Niagara Mohawk Power Corporation

Financial Statements

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

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Board of Directors
of Niagara Mohawk Power Corporation

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

August 26, 2016

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating revenues:			
Electric services	**$ 2,371,789**	$ 2,582,648	$ 2,904,565
Gas distribution	**486,169**	585,218	620,126
Total operating revenues	**2,857,958**	3,167,866	3,524,691
Operating expenses:			
Purchased electricity	**671,304**	827,611	1,074,126
Purchased gas	**145,752**	247,209	269,381
Operations and maintenance	**1,112,644**	1,254,073	1,270,680
Depreciation and amortization	**243,631**	230,473	218,660
Other taxes	**253,292**	250,876	254,802
Total operating expenses	**2,426,623**	2,810,242	3,087,649
Operating income	**431,335**	357,624	437,042
Other income and (deductions):			
Interest on long-term debt	**(105,095)**	(100,331)	(91,664)
Other interest, including affiliate interest	**(26,637)**	(10,775)	(9,383)
Other income, net	**12,958**	12,692	16,257
Total other deductions, net	**(118,774)**	(98,414)	(84,790)
Income before income taxes	**312,561**	259,210	352,252
Income tax expense	**117,002**	90,027	123,002
Net income	**$ 195,559**	$ 169,183	$ 229,250

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Net income	**$ 195,559**	$ 169,183	$ 229,250
Other comprehensive (loss) income:			
Unrealized (losses) gains on securities	**(984)**	407	715
Change in pension and other postretirement obligations	**72**	(144)	1,102
Total other comprehensive (loss) income	**(912)**	263	1,817
Comprehensive income	**$ 194,647**	$ 169,446	$ 231,067
Related tax benefit (expense):			
Unrealized losses (gains) on securities	**$ 646**	$ (267)	$ (429)
Change in pension and other postretirement obligations	**(47)**	94	(661)
Total tax benefit (expense)	**$ 599**	$ (173)	$ (1,090)

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2016	2015	2014
Operating activities:			
Net income	**$ 195,559**	$ 169,183	$ 229,250
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**243,631**	230,473	218,660
Regulatory amortizations	**7,102**	(24,463)	(38,365)
Provision for deferred income taxes	**92,670**	87,656	92,869
Bad debt expense	**41,260**	62,941	35,248
(Income) loss from equity investments, net of dividends received	**(3)**	156	87
Allowance for equity funds used during construction	**(9,962)**	(13,270)	(10,040)
Amortization of debt discount and issuance costs	**2,962**	3,673	3,692
Net postretirement benefits (contributions) expense	**(1,468)**	23,966	106,399
Net environmental remediation payments	**(33,477)**	(32,575)	(41,554)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**97,537**	45,914	(185,417)
Inventory	**167**	(12,133)	(4,938)
Regulatory assets and liabilities, net	**137,894**	125,058	(20,983)
Derivative instruments	**33,534**	92,995	(6,316)
Prepaid and accrued taxes	**14,210**	(15,454)	44,261
Accounts payable and other liabilities	**(80,893)**	(27,189)	72,374
Other, net	**(13,914)**	22,277	(9,825)
Net cash provided by operating activities	**726,809**	739,208	485,402
Investing activities:			
Capital expenditures	**(572,187)**	(596,954)	(563,103)
Changes in restricted cash and special deposits	**(26,175)**	1,526	34,982
Affiliated money pool investing and receivables/payables, net	**5,185**	(221,837)	(67,483)
Cost of removal	**(60,745)**	(37,966)	(41,359)
Other	**488**	(1,270)	(2,750)
Net cash used in investing activities	**(653,434)**	(856,501)	(639,713)
Financing activities:			
Preferred stock dividends	**(1,060)**	(1,060)	(1,060)
Payments on long-term debt	**(75,000)**	(600,000)	(45,600)
Proceeds from long-term debt	**-**	900,000	-
Payment of debt issuance costs	**-**	(5,000)	-
Affiliated money pool borrowing and receivables/payables, net	**-**	-	(30,189)
Advance from affiliate	**(25,000)**	(200,000)	205,000
Capital contributions	**-**	-	25,000
Parent loss tax allocation	**17,635**	12,415	15,715
Share based compensation	**-**	-	(2,677)
Net cash (used in) provided by financing activities	**(83,425)**	106,355	166,189
Net (decrease) increase in cash and cash equivalents	**(10,050)**	(10,938)	11,878
Cash and cash equivalents, beginning of year	**15,612**	26,550	14,672
Cash and cash equivalents, end of year	**$ 5,562**	$ 15,612	$ 26,550
Supplemental disclosures:			
Interest paid	**$ (104,353)**	$ (88,018)	$ (84,503)
Income taxes refunded (paid)	**110**	(5,376)	15,099
Significant non-cash items:			
Capital-related accruals included in accounts payable	**21,447**	7,928	4,157
Share based compensation	**240**	180	(2,677)

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 5,562**	$ 15,612
Restricted cash and special deposits	**40,491**	14,316
Accounts receivable	**552,096**	656,707
Allowance for doubtful accounts	**(154,631)**	(133,428)
Accounts receivable from affiliates	**18,561**	19,170
Intercompany money pool	**288,173**	278,048
Unbilled revenues	**101,421**	114,404
Inventory	**60,082**	60,249
Regulatory assets	**113,305**	76,726
Derivative instruments	**3,604**	19,252
Prepaid taxes	**24,537**	34,955
Other	**32,503**	31,983
Total current assets	**1,085,704**	1,187,994
Equity investments	**2,565**	2,562
Property, plant and equipment, net	**8,246,046**	7,862,269
Other non-current assets:		
Regulatory assets	**1,309,404**	1,427,507
Goodwill	**1,289,132**	1,289,132
Derivative instruments	**2,291**	-
Postretirement benefits	**211,726**	214,054
Other	**87,312**	79,402
Total other non-current assets	**2,899,865**	3,010,095
Total assets	**$ 12,234,180**	$ 12,062,920

