Granite State Electric Company

Financial Statements

For the years ended March 31, 2011 and March 31, 2010

GRANITE STATE ELECTRIC COMPANY

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Report of Independent Auditors

To the Stockholder and Board of Directors of
Granite State Electric Company:

In our opinion, the accompanying balance sheets and related statements of operations, of comprehensive income, of capitalization and of cash flows present fairly, in all material respects, the financial position of Granite State Electric Company (the "Company") at March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 29, 2011

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GRANITE STATE ELECTRIC COMPANY
BALANCE SHEETS

(in thousands of dollars)	**March 31, 2011**	March 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	**$ 220**	$ 587
Restricted cash	**3,277**	3,070
Accounts receivable	**10,101**	9,767
Allowance for doubtful accounts	**(558)**	(489)
Accounts receivable from affiliates, net	**-**	365
Intercompany moneypool	**7,500**	-
Unbilled revenues	**1,037**	830
Materials and supplies, at average cost	**499**	449
Current deferred income tax assets	**1,390**	1,245
Prepaid and other current assets	**1,942**	7,132
Total current assets	**25,408**	22,956
Property, plant and equipment, net	**83,775**	81,172
Deferred charges		
Regulatory assets	**5,105**	4,000
Goodwill	**19,352**	19,352
Other deferred charges	**1,191**	1,099
Total deferred charges	**25,648**	24,451
Total assets	**$ 134,831**	$ 128,579

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

GRANITE STATE ELECTRIC COMPANY
BALANCE SHEETS

(in thousands of dollars, except per share and number of shares data)	**March 31, 2011**	2010
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable	**$ 6,983**	$ 7,145
Accounts payable to affiliates, net	**2,017**	-
Taxes accrued	**332**	63
Customer deposits	**545**	349
Interest accrued	**492**	583
Intercompany moneypool	**-**	1,575
Other current liabilities	**3,777**	1,761
Total current liabilities	**14,146**	11,476
Deferred credits and other liabilities		
Regulatory liabilities	**8,785**	8,657
Deferred income tax liabilities	**13,239**	10,802
Postretirement benefits and other reserves	**6,457**	8,768
Other deferred liabilities	**4,810**	3,828
Total deferred credits and other liabilities	**33,291**	32,055
Capitalization		
Common stock, par value $100 per share, issued and outstanding 60,400 shares	**6,040**	6,040
Additional paid-in capital	**40,054**	40,054
Retained earnings	**33,009**	32,317
Accumulated other comprehensive losses	**(6,709)**	(8,363)
Total shareholders' equity	**72,394**	70,048
Long-term debt	**15,000**	15,000
Total capitalization	**87,394**	85,048
Total liabilities and capitalization	**$ 134,831**	$ 128,579

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

GRANITE STATE ELECTRIC COMPANY
STATEMENTS OF OPERATIONS

(in thousands of dollars)	Years Ended March 31 **2011**	2010
Operating revenues	**$ 82,841**	$ 80,713
Operating expenses		
Electricity purchased	**44,367**	44,367
Operations and maintenance	**27,919**	26,569
Depreciation and amortization	**4,858**	4,599
Other taxes	**3,023**	2,700
Total operating expenses	**80,167**	78,235
Operating income	**2,674**	2,478
Other deductions		
Interest on long-term debt	**(1,133)**	(1,133)
Other interest, including affiliate interest	**(10)**	(132)
Other deductions	**(82)**	(130)
Total other deductions	**(1,225)**	(1,395)
Income taxes		
Current	**(537)**	(4,620)
Deferred	**1,294**	6,015
Total income taxes	**757**	1,395
Net income (loss)	**$ 692**	$ (312)

