do not contain weather normalization adjustments. As a result, fluctuations from normal weather may have a significant positive or negative effect on the results of these operations.

In 2007, we entered into heating-degree day put options to mitigate the effect of fluctuations from normal weather on Colonial's financial position and cash flows for the 2007/2008 winter heating season – November 2007 through March 2008. These put options would have paid Colonial its proportionate share of $40,000 per heating degree day when the actual temperature was approximately 5% warmer than normal or below 4,141 heating degree days, based on the most recent 20-year average for normal weather. The maximum amount Colonial would have received on these purchased put options was its proportionate share of $16 million. The net premium cost for these options was $1.9 million and was amortized over the heating season. Since weather was colder than normal during the November 2007 through March 2008 heating season, the weather derivatives had no value at March 31, 2008.

In 2006, we entered into heating-degree day put options to mitigate the effect of fluctuations from normal weather on the Company's financial position and cash flows for the 2006/2007 winter heating season – November 2006 through March 2007. These put options would have paid the Company up to $37,500 per heating degree day when the actual temperature was below 4,159 heating degree days, or approximately 5% warmer than normal, based on the most recent 20-year average for normal weather. The maximum amount Colonial would have received on these purchased put options was its proportionate share of $15 million. The net premium cost for these options was $1.7 million and was amortized over the heating season. Since weather was warmer than normal during the fourth calendar quarter of 2006, the Company recorded a $2.4 million benefit to earnings associated with the weather derivative. However, weather for the first calendar quarter of 2007 was colder than normal. As a result, in the first quarter of 2007 we reversed the $2.4 million accrual recorded in the fourth calendar quarter of 2006. We account for these derivatives pursuant to the requirements of EITF 99-2, "Accounting for Weather Derivatives." In this regard, such instruments are accounted for using the "intrinsic value method" as set forth in such guidance.

Firm Gas Commodity Derivative Instruments:

We utilize derivative financial instruments to reduce cash flow variability associated with the purchase price for a portion of our future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers. Since these

derivative instruments are being employed to support our gas sales prices to regulated firm gas sales customers, the accounting for these derivative instruments is similar to our deferral accounting treatment associated with gas costs. Therefore, changes in the market value of these derivatives are recorded as regulatory assets or liabilities on our Balance Sheet. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements. At March 31, 2008 the fair value of these derivative instruments was an asset of $ 8.4 million.

Physically Settled Commodity Derivative Instruments:

SFAS 133 establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features, or contracts that combine a forward contract and a purchase option contract to qualify for the normal purchases and sales exception. Certain contracts for the physical purchase of natural gas do not qualify for normal purchases under SFAS 133. Since these contracts are for the purchase of natural gas sold to regulated firm gas sales customers, the accounting for these contracts is subject to SFAS 71. At March 31, 2008, the fair value of these derivatives was an asset of $34.5 million.

Credit and Collateral:

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2008, Colonial had no outstanding margin calls for open derivative instruments.

Note 5. Postretirement Benefits

Pension:

Colonial's qualified pension plans have been merged with other KeySpan pension plans into a consolidated Pension Plan (thus forming The KeySpan Retirement Plan). Pension costs are allocated to the Company. At March 31, 2008 the KeySpan defined benefit pension plan has a net underfunded obligation of $288.4 million. Certain current year changes in the funded status of the KeySpan plan are allocated to Colonial through an intercompany payable account.The expense allocated to the Company for the period January 1, 2007 – March 31, 2008 was approximately $3.6 million and is recorded in operations and maintenance expense on the Statement of Income and Comprehensive Income. Funding for pensions is in accordance with requirements of federal law and regulations.

Pension benefits for salaried employees are based on salary and years of service, while pension benefits for union employees are based on negotiated benefits and years of service. Employees hired before 1993 who are participants in the pension benefit plans become eligible for post-retirement health care benefits if they reach retirement age while working for the Company.

Post-retirement Health Care Benefits:

The Company provides post-retirement health care benefits, including medical and life insurance (collectively "health care") benefits for substantially all of its employees. The plan is contributory for retirees, with respect to medical benefits and noncontributory with respect to life insurance benefits. The health care plan has not been merged with other KeySpan plans and therefore, continues to remain a separate plan of the Company.