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

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2016	2015
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 146,366**	$ 194,326
Accounts payable to affiliates	**22,417**	7,898
Advance from affiliate	**-**	25,000
Taxes accrued	**19,763**	20,358
Customer deposits	**30,081**	32,214
Interest accrued	**31,955**	33,846
Regulatory liabilities	**232,750**	204,359
Derivative instruments	**64,508**	52,666
Other	**116,721**	123,016
Total current liabilities	**664,561**	693,683
Other non-current liabilities:		
Regulatory liabilities	**938,093**	869,729
Asset retirement obligations	**15,289**	10,929
Deferred income tax liabilities, net	**1,866,930**	1,765,276
Postretirement benefits	**676,179**	743,044
Environmental remediation costs	**372,452**	415,234
Derivative instruments	**36,865**	28,530
Other	**316,133**	325,280
Total other non-current liabilities	**4,221,941**	4,158,022
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**4,568,221**	4,356,759
Long-term debt	**2,779,457**	2,854,456
Total capitalization	**7,347,678**	7,211,215
Total liabilities and capitalization	**$ 12,234,180**	$ 12,062,920

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2016	2015
Total shareholders' equity			**$ 4,568,221**	$ 4,356,759
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
Senior Note	3.51%	October 1, 2024	**500,000**	500,000
Senior Note	4.28%	October 1, 2034	**400,000**	400,000
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
			2,350,000	2,350,000
State Authority Financing Bonds:				
NYSERDA tax-exempt	5.15%	November 1, 2025	**-**	75,000
NYSERDA tax-exempt	Variable	December 1, 2023 - July 1, 2029	**429,465**	429,465
			429,465	504,465
Total debt			**2,779,465**	2,854,465
Unamortized debt discount			**(8)**	(9)
Long-term debt			**2,779,457**	2,854,456
Total capitalization			**$ 7,347,678**	$ 7,211,215

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

NIAGARA MOHAWK POWER CORPORATION
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-For-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 730,797**	**$ 3,907,733**
Net income	-	-	-	-	-	-	229,250	229,250
Other comprehensive income:								
Unrealized gains on securities, net of $429 tax expense	-	-	-	715	-	715	-	715
Change in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Total comprehensive income								231,067
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent loss tax allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 958,987**	**$ 4,175,778**
Net income	-	-	-	-	-	-	169,183	169,183
Other comprehensive income (loss):								
Unrealized gains on securities, net of $267 tax expense	-	-	-	407	-	407	-	407
Change in pension and other postretirement obligations, net of $94 tax benefit	-	-	-	-	(144)	(144)	-	(144)
Total comprehensive income								169,446
Parent loss tax allocation	-	-	12,415	-	-	-	-	12,415
Share based compensation	-	-	180	-	-	-	-	180
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2015	**$ 187,365**	**$ 28,985**	**$ 3,011,456**	**$ 2,655**	**$ (812)**	**$ 1,843**	**$ 1,127,110**	**$ 4,356,759**
Net income	-	-	-	-	-	-	195,559	195,559
Other comprehensive (loss) income:								
Unrealized losses on securities, net of $646 tax benefit	-	-	-	(984)	-	(984)	-	(984)
Change in pension and other postretirement obligations, net of $47 tax expense	-	-	-	-	72	72	-	72
Total comprehensive income								194,647
Parent loss tax allocation	-	-	17,635	-	-	-	-	17,635
Share based compensation	-	-	240	-	-	-	-	240
Preferred stock dividends	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2016	**$ 187,365**	**$ 28,985**	**$ 3,029,331**	**$ 1,671**	**$ (740)**	**$ 931**	**$ 1,321,609**	**$ 4,568,221**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,848 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2016 and 2015.

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

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State ("NYS"). The Company provides electric service to approximately 1.7 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

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

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

The Company has evaluated subsequent events and transactions through August 26, 2016, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

As approved by the NYPSC, the Company is allowed to pass through commodity-related costs to customers and also bills for approved rate adjustment mechanisms. In addition, the Company has separate revenue decoupling mechanisms ("RDM") for gas and electric which allow for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. Any difference between the allowed revenue and the billed revenue is recorded as a regulatory asset or regulatory liability.

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2016, 2015, and 2014 were $39.3 million, $38.6 million, and $41.7 million, respectively.

The state of New York imposes on corporations a franchise tax that is computed as the higher of a tax based on income or a tax based on capital. To the extent the Company's state tax based on capital is in excess of the state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had prepaid property taxes of $15.7 million at March 31, 2016 and 2015.

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. Special deposits primarily consist of health care claims deposits and deposits held by the New York Independent System Operator ("NYISO"). The Company had restricted cash of $29 million and $12.1 million and special deposits of $11.5 million and $2.2 million at March 31, 2016 and 2015, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company's policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2016, 2015, or 2014.

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

The Company had materials and supplies of $47.5 million and $43.2 million and gas in storage of $12.6 million and $17.1 million at March 31, 2016 and 2015, respectively.

Derivative Instruments

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

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

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

Power Purchase Agreements

The Company enters into power purchase agreements to procure commodity to serve its electric service customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts. Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Fair Value Measurements

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- 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; and
- Not categorized: as discussed in Note 2, under "New and Recent Accounting Guidance," certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

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

Property, Plant and Equipment

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

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

	Composite Rates			Average Service Lives		
	Years Ended March 31,			Years Ended March 31,		
	2016	2015	2014	**2016**	2015	2014
Electric	**2.2%**	2.2%	2.2%	**58 years**	58 years	58 years
Gas	**2.1%**	2.1%	2.1%	**49 years**	49 years	49 years
Common	**4.6%**	4.7%	4.5%	**38 years**	38 years	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs recovered in excess of costs incurred of $342 million and $370.2 million at March 31, 2016 and 2015, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $10 million, $13.3 million, and $10 million and AFUDC related to debt of $3.7 million, $4.7 million, and $4.7 million for the years ended March 31, 2016, 2015, and 2014, respectively. The average AFUDC rates for the years ended March 31, 2016, 2015, and 2014 were 6.5%, 6.5%, and 6.4%, respectively.