The accompanying notes are an integral part of these financial statements

GRANITE STATE ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Years Ended March 31 **2011**	2010
Operating activities		
Net income (loss)	**$ 692**	$ (312)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**4,858**	4,599
Provision for deferred income taxes	**1,294**	6,015
Other non-cash items	**1,282**	1,361
Net pension and other postretirement expense	**383**	(140)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(759)**	(1,197)
Materials and supplies	**(50)**	(120)
Accounts payable and accrued expenses	**(385)**	(310)
Prepaid taxes and accruals	**5,470**	(5,923)
Accounts receivable and payable affiliate, net	**2,382**	-
Other, net	**615**	350
Net cash provided by operating activities	**15,782**	4,323
Investing activities		
Capital expenditures	**(6,007)**	(6,756)
Changes in intercompany moneypool	**(7,500)**	5,375
Restricted cash	**(207)**	(3,000)
Other, including cost of removal	**(860)**	(1,448)
Net cash used in investing activities	**(14,574)**	(5,829)
Financing activities		
Changes in intercompany moneypool	**(1,575)**	1,575
Net cash (used in) provided by financing activities	**(1,575)**	1,575
Net (decrease) increase in cash and cash equivalents	**(367)**	69
Cash and cash equivalents, beginning of year	**587**	518
Cash and cash equivalents, end of year	**$ 220**	$ 587
Supplementary information:		
Interest paid	**$ 1,157**	$ 1,274
Taxes refunded	**$ 5,884**	$ -
Capital related accruals included in accounts payable	**$ 132**	$ 318

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GRANITE STATE ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended March 31	
(in thousands of dollars)	**2011**	2010
Net income (loss)	**$ 692**	$ (312)
Other comprehensive income (loss), net of taxes		
Unrealized gains on investments	**40**	115
Change in pension and other postretirement obligations	**1,643**	451
Reclassification adjustment for losses included in net income	**(29)**	(19)
Change in other comprehensive income	**1,654**	547
Total comprehensive income	**2,346**	235
Related tax expense (benefit)		
Unrealized losses on investments	**(27)**	(77)
Change in pension and other postretirement obligations	**(1,095)**	(301)
Reclassification adjustment for gains included in net income	**19**	13
Total tax benefit	**$ (1,103)**	$ (365)

The accompanying notes are an integral part of these financial statements

GRANITE STATE ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION

(in thousands of dollars, except per share and number of shares data)	March 31,			
	2011	2010	**2011**	2010
Shareholders' equity	**Shares Issued and Outstanding**		**Amounts**	
Common stock, $100 par value	**60,400**	60,400	**$ 6,040**	$ 6,040
Additional paid-in capital			**40,054**	40,054
Retained earnings			**33,009**	32,317
Accumulated other comprehensive loss			**(6,709)**	(8,363)
Total shareholder' equity			**$ 72,394**	$ 70,048
Long-term debt	**Interest rates**	**Maturity Date**	**Amounts**	
Unsecured Notes				
7.37% Unsecured Note 2023	7.37%	November 1, 2023	**$ 5,000**	$ 5,000
7.94% Unsecured Note 2025	7.94%	July 1, 2025	**5,000**	5,000
7.30% Unsecured Note 2028	7.30%	June 15, 2028	**5,000**	5,000
Total long-term debt			**15,000**	15,000
Total capitalization			**$ 87,394**	$ 85,048

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Granite State Electric Company (the “Company”, “we”, “us”, and “our”) is an electric retail distribution company providing electric service to approximately 43,000 customers in 21 communities in New Hampshire. The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company (“NEP”), a wholly owned subsidiary of National Grid USA (“NGUSA”).

The Company is a wholly-owned subsidiary of 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.

On December 8, 2010, NGUSA and Liberty Energy Utilities Co. (“Liberty Energy”), a subsidiary of Algonquin Power & Utilities Corp., entered into a stock purchase agreement which was subsequently amended and restated on January 21, 2011, pursuant to which National Grid will sell and Liberty Energy will purchase all of the common stock of the Company. The parties have filed the necessary federal and state regulatory approvals that will be required to consummate the transaction. The regulatory approval process is expected to be completed during the year ended March 31, 2012.

B. Basis of Presentation

The Company’s accounting policies conform to accounting principles generally accepted in the United States of America (“GAAP”), including the accounting principles for rate-regulated entities, and are in accordance with the accounting requirements and ratemaking practices of the applicable regulatory authorities.

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

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

C. Accounting for the Effects of Rate Regulation

The Federal Energy Regulatory Commission (“FERC”) and the New Hampshire Public Utilities Commission (“NHPUC”) provide the final determination of the rates we charge our customers. In certain cases, the actions of the FERC or the NHPUC would result in an accounting treatment different from that used by non-regulated companies to determine the rates we charge our customers. In this case, the Company is required to defer the recognition of costs (a regulatory asset) or the recognition of obligations (a regulatory liability) if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates.