The net costs for postretirement health care costs charged to expense are as follows:

Health Care *(In Thousands of Dollars)*	**For the Period August 25,2007 - March 31, 2008**	**For the Period January 1, 2007 - August 24, 2007**	**For the Twelve Months Ended December 31, 2006**
Service cost-benefits earned during the period	$ 121	152	$ 316
Interest cost on benefit obligation	565	588	928
Expected return on plan assets	(28)	(30)	(38)
Amortization of prior service cost	-	(92)	(143)
Amortization of net actuarial (gain)/loss	-	119	264
Total health care cost	$ 658	$ 737	$ 1,327

The following table sets forth the change in benefit obligation and plan assets and reconciliation of funded status of our health care plans and amounts recorded on the balance sheet as of March 31, 2008 and December 31, 2006:

Health Care *(In Thousands of Dollars)*	**For the Period August 25, 2007 - March 31, 2008**	**For the Period January 1, 2007 - August 24, 2007**	**For the Twelve Months Ended December 31, 2006**
Change in benefit obligation:			
Benefit obligation at beginning of period	$ (14,698)	$ (17,626)	$ (19,432)
Expected less actual Medicare Part D subsidy received in 2006	-	$ -	(86)
Service cost	(121)	(152)	(315)
Interest cost	(564)	(588)	(929)
Plan participants contributions	-	-	(570)
Actuarial gain	(805)	3,318	2,310
Benefits paid	362	350	1,396
Benefit obligation at end of period	(15,826)	(14,698)	(17,626)
Change in plan assets:			
Fair value of plan assets at beginning of period	600	583	626
Actual return on plan assets	(11)	17	34
Employer contributions	362	350	749
Plan participants contributions	-	-	570
Benefits paid	(362)	(350)	(1,396)
Fair value of plan assets at end of period	589	600	583
Funded status	$ (15,237)	$ (14,098)	$ (17,043)

Amounts recognized in the statement of financial position consist of:			
Current liabilities	$ (626)		$ (751)
Noncurrent liabilities	(14,611)		(16,292)
Total	$ (15,237)		$ (17,043)

Amounts recognized in accumulated other comprehensive income consist of: *			
Net gain / (loss)	$ (843)		$ (5,235)
Prior service cost	-		677
Total	$ (843)		$ (4,558)

Estimated amount of accumulated other comprehensive income to be recognized in next fiscal year through net periodic postretirement cost:			
Net gain / (loss)	$ -		$ (283)
Prior service cost	-		143
Total	$ -		$ (140)

* This amount is reflected as a regulatory asset on the Balance Sheet as permitted under current regulatory agreements.

The accrued health care cost attributed to Colonial Gas Company employees at March 31, 2008 and December 31, 2006 is $13.5 million and $15.8 million and is reflected on the balance sheet in post-retirement benefits obligation. The remaining accrued health care costs at March 31, 2008 and December 31, 2006 of $1.7 million and $ 1.2 million attributed to the

Colonial Gas Company post-retirement health care plan is reflected on KeySpan's balance sheet as it represents costs of previous Company employees who are now KeySpan employees and who continue to participate in this Plan.

To fund health care benefits under its collective bargaining agreements, the Company maintains a Voluntary Employee Beneficiary Association ("VEBA") Trust to which it makes contributions from time to time. Both pension and health care plan assets are invested principally in common stock and fixed income assets.

Following are the weighted-average assumptions used in developing the projected and accumulated benefit obligations:

	Year Ended March 31, 2008	Year Ended December 31, 2006
Assumptions:		
Obligation discount	6.50%	5.75%
Asset return	8.00%	8.50%
Average annual increase in compensation	4.00%	4.00%

The measurement of plan liabilities also assumes a health care cost trend rate of 10.0% grading down to 5.0% over six years, and 5.0% thereafter. A one-percentage-point increase or decrease in the assumed health care trend rate would have the following effects:

(In Thousands of Dollars)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Net periodic healthcare expense	$ 104	$ (85)
Postretirement benefit obligation	$ 2,097	$ (1,747)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(In Thousands of Dollars)	Gross Benefit Payments	Subsidiary Receipts Expected **
2009	$ 767	$ -
2010	$ 869	$ -
2011	$ 952	$ -
2012	$ 1,021	$ -
2013	$ 1,073	$ -
Years 2014 -2018	$ 5,942	$ -

** Rebates are based on calendar year in which prescription drug costs are incurred.
Actual receipt of rebates may occur in the following year.