Goodwill

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

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

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,929**	$ 10,380
Accretion expense	**410**	518
Liabilities settled	**(788)**	-
Revaluations to present values of estimated cash flows	**4,738**	-
Liabilities incurred in the current year	**-**	31
Balance as of the end of the year	**$ 15,289**	$ 10,929

At March 31, 2016, a revaluation study of the asset retirement obligations for the Company resulted in an upward revaluation of estimated costs related to its asset retirement obligations. These changes are the result of changes in remediation costs and enhanced asset replacement programs.

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

Employee Benefits

The Company has defined benefit pension and postretirement benefit other than pension ("PBOP") plans for its employees. The Company recognizes all pension and PBOP plans' funded status in the accompanying balance sheets as a net liability or asset with an offsetting adjustment to accumulated other comprehensive income ("AOCI") in shareholders' equity. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The Company measures and records its pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

Supplemental Executive Retirement Plans

The Company has corporate assets included in other non-current assets in the accompanying balance sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies and available-for-sale securities primarily consisting of equity investments and investments in municipal and corporate bonds. The corporate owned life insurance investments are measured at cash surrender value with increases and decreases in the value of these assets recorded in the accompanying statements of income.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2016

The new accounting guidance that was adopted for fiscal year 2016 had no material impact on the results of operations, cash flows, or financial position of the Company.

Presentation of Financial Statements – Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance be classified as non-current in the balance sheets; the new guidance does not change the existing requirement of prohibiting the offsetting of deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Fair Value Measurement – Investments Measured at Net Asset Value ("NAV")

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate New Asset Value per Share (or its equivalent)." The new guidance requires that the valuation of investments using NAV, as a practical expedient to fair value should be excluded from the fair value hierarchy. The Company early adopted this guidance, retrospectively, effective April 1, 2015.

Accounting Guidance Not Yet Adopted

The Company is currently evaluating the impact of recently issued accounting guidance on the presentation, results of operations, cash flows, and financial position of the Company.

Leases

In February 2016, the FASB issued a new lease accounting standard, ASU 2016-02, "Leases (Topic 842)." The key objective of the new standard is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model has been retained, with leases to be designated as operating leases or finance leases. Expenses will be recognized on a straight-line basis for operating leases, and a frontloaded basis for finance leases. For non-public entities, the new standard is effective for periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients.

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance principally affects the accounting for equity investments and financial liabilities where the fair value option has been elected, as well as the disclosure requirements for financial instruments. The new guidance is effective for non-public entities for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2017.

Revenue Recognition

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers – Deferral of the Effective Date." The new standard defers by one year the effective date of ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." The underlying principle of "Revenue from Contracts with Customers" is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The new guidance must be adopted using either a full retrospective approach or a modified retrospective approach. For non-public entities, the new guidance is effective for periods beginning after December 15, 2018, with early adoption permitted for periods beginning after December 15, 2016.

Further, in March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In May 2016, the FASB issued ASU 2016-12, providing additional clarity on various aspects of Topic 606, including a) Assessing the Collectibility Criterion and Accounting for Contracts That Do Not Meet the Criteria for Step 1, b) Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, c) Noncash Consideration, d) Contract Modifications at Transition, e) Completed Contracts at Transition, and f) Technical Correction. The effective date and transition requirements for the amendments in these updates are the same as the effective date and transition requirements of ASU 2014-09.

Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory." The new guidance requires that inventory be measured at the lower of cost and net realizable value (other than inventory measured using "last-in, first out" and the "retail inventory method"). The new guidance, which must be applied prospectively, is effective for non-public entities for periods beginning after December 15, 2016, with early adoption permitted.

Intangibles – Goodwill and Other – Internal-Use Software, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU 2015-05 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. For non-public entities, the new guidance is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016, with early adoption permitted.

Presentation of Financial Statements – Balance Sheet Classification of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to term loans, be presented in the balance sheets as a direct deduction from the carrying value of debt. The new guidance, which requires retrospective application, is effective for periods beginning after December 15, 2015, with early adoption permitted.

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

In August 2014, the FASB issued amendments on reporting about an entity's ability to continue as a going concern in ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205 - 40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments provide guidance about management's responsibility to evaluate whether there is substantial doubt surrounding an entity's ability to continue as a going concern. If management concludes that substantial doubt exists, the amendments require additional disclosures relating to management's evaluation and conclusion. The amendments are effective for the annual reporting period ending after December 15, 2016 and interim periods thereafter.

Financial Statement Revision

During 2016, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company has corrected the accounting by revising the prior period financial statements presented herein, the impacts of which are described below. The Company concluded that the corrections were not material to any prior periods.

During a review of the Company's open work orders within capital work in progress, management identified charges that were inappropriately classified as capital instead of expense. A cumulative adjustment of $14.5 million (net of income taxes) was recorded, of which $5.7 million was recorded as a decrease to opening retained earnings (as of March 31, 2013), and $4.9 million and $3.9 million were recorded as a decrease to net income with the correction recorded within operations and maintenance expense for the years ended March 31, 2015 and 2014, respectively.

Furthermore, management also identified an error in the amount of capital-related accruals included in accounts payable, which resulted in an overstatement in net cash provided by operating activities and in net cash used in investing activities of $6.3 million for the years ended March 31, 2015, and an understatement in net cash provided by operating activities and in net cash used in investing activities of $24.2 million for the years ended March 31, 2014.

Finally, the Company has corrected other miscellaneous account balances that were improperly recorded in the previously issued financial statements. A cumulative adjustment of $2.9 million (net of income taxes) was recorded, of which $0.7 million was recorded as an increase to opening retained earnings (as of March 31, 2013), and $2.5 million and $1.1 million were recorded as a decrease to net income with the correction recorded within operating revenues for the years ended March 31, 2015 and 2014, respectively.