In the event the Company determines that its net regulatory assets are not probable of recovery, the Company would be required to record an after-tax, non-cash charge against income for any remaining regulatory assets and liabilities. The resulting charge could be material to the Company’s reported financial condition and results of operations.

D. Revenue Recognition

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

Revenues are based on billing rates authorized by the NHPUC. The Company records revenues in an amount management believes to be recoverable pursuant to provisions of approved tariffs, settlement agreements and state legislation. The Company defers for future recovery from or refunds to electric customers the difference between revenue and expenses from, default service, transmission service, and contract termination charges (“CTC”). The Company also records the distribution component of revenue for electricity delivered but not yet billed.

During each of the years ended March 31, 2011 and March 31, 2010, 46% of the Company's revenue from the sale and delivery of electricity was derived from residential customers, 47% from commercial customers, and 7% from industrial customers, respectively.

E. Property, Plant and Equipment

Property, plant, and equipment are stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead and allowance for funds used during construction ("AFUDC"). Replacement of minor items of property, plant, and equipment and the cost of current repairs and maintenance are charged to expense. Whenever property, plant, and equipment is retired, its original cost, together with cost of removal, less salvage, is charged to accumulated depreciation.

F. Goodwill

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

The goodwill impairment analysis is comprised of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The Company can consider both an income-based approach using projected discounted cash flows and a market-based approach using valuation multiples of comparable companies to determine fair value. The Company's estimate of fair value of each reporting unit is based on a number of subjective factors including: (i) the appropriate weighting of valuation approaches (income-based approach and market-based approach), (ii) estimates of the future revenue and cash flows, (iii) discount rate for estimated cash flows, (iv) selection of peer group companies for the market-based approach, (v) required levels of working capital, (vi) assumed terminal value, (vii) the time horizon of cash flow forecasts and (viii) control premium.

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

The Company utilizes a discounted cash flow approach incorporating its most recent business plan forecasts together with a projected terminal year calculation in the performance of the annual goodwill impairment test. Critical assumptions used in the Company's analysis include a discount rate of 5.9% and a terminal year growth rate of 2.4% based upon expected long-term average growth rates. Within its calculation of forecasted returns, the Company made certain assumptions with respect to the amount of pension and environmental costs to be recovered in future periods. Should the Company not continue to receive the same level of recovery in these areas, the result could be a reduction in fair value of the Company, which in turn could give rise to an impairment of goodwill. Our forecasts assume long-term recovery and rate of returns that are in line with historical levels within the utility industry. The resulting fair value of the annual analysis determined that no adjustment of the goodwill carrying value was required.

G. Cash and Cash Equivalents

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

H. Restricted Cash

At March 31, 2011 and 2010, \$3.3 million and \$3.1 million, respectively, was required by the Independent System Operator ("ISO") to be on deposit.

I. Income Taxes

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

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 on the Company's Balance Sheets that have been included in previous tax returns or are expected to be included in future tax returns.

J. Comprehensive Income (Loss)

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

K. Employee Benefits

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

L. Fair Value Measurements

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

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

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

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.

M. Materials and Supplies

Materials and supplies are stated primarily at the lower of cost or market value under the average cost method. The Company's policy is to write off obsolete materials and supplies.

N. Recent Accounting Pronouncements

Prospective Accounting Pronouncements

In the preceding twelve months, the FASB has issued numerous updates to GAAP. The Company has evaluated various guidelines and has deemed them as not applicable based on its nature of operations or has implemented the new standards. A discussion of the more significant and relevant updates is as follows:

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This update seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. The Company is now required to consecutively present the statement of income and statement of comprehensive income and also present reclassification adjustments from other comprehensive income to net 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 public companies for fiscal years, and interim periods within that year, beginning after December 15, 2011, and it is to be applied retrospectively. 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.

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 is not permitted and can only be applied prospectively. The Company is currently determining the potential impact of the guidance on its financial position, results of operations and cash flows.

In March 2011, the FASB issued updated guidance over the agreements between two entities to transfer financial assets. Prior to this update, an entity could recognize this transfer when it was deemed that the transferee had effective control over the transferred asset, specifically whether the entity has the ability to repurchase substantially the same asset based on the transferor's collateral. This accounting update evaluates the effectiveness of the entity's control by focusing on the transferor's contractual rights and obligations as opposed to the entity's ability to perform on those rights and obligations. This update also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This guidance is treated prospectively and effective for annual or interim reporting periods beginning on or after December 15, 2011. 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.