Pension/Other Post Retirement Benefit Plan Assets:

To fund health care benefits under its collective bargaining agreements, the Company maintains a Voluntary Employee Beneficiary Association ("VEBA") Trust to which it makes contributions from time to time. The weighted average asset allocations at March 31, 2008 and December 31, 2006 by asset category, for other post-retirement benefit plans are as follows:

Asset Category	**March 31, 2008**	**December 31, 2006**
Equity securities	62%	69%
Debt securities	29%	24%
Cash and equivalents	4%	2%
Venture capital	5%	5%
Total	100%	100%

The long-term rate of return on assets (pre-tax) is assumed to be 8.0%, net of expenses, which management believes is an appropriate long-term expected rate of return on assets based on our investment strategy, asset allocation mix and the historical performance of equity and fixed income investments over long periods of time. The actual ten-year compound rate of return, net of expenses, is greater than 8.0%.

KeySpan has developed a multi-year funding strategy for its plans. KeySpan believes that it is reasonable to assume assets can achieve or outperform the assumed long-term rate of return with the target allocation as a result of historical performance of equity investments over long-term periods.

Cash Contributions:

In 2009, the Company is expected to contribute $0.8 million to its other postretirement benefit plans.

Note 6. Commitments and Contingencies

Leases

Substantially all operating leases are the obligation of KeySpan. The Company records, as an inter-company expense, costs incurred for the use of leased equipment such as buildings, office equipment and vehicles. These inter-company expenses are reflected in operations and maintenance expense in the Statement of Income and Comprehensive Income.

Asset Retirement Obligations

Colonial has various asset retirement obligations associated with its gas distribution activities. These obligations have remained substantially unchanged from December 31, 2006, except for normal accretion adjustments and costs incurred.

At March 31, 2008 and December 31, 2006, the following asset retirement obligations were recorded on the Balance Sheet at their estimated present values:

(In Thousands of Dollars)		**March 2008**	**December 2006**
Asset Retirement Obligations			
Asbestos removal	(i)	$ 91	$ 94
Tanks removal and cleaning	(ii)	5	5
Main cutting, purging and capping	(iii)	1,600	1,519
Total Asset Retirement Obligations		$ 1,696	$ 1,618

(i) Asbestos-containing materials exist in roof flashing, floor tiles, pipe insulation and mechanical room insulation within our facilities. The Company has a legal obligation to remove asbestos upon either a major renovation or demolition.

(ii) The Company has numerous storage tanks that contain among other things waste oil, #2 and #6 grade fuel oil, diesel fuel, multi chemicals, lube oil, kerosene, ammonia, and other waste contaminants. All of these tanks are subject to cleaning and removal requirements prior to demolition and retirement if so specified by law or regulation.

(iii) The Company has a legal requirement to cut (disconnect from the gas distribution system), purge (clean of natural gas and PCB contaminants) and cap gas mains within its gas distribution and transmission system when mains are retired in place. Gas mains are generally abandoned in place when retired, unless the main and other equipment needs to be removed due to sewer or water system rerouting or other roadblock work. When such a main and equipment are removed certain PCB test procedures must be employed.

The Company recorded $0.1 million of asset retirement obligation accretion expense for the year ended March 31, 2008 and $0.1 million for the year ended December 31, 2006.

Fixed Charges Under Firm Contracts

We have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges in the aggregate amount of approximately $34.2 million. We are liable for these payments regardless of the level of

service we require from third parties. Such charges are currently recovered from utility customers through the gas adjustment clause.