	As Previously Reported	Adjustments	As Revised
		(in thousands of dollars)	
Statement of Income	**March 2015**		**March 2015**
Operating revenues	$ 3,171,854	$ (3,988)	$ 3,167,866
Operating expenses	2,801,998	8,244	2,810,242
Operating income	369,856	(12,232)	357,624
Income tax expense	94,873	(4,846)	90,027
Net income	176,569	(7,386)	169,183
Statement of Income	**March 2014**		**March 2014**
Operating revenues	$ 3,526,532	$ (1,841)	$ 3,524,691
Operating expenses	3,081,207	6,442	3,087,649
Operating income	445,325	(8,283)	437,042
Income tax expense	126,283	(3,281)	123,002
Net income	234,253	(5,003)	229,250
Statement of Cash Flows	**March 2015**		**March 2015**
Net cash provided by operating activities	$ 753,692	$ (14,484)	$ 739,208
Net cash used in investing activities	(870,985)	14,484	(856,501)
Statement of Cash Flows	**March 2014**		**March 2014**
Net cash provided by operating activities	$ 467,615	$ 17,787	$ 485,402
Net cash used in investing activities	(621,926)	(17,787)	(639,713)

	As Previously Reported [1]	Adjustments	As Revised
		(in thousands of dollars)	
Balance Sheet	**March 2015**		**March 2015**
Property, plant and equipment, net	$ 7,886,060	$ (23,791)	$ 7,862,269
Total other non-current assets	3,013,257	(3,162)	3,010,095
Total assets	12,089,873	(26,953)	12,062,920
Total other non-current liabilities	4,167,585	(9,563)	4,158,022
Total liabilities and capitalization	12,089,873	(26,953)	12,062,920
Retained Earnings			
March 31, 2015	1,144,500	(17,390)	1,127,110
March 31, 2014	968,991	(10,004)	958,987
March 31, 2013	735,798	(5,001)	730,797
Shareholders' Equity			
March 31, 2015	4,374,149	(17,390)	4,356,759
March 31, 2014	4,185,782	(10,004)	4,175,778
March 31, 2013	3,912,734	(5,001)	3,907,733

[1] During 2016, the Company early adopted ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" retrospectively (as discussed in Note 10, "Income Taxes"). This change in accounting policy resulted in the reclassification of balances reported at March 31, 2015.

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Regulatory assets		
Current:		
Derivative instruments	**$ 95,479**	$ 61,944
Gas costs adjustment	**989**	9,190
Revenue decoupling mechanism	**12,918**	5,147
Other	**3,919**	445
Total	**113,305**	76,726
Non-current:		
Environmental response costs	**372,452**	415,234
Postretirement benefits	**644,693**	729,771
Regulatory deferred tax asset	**88,373**	78,790
Storm costs	**95,207**	93,391
Other	**108,679**	110,321
Total	**1,309,404**	1,427,507
Regulatory liabilities		
Current:		
Energy efficiency	**118,598**	68,305
Gas costs adjustment	**9,826**	3,169
Rate adjustment mechanisms	**91,769**	100,154
Revenue decoupling mechanism	**5,159**	4,082
Temporary state assessment	**5,462**	28,649
Other	**1,936**	-
Total	**232,750**	204,359
Non-current:		
Carrying charges	**73,386**	61,039
Cost of removal	**341,963**	370,163
Economic development fund	**76,455**	56,198
Long-term debt true-up	**47,624**	25,096
Postretirement benefits	**77,922**	97,562
Storm costs	**119,389**	87,778
Other	**201,354**	171,893
Total	**938,093**	869,729
Net regulatory assets	**$ 251,866**	$ 430,145

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

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

Economic development fund: Represents actual expenditures and economic development discounts below the rate allowance, deferred for future return.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of the Company's energy efficiency programs as approved by the NYPSC.

Environmental response costs: Represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs at a level of $42 million per year, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

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

Long-term debt true-up: As approved by the NYPSC, the Company has a mechanism whereby it reconciles the actual interest expense related to its variable rate debt with the target amounts reflected in rates ($22 million for electric and $5.5 million for gas). The Company will defer the difference for future refund to, or recovery from, customers.

Postretirement benefits: The regulatory asset represents the Company's deferral related to the underfunded status of its pension and PBOP plans. The regulatory liability primarily represents the excess of amounts received in rates over actual costs of the Company's pension and PBOP plans to be refunded in future periods.

Rate adjustment mechanisms: The Company is subject to a number of rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the NYPSC. These amounts will be refunded to, or recovered from, customers.

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

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

Storm costs: The Joint Proposal (NMPC rate proceeding Case 12-E-0201) establishes an annual allowance for major storm recovery of $29 million in each of the three years. The Company will defer the difference between the base rate allowance and actual major storm incremental costs for future refund to, or recovery from, customers. The regulatory liability represents the cumulative storm reserve allowance / funding for major storm incremental costs. The regulatory asset represents the cumulative costs incurred for qualified storm events.

Temporary state assessment: In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers, respectively, for rates effective July 1, 2014 through June 30, 2015.

The Company records carrying charges on all regulatory balances (with the exception of amortization of deferral recoveries, derivative instruments, cost of removal, and regulatory deferred tax balances), for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made.

4. RATE MATTERS

Electric and Gas Filing

In March 2013, the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The original term of the rate plan was from April 1, 2013 through March 31, 2016, and provided for electric delivery rate revenue of $1,338.3 million in the first year, $1,395.9 million in the second year, and $1,432.5 million in the third year. It also provided for gas delivery rate revenue of $307.4 million in the first year, $314.7 million in the second year, and $322 million in the third year. On December 21, 2015, the Company filed a Petition with the NYPSC seeking authorization to recover approximately $150 million in revenue requirements associated with a proposed two-year, $1.4 billion capital spending program for the Company's electric and gas operations in fiscal years 2017 and 2018. The Petition proposed that the revenue requirement be fully funded by existing regulatory deferrals and proposed no increase in customer rates. The Petition also proposed on extension of the existing rate plan which expired in March 2016 through March 2018.

On May 19, 2016, the NYPSC granted approval of the capital investment petition, approving a two-year capital program worth approximately $1.3 billion and funding of the incremental portion of that investment through the use of $140 million in regulatory liabilities due to customers over 24 months.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA also challenges certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint against the Company seeking an order effective February 6, 2014 to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the NYISO, with a corresponding overall weighted cost of capital of 6.6%. On September 8, 2014, the FERC issued orders consolidating the first and second complaints and setting the consolidated complaints and the third complaint for hearing and settlement procedures.