In December 2010, the FASB issued an accounting update that modified the goodwill impairment procedures necessary for entities with zero or negative carrying value. The FASB created this guidance to require entities to complete Step 2 of the impairment test, which requires the entity to assess whether or not it was likely that impairment existed throughout the period. To do this, an entity should consider whether there were adverse qualitative factors throughout the period that would contribute to impairment. This update is effective for fiscal years and interim periods beginning after December 15, 2011. 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.

Recently Adopted Accounting Pronouncements

In March 2010, the FASB issued updated guidance that provides for scope exceptions applicable to financial instrument contracts with embedded credit derivative features. This FASB guidance is effective for financial statements issued for interim periods beginning after June 15, 2010. On an ongoing basis, the Company evaluates new and existing transactions and agreements to determine whether they are derivatives, or have provisions that meet the characteristics of embedded derivatives. Those transactions designated for any of the elective accounting treatments for derivatives must meet specific, restrictive criteria, both at the time of designation and on an ongoing basis. None of the financial instrument contracts or credit agreements the Company has entered were identified and designated as meeting the criteria for derivative or embedded derivative treatment. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In February 2010, the FASB issued an amendment to certain recognition and disclosure requirements for events that occur after the Balance Sheet date but before the financial statements are issued or are available to be issued. The amendment applies to both issued financial statements and financial statements revised as a result of either a correction of an error or retrospective application of GAAP. The new provisions require non-public entities to disclose both the date that the financial statements were issued, or available to be issued, and the date the revised financial statements were issued or available to be issued. The amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In January 2010, the FASB issued an amendment to the accounting guidance for fair value measurements that will provide for additional disclosures about (a) the different classes of assets and liabilities measured at fair value, (b) the valuation techniques and inputs used, (c) the activity in Level 3 fair value measurements, and (d) the transfers between Levels 1, 2, and 3. This FASB guidance is effective for financial statement issued for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers and servicing of financial assets and extinguishment of liabilities. The objective of the amendment is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; and effects of a transfer on its financial position, financial performance and cash flows; and transferor's continuing involvement, if any, in transferred financial assets. The new provisions must be applied as of the beginning of each reporting entity's first annual reporting period beginning after November 15, 2009 and are to be applied to transfers occurring on or after the date of adoption. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The objective of the amendment is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amendment requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The new requirements shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In May 2009, the FASB issued accounting guidance establishing the general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this FASB guidance requires enhanced disclosures about (a) events or transactions that may occur for potential recognition or disclosure in the financial statements in the period after the balance sheet date, (b) circumstances under which an entity should recognize such events, and (c) date through which an entity has evaluated subsequent events, including the basis for that date, and whether that date represents the date the financial statements were issued or available to be issued. The FASB guidance is effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the reporting period beginning April 1, 2010 and noted no impact on the Company's financial position, results of operations or cash flows due to the adoption of this standard.

O. Reclassifications

Certain amounts from prior years have been reclassified in the accompanying financial statements to conform to the current year presentation. For the year ended March 31, 2010, a portion of the Company's negative accounts payable balance was reclassified as a component of accounts receivable on the balance sheet. This reclassification had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulatory

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

(in thousands of dollars)	March 31, 2011	March 31, 2010
Regulatory assets - current		
Rate adjustment mechanisms, included in accounts receivable	**$ 1,716**	$ 2,155
Regulatory liabilities - current		
Rate adjustment mechanisms, included in other current liabilities	**(1,957)**	(4)
Total current regulatory assets	**(241)**	2,151
Regulatory assets - non-current		
Storm cost deferrals	**4,752**	3,380
Other	**353**	620
Total regulatory assets non-current	**5,105**	4,000
Regulatory liabilities - non-current		
Regulatory tax liability	**(2,479)**	(2,430)
Postretirement benefits	**(1,643)**	(1,816)
Cost of removal	**(4,663)**	(4,411)
Total regulatory liabilities non-current	**(8,785)**	(8,657)
Total non-current regulatory liabilities, net	**(3,680)**	(4,657)
Net regulatory liabilities	**$ (3,921)**	$ (2,506)

The regulatory items above are not included in the utility rate base.