Legal Proceedings

From time to time we are subject to various legal proceedings arising out of the ordinary course of our business. We do not consider any of such proceedings to be material to our business or likely to result in a material adverse effect on our results of operations, financial condition and cash flows.

Environmental Matters

As part of KeySpan's merger with National Grid plc and the associated purchase accounting fair value measurement of assets and liabilities, KeySpan undertook an extensive review of all current and former properties that are subject to environmental remediation. Also, in order to align the accounting policies of KeySpan with those of National Grid plc, KeySpan adjusted the approach used to measure these environmental liabilities. KeySpan's former policy was to use the "75th Probable" method. The 75th Probable method results in the recognition of 100% of expenditures that are considered more than 75% probable of being incurred, with no recognition of potential expenditures below this probability. Consistent with the methodology employed by National Grid plc, KeySpan used the "Expected Value" method for the recent environmental review. The Expected Value method applies a weighting to potential future expenditures based on the probability of these costs being incurred. A liability is recognized for all potential costs based on this probability. Costs considered to be 100% probable of being incurred are recognized in full, with costs below a 100% probability recognized in proportion to their probability.

As a result of this study Colonial increased the reserve for estimated manufactured gas plant ("MGP") related environmental activities by $4.2 million. As allowed for under SFAS 141 "Business Combinations" fair value measurement of assets, liabilities and intangible assets can be adjusted during the allocation period. Such period can not exceed on year. Accordingly, this estimate is subject to change. Through various rate orders issued by the MADPU costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. As a result, this reserve adjustment is reflected as a component of regulatory assets on the Consolidated Balance Sheet.

Within the Commonwealth of Massachusetts, we are aware of nine former MGP sites and related facilities within the existing or former service territories of Colonial. We share responsibility under applicable environmental laws for the remediation of three of these sites. At this time, it is uncertain as to whether we have or share responsibility for remediating any of the other sites. No notice of responsibility has been issued to us for any of these sites from any governmental environmental authority.

As of March 31, 2008, we estimate the remaining cost of our MGP-related environmental cleanup activities will be $7.8 million, which amount has been accrued by us as a reasonable estimate of probable cost for known sites, however remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. Expenditures incurred to date with respect to these MGP-related activities total $13.9 million.

By rate orders, the MADPU provided for the recovery of site investigation and remediation costs and accordingly, at March 31, 2008, we have reflected a regulatory asset of $5.8 million for the MPG sites.

Note 7. Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair values of financial instruments:

Cash—The carrying amounts approximate fair value.

Long-term Debt—The fair value of long-term debt is estimated based on currently quoted market prices.

The carrying amounts and estimated fair values of the Company's long-term debt at March 31, 2008 are as follows:

(In Thousands of Dollars)	**Carrying Value**	**Fair Value**
6.08% - 7.38% Medium-Term Notes due 2008 - 2026	$ 25,000	$ 32,909
6.34% - 7.12% Medium-Term Note due 2028	40,000	43,520
8.80% Medium-Term Note due 2022	20,000	19,761
	$ 85,000	$ 96,190

Note 8. Related Party Transactions

The Company currently has a $64 million advance payable due to KeySpan. As part of the acquisition by KeySpan in November 2000, the Company recorded a $250 million advance payable to KeySpan. Since that time $186 million was repaid to KeySpan. Interest charges equal interest incurred by KeySpan on debt borrowings issued by KeySpan. Issuance expense is charged to the Company from KeySpan equal to the amortization of actual issuance costs incurred by KeySpan on its debt borrowings. KeySpan amortizes these costs over the life of the related KeySpan borrowings.

Further, we are engaged in various transactions with KeySpan and its affiliates. For the most part, the various subsidiaries of KeySpan do not maintain separate cash balances. Financing

for the Company's working capital and gas inventory needs is obtained through the Company's participation in a money pool. The money pool is funded by commercial paper issuances by KeySpan and operating funds of KeySpan affiliates. The various KeySpan subsidiaries can either borrow from or lend to the money pool. Interest expense is charged to "borrowers", while interest income is earned by "lenders". The money pool is administered by KeySpan Corporate Services LLC ("KCS"), a subsidiary service company of KeySpan.