On February 24, 2015, the Company filed an Offer of Settlement and Settlement Agreement ("Settlement") resolving all issues in the complaints and setting the ROE at 10.3%, inclusive of any incentive adders, effective November 2, 2012. The Settlement also provided for various refunds, and separate payments of $200,000 and $180,000 to certain customers. On May 13, 2015, the FERC approved the Offer of Settlement, and on June 12, 2015, the Company filed tariff revisions to implement the new 10.3% ROE negotiated in the settlement. The Company subsequently provided all refunds required by the Settlement and on September 30, 2015 filed a Refund Report with the FERC which concluded this FERC proceeding.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its Reliability Support Services ("RSS") costs under two agreements with NRG Energy Inc. to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014, the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC. On March 19, 2015, the FERC issued two orders relating to the Company's December 6, 2013 filing of proposed tariff revisions to the TSC Rate. In the first order, the FERC set for hearing and settlement judge procedures the justness and reasonableness of the Company's proposed Wholesale TSC formula rate revisions and the Dunkirk RSS charges. In the second order, the FERC rejected a request for rehearing filed by the MEUA regarding the FERC's decision to accept the December 6, 2013 amendment for filing retroactive to July 1, 2013. The FERC held the hearing on the first order in abeyance pending the outcome of settlement proceedings before a settlement judge. The parties agreed to the terms of a settlement which was filed with the settlement judge on September 11, 2015 and certified by the settlement judge to the FERC on October 19, 2015. Under the terms of the settlement the Company will include the costs of the Dunkirk RSS agreements, including the costs associated with extending the 2013 Dunkirk RSS agreement through the end of 2015, less $35 million, in the TSC Rate. The $35 million reduction to the revenue requirement impact of the Dunkirk RSS agreements will be implemented through a billing adjustment included in the Company's 2016 annual TSC informational update filing. Any change in revenues received from wholesale transmission customers resulting from the settlement agreement will be offset by revenues from retail electric distribution customers through the Transmission Revenue Adjustment Clause mechanism.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013 and the NYPSC issued an audit findings report in October 2014. The audit findings found that the Company's operations performed well in providing reliable gas service, and strength in operations, network planning, project management, work management, load forecasting, supply procurement and customer systems support. Also included were 31 recommendations for improvement, including: reconstituting the boards of directors of NGUSA and the gas companies in New York to include more objective oversight; establishing stronger reporting authority between the New York jurisdictional president and operational organizations; preparing a true strategic plan for NGUSA's New York operations to serve as a road map for investments, programs and operations to build upon the state energy plan and energy initiatives; developing a five-year, integrated, system-wide plan that includes all gas reliability work, mandated replacements, growth projects and system planning work; enhancing internal service level agreements to promote accountability for performance and costs; and undertaking a full accounting of all costs associated with NGUSA's SAP enterprise wide system. In November 2014, NGUSA's New York gas businesses filed joint audit implementation plans addressing each of the audit recommendations. On May 14, 2015, the NYPSC issued an order accepting without modifications the joint implementation plans and directing NGUSA's New York gas businesses to execute the plans.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. On April 20, 2016, the NYPSC released Overland's audit report publicly and adopted the majority of recommendations in the report. The audit report found that the Company, in general, is meeting its obligations to supply self-reported data. The report contains recommendations to improve internal controls and allow for greater consistency in reporting among the New York utilities. The recommendations do not affect current rate case performance targets or mechanisms and may be considered for potential implementation in future rate plans. The Company filed its plan to implement the audit recommendations with the NYPSC on May 19, 2016. On May 26, 2016, the NYPSC issued a Notice Seeking Comments on the draft customer service recommendations that were not addressed in the previous order. The Company filed comments on the draft recommendations on July 20, 2016.

Operations Staffing Audit

In January 2014, the NYPSC initiated an operational audit to review internal staffing levels and use of contractors for the core utility functions of the investor owned utilities operating in New York, including the Company. On June 26, 2014, the NYPSC selected The Liberty Consulting Group to conduct the audit. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this operational audit.

Recovery of Deferral Costs Relating to Emergency Order

On January 28, 2014, the Company filed a petition requesting a waiver of Rule 46.3.2 of its tariff. Rule 46.3.2 describes the manner in which the Company calculates its supply-related Mass Market Adjustment ("MMA"). The Company proposed the waiver of the rule to mitigate adverse financial impacts anticipated from a significant and unusual increase in electric commodity prices for its mass market customers.

On that same date, the NYPSC issued, on an emergency basis pursuant to the State Administrative Procedure Act §202(6), an Emergency Order granting the Company's waiver request (the "Emergency Order"). In the Emergency Order, the NYPSC waived the requirements of Rule 46.3.2 and approved deferral treatment of the costs and associated carrying charges related to the one-time credit provided via the waiver. However, the NYPSC denied, pending further review and consideration of public comments, the Company's request to recover such deferral over a six-month period beginning May 2014.

The NYPSC issued another order on April 25, 2014 permanently approving the Emergency Order and authorizing the Company to collect $33.3 million, plus carrying charges at the customer deposit rate, over a six-month period commencing with the June 2014 billing period. The deferral recovery will be performed in a manner consistent with the method that was used to provide the benefit to the mass market customers, through an adjustment to the MMA as calculated by NYISO load zone.

Petition for Authorization to Defer an Actuarial Experience Pension Settlement Loss for the Year Ending March 31, 2014

On February 28, 2014 and August 13, 2014, the Company filed petitions seeking authorization to defer $14.1 million related to a pension settlement loss incurred during the year ending March 31, 2014.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2016	2015
	(in thousands of dollars)	
Plant and machinery	**$ 10,622,855**	$ 10,157,612
Land and buildings	**582,547**	558,383
Assets in construction	**257,459**	322,500
Software and other intangibles	**6,888**	8,141
Total property, plant and equipment	**11,469,749**	11,046,636
Accumulated depreciation and amortization	**(3,223,703)**	(3,184,367)
Property, plant and equipment, net	**$ 8,246,046**	$ 7,862,269

6. DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage commodity price risk associated with its natural gas and electricity purchases. The Company's commodity risk management strategy is to reduce fluctuations in firm gas and electricity sales prices to its customers.