Rate Matters

In July 2007, the NHPUC approved a settlement agreement related to issues surrounding the merger of NGUSA and KeySpan Corporation ("KeySpan") which also contained a five year distribution rate plan for the Company, effective January 1, 2008. During the rate plan, distribution rates are frozen except for rate adjustments in the event of certain uncontrollable exogenous events and annual rate adjustments related to specific Reliability Enhancement and Vegetation Management Plans ("REP/VMP"). In June 2010, the NHPUC approved the Company's recent REP/VMP rate adjustment effective July 1, 2010 of $1.1 million; the Company's fourth REP/VMP rate adjustment, which would result in incremental revenue of $1.7 million effective July 2011, is currently pending before the NHPUC. The rate plan also includes an earnings sharing mechanism based on an imputed capital structure of 50% debt and 50% equity and a return on equity ("ROE") of 11%. Earnings above 11% are shared equally between customers and the Company. The rate plan also establishes a storm contingency fund and customer service commitments by the Company.

In April 2010, the Company filed a request with the NHPUC for a temporary increase in funding to its storm contingency fund of $0.7 million annually over 3 years to replenish the Company's newly formed fund after the devastating ice storm in December 2008. An initial rate adjustment was approved by the NHPUC to increase funding by $0.4 million annually effective July 1, 2010. The approval of the remaining balance of $0.3 million in funding will occur in conjunction with the NHPUC's review of costs related the two additional storms described below.

In April 2011, the Company filed its storm fund report with the NHPUC regarding a February 2010 winter storm having approximately $1.7 million in restoration costs. In March 2011, the Company experienced another significant storm event for which the costs have not yet been finalized. The Company will be seeking to recover its costs through its storm contingency fund.

Other Regulatory Matters

In November 2008, FERC commenced an audit of NGUSA, including its service companies and other affiliates in the National Grid holding company system. The audit evaluated our compliance with: 1) cross-subsidization restrictions on affiliate transactions; 2) accounting, recordkeeping and reporting requirements; 3) preservation of records requirements for holding companies and service companies; and 4) Uniform System of Accounts for centralized service companies. The final audit report from the FERC was received in February 2010. In April 2011, NGUSA replied to the FERC and outlined its plan to address the findings in the report, which we are currently in the process of implementing. None of the findings had a material impact on the financial statements of the Company.

Note 3. Employee Benefits

Summary

The Company participates with certain other NGUSA subsidiaries in a non-contributory defined benefit pension plan and a postretirement benefits other than pensions ("PBOP") plan (the "Plans").

The pension plan is a non-contributory, tax-qualified defined benefit plan which provides all employees with a minimum retirement benefit.

Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

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

Pension Benefits

The Company participates in the pension plans with certain other NGUSA subsidiaries. Pension plan assets are commingled and cannot be allocated to an individual company. Pension costs are allocated to the Company. At March 31, 2011 and March 31, 2010, the pension plans of NGUSA have a net underfunded obligation of $354.8 million and $420.7 million, respectively. The Company's net periodic pension cost for the year ended March 31, 2011 and 2010 was $0.8 million and $0.6 million, respectively.

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of $0.1 million was expensed for each of the years ended March 31, 2011 and March 31, 2010.

Postretirement Benefits Other Than Pension Benefits

The Company participates in the PBOP plans with certain other NGUSA subsidiaries. PBOP costs are allocated to the Company. The PBOP plans of NGUSA have a net underfunded obligation of $401.6 million and $477.3 million as of March 31, 2011 and March 31, 2010, respectively. The Company's net periodic postretirement benefit cost for each of the years ended March 31, 2011 and March 31, 2010 was $0.6 million.

Health Care Reform Act

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 became law. These laws included provisions that resulted in the repeal, with effect from 2012, of the deduction for federal income tax purposes of the portion of the cost of an employer's retiree prescription drug coverage for which the employer received a benefit under the Medicare Prescription Drug Improvement and Modernization Act of 2003. The consequential reduction in the deferred tax asset balance resulted in a net charge to the income statement of approximately $0 and $0.4 million for the years ended March 31, 2011 and March 31, 2010, respectively.

Workforce Reduction Program

In connection with National Grid plc's 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 had the right to retain that employee for up to three years before VERO payments are made. An employee who accepted 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 VERO is completed and the Company has accrued $0.7 million which has been deferred for recovery from electric sales customers as part of the synergy savings and cost to achieve calculations.