At March 31, 2008, we had an outstanding money pool receivable of $12.2 million. Interest rates associated with the money pool are generally the same as KeySpan's short-term borrowing rate, plus a proportional share of the administrative costs incurred in obtaining the required funds. All costs related to the gas inventory borrowings are recoverable from customers.

KeySpan also provides the Company with various services, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury/finance), human resources (including pension funding), information technology, legal, and strategic planning. The costs of these services are charged to the Company via inter-company billings and generally settled through the money pool on a monthly basis. At March 31, 2008, the total affiliate payable was $77.1 million, which includes an intercompany tax payable of $33.0 million, as well as interest associated with affiliate borrowings and other items.

Therefore, at March 31, 2008 the Company had a money pool receivable of $12.2 million, and an intercompany payable of $77.1 million, for a total net affiliate payable position of $64.9 million.

Note 9. Acquisition of Keyspan

On August 24, 2007 National Grid plc purchased all the outstanding stock of KeySpan Corporation for $42.00 per share in cash. The transaction has been accounted for using the purchase method of accounting for business combinations in accordance with SFAS 141 "Business Combination." As a result of the acquisition, KeySpan ceased to be publicly traded. The purchase price of $7.6 billion was allocated to KeySpan's net assets based upon their fair value. The historical cost basis of KeySpan's assets and liabilities associated with its gas distribution businesses, including property, plant and equipment and debt with minor exceptions, was determined to represent fair value due to the existence of regulatory-approved rate plans based upon the recovery of historical costs and a fair return thereon

Upon acquisition, KeySpan adjusted certain assumptions underlying the calculations for its environmental reserve to align those assumptions with National Grid plc's environmental reserve assumptions where appropriate. This alignment increased KeySpan's environmental reserve approximately $343 million - of this amount $4.2 million relates to Colonial. Since Colonial is subject to certain deferral accounting requirements mandated by the MADPU the entire amount of the increase was recorded as a regulatory asset as well. See Note 6

"Commitments and Contingencies – Environmental Matters" for additional information on Colonial's environmental reserve balances.

Additionally, KeySpan made certain adjustments to its pension and other postretirement reserve balances. KeySpan adjusted certain assumptions underlying the calculations for its pension and other postretirement reserves to align those assumptions with National Grid plc's pension and postretirement reserve assumptions where appropriate. This alignment reduced KeySpan's pension and other postretirement reserves approximately $180 million. Colonial's applicable share of this reduction was $7.1 million and was recorded to its other postretirement reserve balances. Since Colonial is subject to certain deferral accounting requirements mandated by the MADPU for pension costs and other postretirement benefit costs all of this decrease was recoded as an "offset" to regulatory assets.

As required by SFAS 141, KeySpan "pushed-down" goodwill associated with the acquisition of KeySpan by National Grid plc to all of its subsidiaries and "realigned" the equity of each subsidiary. As a result of the push-down of goodwill and the resulting realignment of its equity, Colonial's goodwill is now $200.8 million.

As allowed for under SFAS 141, the fair value measurement of assets, liabilities and intangible assets, and the resulting impact on goodwill, can be adjusted during the allocation period. However such period is not to exceed one year. The fair value measurements discussed above are subject to change as a result of the following:(i) finalization and measurement of the financial implications associated with the more significant aspects of the Gas Rates Joint Proposal as discussed in Note 7, "Rate Matters;" (ii) continued measurement and identification of intangible assets; (iii) continued assessment of the deferred tax implications associated with the above adjustments and (iv) continued review of contingent liabilities. The preceding list is not intended to be all inclusive and the final determination of goodwill and intangible assets may be impacted by other fair value measurement adjustments.

Workforce Reduction Program

In connection with the acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer ("VERO") in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan have the right to retain that employee for up to three years before VERO payments are made. An employee who accepts the VERO offer but elects to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The cost of the VERO offer to Colonial is estimated to be approximately $2.7 million. This amount will

be accrued over a three year period or over the remaining service period which ever is shorter. Through March 31, 2008, Colonial has accrued $0.9 million of VERO costs.
.