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

Volumes

Volumes of outstanding commodity derivative instruments measured in dekatherms ("dths") and megawatt hours ("mwhs") are as follows:

	Electric		Gas	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands)		*(in thousands)*	
Gas option contracts (dths)	**-**	-	**4,055**	760
Gas purchase contracts (dths)	**-**	-	**4,373**	5,178
Gas swap contracts (dths)	**-**	-	**3,350**	4,380
Electric option contracts (mwhs)	**203**	154	**-**	-
Electric swap contracts (mwhs)	**11,786**	10,779	**-**	-
Total	**11,989**	10,933	**11,778**	10,318

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2016	2015		**2016**	2015
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas option contracts	**$ 90**	$ -	Gas option contracts	**$ 155**	$ 65
Gas purchase contracts	**16**	10	Gas purchase contracts	**67**	170
Gas swap contracts	**-**	-	Gas swap contracts	**1,047**	3,908
Electric capacity contracts	**137**	-	Electric capacity contracts	**-**	-
Electric option contracts	**-**	-	Electric option contracts	**158**	953
Electric swap contracts	**3,361**	19,242	Electric swap contracts	**63,081**	47,570
	3,604	19,252		**64,508**	52,666
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**60**	-	Gas purchase contracts	**-**	-
Electric capacity contracts	**2,231**	-	Electric capacity contracts	**-**	-
Electric option contracts	**-**	-	Electric option contracts	**725**	-
Electric swap contracts	**-**	-	Electric swap contracts	**36,140**	28,530
	2,291	-		**36,865**	28,530
Total	**$ 5,895**	$ 19,252	Total	**$ 101,373**	$ 81,196

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative instruments not subject to rate recovery as of March 31, 2016 and 2015.

Credit and Collateral

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

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

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

The Company's credit exposure for all commodity derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral, and instruments that are subject to master netting agreements, was a liability of $66.5 million and $49.8 million as of March 31, 2016 and 2015, respectively.

The aggregate fair value of the Company's commodity derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2016 and 2015 was $98.4 million and $62 million, respectively. The Company had $29 million and $12.1 million collateral posted for these instruments at March 31, 2016 and 2015, respectively. At March 31, 2016, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $9.6 million, $22.1 million, or $69.4 million, respectively. At March 31, 2015, if the Company's credit rating were to be downgraded by one, two, or three levels, it would be required to post additional collateral to its counterparties of $13.6 million, $23.6 million, or $58.9 million, respectively.

Offsetting Information for Derivative Instruments Subject to Master Netting Arrangements

March 31, 2016

Gross Amounts Not Offset in the Balance Sheets

(in thousands of dollars)

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 90	$ -	$ 90	$ -	$ -	$ 90
Gas purchase contracts	76	-	76	-	-	76
Electric capacity contracts	2,368	-	2,368	-	-	2,368
Electric swap contracts	3,361	-	3,361	-	-	3,361
Total	$ 5,895	$ -	$ 5,895	$ -	$ -	$ 5,895

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Derivative instruments						
Gas option contracts	$ 155	$ -	$ 155	$ -	$ -	$ 155
Gas purchase contracts	67	-	67	-	-	67
Gas swap contracts	1,047	-	1,047	-	-	1,047
Electric option contracts	883	-	883	-	-	883
Electric swap contracts	99,221	-	99,221	-	29,000	70,221
Total	$ 101,373	$ -	$ 101,373	$ -	$ 29,000	$ 72,373

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

ASSETS:	Gross amounts of recognized assets A	Gross amounts offset in the Balance Sheets B	Net amounts of assets presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral received Db	Net amount E=C-D
Derivative instruments						
Gas purchase contracts	$ 10	$ -	$ 10	$ -	$ -	$ 10
Electric swap contracts	19,242	-	19,242	-	-	19,242
Total	$ 19,252	$ -	$ 19,252	$ -	$ -	$ 19,252

LIABILITIES:	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilities presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Derivative instruments						
Gas option contracts	$ 65	$ -	$ 65	$ -	$ -	$ 65
Gas purchase contracts	170	-	170	-	-	170
Gas swap contracts	3,908	-	3,908	-	-	3,908
Electric option contracts	953	-	953	-	-	953
Electric swap contracts	76,100	-	76,100	-	12,100	64,000
Total	$ 81,196	$ -	$ 81,196	$ -	$ 12,100	$ 69,096

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2016 and 2015:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas option contracts	$ -	$ -	$ 90	$ 90
Gas purchase contracts	-	-	76	76
Electric capacity contracts	-	-	2,368	2,368
Electric swap contracts	-	3,361	-	3,361
Available-for-sale securities	19,761	10,081	-	29,842
Total	19,761	13,442	2,534	35,737
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	155	155
Gas purchase contracts	-	67	-	67
Gas swap contracts	-	1,047	-	1,047
Electric option contracts	-	-	883	883
Electric swap contracts	-	99,221	-	99,221
Total	-	100,335	1,038	101,373
Net assets (liabilities)	$ 19,761	$ (86,893)	$ 1,496	$ (65,636)

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative instruments				
Gas purchase contracts	$ -	$ 6	$ 4	$ 10
Electric swap contracts	-	19,242	-	19,242
Available-for-sale securities	20,008	9,926	-	29,934
Total	20,008	29,174	4	49,186
Liabilities:				
Derivative instruments				
Gas option contracts	-	-	65	65
Gas purchase contracts	-	-	170	170
Gas swap contracts	-	3,908	-	3,908
Electric option contracts	-	-	953	953
Electric swap contracts	-	76,100	-	76,100
Total	-	80,008	1,188	81,196
Net assets (liabilities)	$ 20,008	$ (50,834)	$ (1,184)	$ (32,010)

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

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

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

Changes in Level 3 Derivative Instruments

	Years Ended March 31,	
	2016	2015
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (1,184)**	$ 1,165
Transfers out of Level 3	**-**	4,743
Net gains (losses) included in regulatory assets and liabilities	**1,293**	(9,270)
Settlements	**1,387**	2,178
Balance as of the end of the year	**$ 1,496**	$ (1,184)

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2016, 2015, or 2014.