Note 4. Debt

Short-term Debt

The Company has regulatory approval from the NHPUC to issue up to $10.0 million of short-term debt. The company had no short-term debt outstanding to third parties at March 31, 2011 or 2010.

Long-term Debt

At March 31, 2011 and 2010, the Company had outstanding $15.0 million of unsecured long-term notes. The interest rates on these unsecured notes range from 7.30% to 7.94% and the maturity dates extend from November 2023 to June 2028. These unsecured notes have certain restrictive covenants and acceleration clauses. These covenants stipulate that note holders may declare the debt to be due and payable if total debt becomes greater than 70% of total capitalization. At March 31, 2011 and 2010, the total long-term debt was 17% and 18% of total capitalization, respectively.

Note 5. Property, Plant and Equipment

At March 31, 2011 and March 31, 2010, property, plant and equipment at cost and accumulated depreciation and amortization are as follows:

	March 31,	
(in thousands of dollars)	**2011**	**2010**
Plant and machinery	$ 123,794	$ 119,077
Land and buildings	6,887	6,570
Assets in construction	1,686	1,369
Software and other intangibles	25	25
Total	132,392	127,041
Accumulated depreciation and amortization	(48,617)	(45,869)
Property, plant and equipment, net	$ 83,775	$ 81,172

AFUDC
The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of funds used to finance construction and includes a debt component and an equity component. AFUDC is capitalized in " Property, plant and equipment " with offsetting cash credits to "Other interest, including affiliates interest" for the debt component and to "Other deductions" for the equity component. This method is in accordance with an established rate-making practice under which a utility is permitted to earn a return on, and the recovery of, prudently incurred capital costs through its ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rates were 6.6% and 9.2% for the years ended March 31, 2011 and 2010, respectively. AFUDC capitalized during the years ended March 31, 2011 and March 31, 2010 was $0.06 million and $0.1 million, respectively.

Depreciation
Depreciation expense is determined using the straight-line method. The depreciation rates are based on periodic studies of the estimated useful lives of the assets and the estimated cost to remove them, net of salvage value. The Company performs depreciation studies to determine service lives of classes of property and adjusts the depreciation rates when necessary.

The provisions for depreciation, as a percentage of weighted average depreciable property, and the weighted average service life, in years, for each asset category for the years ended March 31, 2011 and 2010 are presented in the table below:

	2011		2010	
	Provision	**Service Life**	Provision	Service Life
Asset Category:				
Electric	**3.7%**	**27**	3.6%	27

Note 6. Income Taxes

Following is a summary of the components of federal and state income tax expense (benefit):

	Years Ended March 31,	
(in thousands of dollars)	**2011**	2010
Components of federal and state income taxes:		
Current tax expense (benefit):		
Federal	**$ (1,120)**	$ (4,475)
State	**583**	(145)
Total current tax benefit	**(537)**	(4,620)
Deferred tax expense (benefit):		
Federal	**1,464**	4,772
State	**(129)**	1,288
Total deferred tax expense	**1,335**	6,060
Investment tax credits [1]	**(41)**	(45)
Total income tax expense	**$ 757**	$ 1,395

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

Income tax expense for the years ended March 31, 2011 and March 31, 2010 varied from the amount computed by applying the statutory rate to income before income taxes. A reconciliation of 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, 2011 and March 31, 2010 is presented in the following table:

	Years Ended March 31,	
(in thousands of dollars)	**2011**	2010
Computed tax	**$ 507**	$ 379
Increase (reduction) including those attributable to flow-through of certain tax adjustments:		
State income tax, net of federal benefit	**295**	743
Investment tax credit	**(41)**	(45)
Medicare charge, including the Patient Protection and Affordable Care Act effect, net	**-**	320
Other items - net	**(4)**	(2)
Total	**$ 250**	$ 1,016
Federal and state income taxes	**$ 757**	$ 1,395

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2011 and March 31, 2010 are presented in the following table:

	March 31,	
(in thousands of dollars)	**2011**	2010
Pensions, other post-employment benefits ("OPEB"), and other employee benefits	**$ 3,364**	$ 4,841
Regulatory liabilities - other	**1,895**	1,383
Unbilled revenue	**1,055**	1,287
Future federal benefit on state taxes	**735**	705
Other items	**317**	360
Total deferred tax assets[1]	**7,366**	8,576
Property related differences	**(16,981)**	(15,558)
Regulatory assets - storm costs	**(2,071)**	(1,435)
Other items	**-**	(936)
Total deferred tax liabilities	**(19,052)**	(17,929)
Net accumulated deferred income tax liability	**(11,686)**	(9,353)
Deferred investment tax credit	**(163)**	(204)
Net accumulated deferred income tax liability and investment tax credit	**(11,849)**	(9,557)
Current portion of net deferred tax asset	**1,390**	1,245
Non-current portion of net deferred income tax liability and investment tax credit	**$ (13,239)**	$ (10,802)

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

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

The Company adopted the provisions of the FASB guidance which clarifies the accounting and disclosures of uncertain tax positions in the financial statements. The 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.

As of March 31, 2011 and March 31, 2010, the Company’s unrecognized tax benefits totaled $3.4 million and $3.6 million, respectively, each of which $0.4 million would affect the effective tax rate, if recognized.

The unrecognized tax benefits are included in “other deferred liabilities” on the balance sheets.

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

Reconciliation of Unrecognized Tax Benefits	**Years Ended March 31,**	
(in thousands of dollars)	**2011**	2010
Beginning balance	**$ 3,638**	$ 1,351
Gross decrease related to prior year	**(285)**	-
Gross increases related to current year	**172**	2,287
Settlements with tax authorities	**(118)**	-
Ending balance	**$ 3,407**	$ 3,638

As of March 31, 2011 and March 31, 2010, the Company has accrued for interest related to unrecognized tax benefits of $0.1 million and $0.2 million, respectively. During the years ended March 31, 2011 and March 31, 2010, the Company recorded interest income of $0.03 million and interest expense of $0.02 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in operating expenses. No penalties were recognized during the years ended March 31, 2011 and March 31, 2010.

Federal income tax returns have been examined and all issues have been agreed with the Internal Revenue Service ("IRS") and the NGHI consolidated filing group through March 31, 2004. During the year ended March 31, 2011, the NGHI consolidated group reached an agreement with the IRS that contained a settlement of the majority of the income tax issues related to the years ended March 31, 2005 through March 31, 2007 as well as an acknowledgment that certain discrete items remained disputed.

The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in next twelve months as a result of 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. The years ended March 31, 2008 through March 31, 2011 remain subject to examination by the IRS.

The Company participates with certain other NGHI subsidiaries in filing a unitary New Hampshire business profits tax return. The New Hampshire unitary returns have been amended for all agreed IRS adjustments. There is currently no ongoing audit by the State of New Hampshire, although the tax returns for the years ended March 31, 2008 through March 31, 2011 are open under the statute of limitations.

Note 7. Fair Value Measurements

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

The following table presents assets and liabilities measured and recorded at fair value on the Company's Balance Sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2011:

(in thousands of dollars)	Level 1	Level 2	Level 3	Total
Assets				
Available for sale securities	$ 462	$ 609	$ -	$ 1,071
Total assets	$ 462	$ 609	$ -	$ 1,071

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 carrying value. The fair value of this debt at March 31, 2011 is $19.0 million.

Note 8. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of accumulated other comprehensive income on the Company's Balance Sheet:

(in thousands of dollars)	Unrealized Gain (Loss) on Available-for-Sale Securities	Postretirement Benefit Liability	Total Accumulated Other Comprehensive Income (Loss)
March 31, 2009 balance, net of tax	$ (31)	$ (8,879)	$ (8,910)
Other comprehensive income (loss):			
Unrealized gains on securities	115	-	115
Reclassification adjustment for loss	(19)	-	(19)
Net gain arising during period	-	90	90
Change in pension and postretirement benefits	-	361	361
March 31, 2010 balance, net of tax	$ 65	$ (8,428)	$ (8,363)
Other comprehensive income (loss):			
Unrealized gains on securities	40	-	40
Reclassification adjustment for loss	(29)	-	(29)
Change in pension and postretirement benefits	-	1,643	1,643
March 31, 2011 balance, net of tax	$ 76	$ (6,785)	$ (6,709)

Note 9. Commitments and Contingencies

Purchase of Electric Power Contracts

The Company has several types of contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. The Company's commitments under these contracts, as of March 31, 2011, are summarized in the table below:

(In thousands of dollars)	
Year Ended March 31,	**Amount**
2012	$ 18,778

The Company purchases any additional energy needed to meet load requirements and can purchase the electricity from other independent power producers ("IPPs"), other utilities, other energy merchants, or the open market at market prices.