For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are categorized in Level 3 as the model inputs generally are not observable. The forward curves used for financial reporting are developed and verified by the middle office. The Company considers non-performance risk and liquidity risk in the valuation of derivative instruments categorized in Level 2 and Level 3.

Quantitative Information About Level 3 Fair Value Measurements

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

Commodity	Level 3 Position	Fair Value as of March 31, 2016 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(in thousands of dollars)					
Gas	Option contracts	$ 90	$ (155)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.090-$0.363/dth 34% - 38%
Gas	Purchase contracts	76	-	76	Discounted Cash Flow	Forward Curve	$12.72-$31.35/dth
Electric	Option contracts	-	(883)	(883)	Discounted Cash Flow	Implied Volatility	12% - 54%
Electric	Capacity contracts	2,368	-	2,368	Discounted Cash Flow	Forward Curve	$0.58-$5.80/MW
	Total	$ 2,534	$ (1,038)	$ 1,496			

Commodity	Level 3 Position	Fair Value as of March 31, 2015 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input	Range
		(in thousands of dollars)					
Gas	Option contracts	$ -	$ (65)	$ (65)	Discounted Cash Flow	Forward Curve Implied Volatility	$0.272-$0.295/dth 34% - 41%
Gas	Purchase contracts	4	(170)	(166)	Discounted Cash Flow	Forward Curve	$0.959-$1.270/dth
Electric	Option contracts	-	(953)	(953)	Discounted Cash Flow	Implied Volatility	30% - 69%
	Total	$ 4	$ (1,188)	$ (1,184)			

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

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2016 and 2015 was $2.9 billion and $3 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the "Pension Plans") and several PBOP plans (the "PBOP Plans," together with the Pension Plans, the "Plans"). The Company calculates benefits under these plans based on age, years of service and pay using March 31 as a measurement date. In addition, the Company also sponsors defined contribution plans for eligible employees.

NGUSA sponsors certain qualified and non-qualified retirement benefit plans. A portion of the cost of these plans is charged to the Company to the extent employee's participating in those plans provide services to the Company. The Company is also allocated costs associated with affiliated service companies' employees for work performed on the Company's behalf.

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company's rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute approximately $37.7 million to the qualified pension plan during the year ended March 31, 2017.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $55.3 million to the PBOP Plans during the year ended March 31, 2017.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2016, 2015, and 2014, the Company recognized an expense in the accompanying statements of income of $8.4 million, $7.9 million, and $7.7 million, respectively, for matching contributions.

Components of Net Periodic Benefit Costs

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Service cost	**$ 26,229**	$ 23,583	$ 24,888
Interest cost	**56,379**	60,957	60,507
Expected return on plan assets	**(89,179)**	(100,068)	(93,849)
Amortization of prior service cost, net	**3,719**	3,719	4,805
Amortization of net actuarial loss	**53,183**	52,606	61,957
Settlement loss	**-**	-	13,815
Total cost	**$ 50,331**	$ 40,797	$ 72,123

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Service cost	**$ 26,941**	$ 20,687	$ 20,618
Interest cost	**75,551**	76,608	70,219
Expected return on plan assets	**(79,993)**	(83,046)	(73,904)
Amortization of prior service cost, net	**2,243**	12,681	12,681
Amortization of net actuarial loss	**46,142**	27,888	26,371
Total cost	**$ 70,884**	$ 54,818	$ 55,985

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss (gain)	**$ 48,807**	$ 114,848	$ (12,327)
Amortization of net actuarial loss	**(53,183)**	(52,606)	(61,957)
Amortization of prior service cost, net	**(3,719)**	(3,719)	(4,805)
Total	**$ (8,095)**	$ 58,523	$ (79,089)
Included in regulatory assets	**$ (7,976)**	$ 58,285	$ (77,880)
Included in AOCI	**(119)**	238	(1,209)
Total	**$ (8,095)**	$ 58,523	$ (79,089)

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial (gain) loss	**$ (42,177)**	$ 296,489	$ 54,283
Amortization of net actuarial loss	**(46,142)**	(27,888)	(26,371)
Amortization of prior service cost, net	**(2,243)**	(12,681)	(12,681)
Total	**$ (90,562)**	$ 255,920	$ 15,231
Included in regulatory assets	**$ (90,562)**	$ 255,920	$ 15,231
Total	**$ (90,562)**	$ 255,920	$ 15,231

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss	**$ 255,804**	$ 260,180	$ 197,938
Prior service cost	**14,276**	17,995	21,714
Total	**$ 270,080**	$ 278,175	$ 219,652
Included in regulatory assets	**$ 268,598**	$ 276,574	$ 218,289
Included in AOCI	**1,482**	1,601	1,363
Total	**$ 270,080**	$ 278,175	$ 219,652

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Net actuarial loss	**$ 364,231**	$ 452,550	$ 183,949
Prior service cost	**(1,596)**	647	13,328
Total	**$ 362,635**	$ 453,197	$ 197,277
Included in regulatory assets	**$ 362,635**	$ 453,197	$ 197,277
Total	**$ 362,635**	$ 453,197	$ 197,277

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a ten-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2017 for the Pension Plans is $58.9 million and $3.3 million, respectively, and net actuarial loss and prior service benefit to be amortized from regulatory assets during the year ended March 31, 2017 for the PBOP Plans is $52 million and $0.9 million, respectively.