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. Except as described below, the Company does not consider any of such proceedings to be material 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. Like many other industrial companies, the Company generates hazardous waste. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

The Massachusetts Department of Environmental Protection has named the Company as a potentially responsible party for remediation of a site at which hazardous waste is alleged to have been disposed. The Company believes that obligations imposed on it because of environmental laws will not have a material impact on its results of operations or financial position.

Note 10. Related Party Transactions

Moneypool

The Company participates with NGUSA and certain affiliates in a system moneypool. The moneypool is administered by the NGUSA service company as the agent for the participants. Short-term borrowing needs are met first by available funds of the moneypool participants. Borrowings from the moneypool bear interest at the higher of (i) the monthly average of the rate for high-grade, 30-day commercial paper sold through dealers by major corporations as published in the Wall Street Journal, or (ii) the monthly average of the rate then available to moneypool depositors from an eligible investment in readily marketable money market funds or the existing short-term investment accounts maintained by moneypool depositors or the NGUSA service company during the period in question. In the event neither rate is one that is permissible for a transaction because of constraints imposed by the state regulatory commission having jurisdiction over a utility participating in the transaction, the rate is adjusted to a permissible rate as determined under the requirements of the state regulatory commission. Companies that invest in the moneypool share the interest earned on a basis proportionate to their average monthly investment in the moneypool. Funds may be withdrawn from or repaid to the moneypool at any time without prior notice. The average interest rate for the moneypool was 0.27% for each of the years ended March 31, 2011 and 2010. The Company had a short-term moneypool investment of $7.5 million at March 31, 2011 and short-term moneypool borrowings of $1.6 million at March 31, 2010.

Advances to/from Affiliates

Additionally, the Company engages in various transactions with NGUSA and its affiliates. Certain activities and costs, such as executive and administrative, financial (including accounting, auditing, risk management, tax and treasure/finance), human resources, information technology, legal and strategic planning are shared between the companies and allocated to each company appropriately. In addition, the Company has a tax sharing agreement with 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 had net accounts payable to affiliates of $2.0 million at March 31, 2011 and net accounts receivable from affiliates of $0.4 million at March 31, 2010, for those services.

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. These costs include operating and capital expenditures of $7.4 million and $2.5 million for the year ended March 31, 2011 and $5.9 million and $2.1 million for the year ended March 31, 2010, 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 this subsidiary, the estimated effect on net income would be approximately $0.2 million and $0.1 million before taxes, and $0.1 million and $0.09 million after taxes, for the years ended March 31, 2011 and March 31, 2010, respectively.

Organization Restructuring

On January 31, 2011, National Grid plc announced substantial changes to the organization, including new global, US and UK operating models, and changes to the leadership team. The announced structure seeks to create a leaner, more-efficient business backed by streamlined operations that will help meet, more efficiently, the needs of regulators, customers and shareholders. The implementation of the new U.S. business structure commences on April 4, 2011 and targets annualized savings of $200 million by March 2012 primarily through the reduction of up to 1,200 positions. As of March 31, 2011, NGUSA had recorded a $66.8 million reserve for one-time employment termination benefits related to severance, payroll taxes, healthcare continuation, and outplacement services as well as consulting fees related to the restructuring program. These charges have been recorded by NGUSA and none have been allocated to the Company as at March 31, 2011. Subsequently in June 2011, we offered a voluntary severance plan to certain individuals which is expected to cost up to an additional $20 million across all entities affiliated with NGUSA.

Note 11. Restrictions on Payments of Dividends

Pursuant to the provisions of the long-term note agreement, payment of dividends on common stock would not be permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2011 and 2010, common equity was 83% and 82% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2011 and March 31, 2010 were restricted as to common dividends.

Note 12. Subsequent Events

In accordance with current authoritative accounting guidance, the Company has evaluated for disclosure subsequent events that have occurred up through June 29, 2011, the date of issuance of these financial statements. As of June 29, 2011, there were no subsequent events which required recognition or disclosure.