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,627,785)**	$ (1,449,308)	**$ (2,080,082)**	$ (1,752,928)
Service cost	**(31,324)**	(28,339)	**(31,290)**	(24,427)
Interest cost	**(62,608)**	(67,418)	**(80,190)**	(81,160)
Net actuarial gain (loss)	**41,356**	(177,053)	**168,860**	(284,758)
Benefits paid	**125,241**	94,333	**81,015**	74,835
Actual Medicare Part D subsidy received	**-**	-	**-**	(8)
Employer group waiver plan subsidy received	**-**	-	**(10,292)**	(11,636)
Benefit obligation as of the end of the year	**(1,555,120)**	(1,627,785)	**(1,951,979)**	(2,080,082)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,803,758**	1,736,397	**1,273,363**	1,204,634
Actual return (loss) on plan assets	**2,402**	161,291	**(28,629)**	58,011
Company contributions	**50,034**	403	**55,304**	85,553
Benefits paid	**(125,241)**	(94,333)	**(81,015)**	(74,835)
Fair value of plan assets as of the end of the year	**1,730,953**	1,803,758	**1,219,023**	1,273,363
Funded status	**$ 175,833**	$ 175,973	**$ (732,956)**	$ (806,719)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.5 billion and $1.6 billion at March 31, 2016 and 2015, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Other non-current assets	**$ 211,726**	$ 214,054	**$ -**	$ -
Current liabilities	**(376)**	(382)	**(5,000)**	(7,300)
Other non-current liabilities	**(2,129)**	(2,489)	**(674,050)**	(740,555)
Total	**$ 209,221**	$ 211,183	**$ (679,050)**	$ (747,855)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2016:

(in thousands of dollars) Years Ending March 31,	Pension Plans	PBOP Plans
2017	$ 175,743	$ 76,490
2018	171,806	80,384
2019	163,495	84,569
2020	156,062	88,643
2021	147,881	93,160
Thereafter	607,896	521,672
Total	$ 1,422,883	$ 944,918

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2016	2015	2014
Benefit Obligations:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.00%	7.00%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.00%**	7.00%	6.75%

	PBOP Plans		
	Years Ended March 31,		
	2016	2015	2014
Benefit Obligations:			
Discount rate	**4.25%**	4.10%	4.80%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.25%-6.75%	7.00%-7.25%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.80%	4.70%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	7.00%-7.25%	7.00%-7.50%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2016	2015
Health care cost trend rate assumed for next year		
Pre 65	**7.50%**	8.00%
Post 65	**6.25%**	6.50%
Prescription	**11.00%**	6.50%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	5.00%
Year that rate reaches ultimate trend		
Pre 65	**2025**	2022
Post 65	**2024**	2022
Prescription	**2025**	2022

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in thousands of dollars)	**March 31, 2016**
1% point increase	
Total of service cost plus interest cost	$ 24,677
Postretirement benefit obligation	337,371
1% point decrease	
Total of service cost plus interest cost	(19,842)
Postretirement benefit obligation	(287,438)

Plan Assets

NGUSA manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments. Small investments are also approved for private equity, real estate, and infrastructure with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations for the benefit plans as of March 31, 2016 and 2015 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2016	2015	**2016**	2015
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**-**	-
Real estate	**4%**	4%	**-**	-
Infrastructure	**2%**	2%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets:

	March 31, 2016				
	Level 1	**Level 2**	**Level 3**	**Not categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ 1,220	$ 40,741	$ -	$ 756	$ 42,717
Accounts payable	(20,648)	-	-	-	(20,648)
Convertible securities	-	919	-	-	919
Equity	144,802	55,545	-	410,283	610,630
Global tactical asset allocation	-	-	-	82,186	82,186
Fixed income securities	-	800,890	-	15,152	816,042
Preferred securities	-	10,447	-	-	10,447
Futures contracts	85	-	-	-	85
Private equity	-	-	-	100,794	100,794
Real estate	-	-	-	87,781	87,781
Total	**$ 125,459**	**$ 908,542**	**$ -**	**$ 696,952**	**$ 1,730,953**
PBOP Assets:					
Cash and cash equivalents	$ 18,788	$ 546	$ -	$ 715	$ 20,049
Accounts receivable	13,192	-	-	-	13,192
Accounts payable	(11,958)	-	-	-	(11,958)
Equity	165,750	49,181	-	620,104	835,035
Global tactical asset allocation	32,122	-	-	70,873	102,995
Fixed income securities	450	258,611	-	-	259,061
Futures contracts	(22)	671	-	-	649
Total	**$ 218,322**	**$ 309,009**	**$ -**	**$ 691,692**	**$ 1,219,023**

	March 31, 2015				
	Level 1	Level 2	Level 3	Not categorized	Total
	(in thousands of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 1,394	$ 43,127	$ -	$ 286	$ 44,807
Accounts payable	(22,333)	-	-	-	(22,333)
Equity	152,747	56,774	-	423,069	632,590
Global tactical asset allocation	-	-	-	69,640	69,640
Fixed income securities	-	862,528	-	12,088	874,616
Preferred securities	-	15,104	-	-	15,104
Futures contracts	244	-	-	-	244
Private equity	-	-	-	94,875	94,875
Real estate	-	-	-	94,215	94,215
Total	$ 132,052	$ 977,533	$ -	$ 694,173	$ 1,803,758
PBOP Assets:					
Cash and cash equivalents	$ 23,265	$ -	$ -	$ 304	$ 23,569
Accounts receivable	2,078	-	-	-	2,078
Accounts payable	(1,104)	-	-	-	(1,104)
Equity	177,166	49,003	-	669,514	895,683
Global tactical asset allocation	34,364	-	-	62,800	97,164
Fixed income securities	449	255,663	-	-	256,112
Futures contracts	(139)	-	-	-	(139)
Total	$ 236,079	$ 304,666	$ -	$ 732,618	$ 1,273,363

The methods used to fair value pension and PBOP assets are described below:

Cash and cash equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Cash and cash equivalents invested in the Employee Benefit Temporary Investment Funds and JPMorgan Chase Bank Liquidity Funds are excluded from the fair value hierarchy. Such instruments are generally valued using a curve methodology that includes observable inputs such as money market rates for specific instruments, programs, currencies and maturity points obtained from a variety of market makers, reflective of current trading levels. The methodologies consider an instrument's days to final maturity to generate a yield based on the relevant curve for the instrument.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified in the same category as the investments to which they relate. Such amounts are short-term and settle within a few days of the measurement date.

Equity and preferred securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. The Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, in which case they are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Investments that are not publicly traded and valued using unobservable inputs are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and they are excluded from the fair value hierarchy. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Global tactical asset allocation: Assets held in global tactical asset allocation funds are managed by investment managers who use both top-down and bottom-up valuation methodologies to value asset classes, countries, industrial sectors, and individual securities in order to allocate and invest assets opportunistically. If the inputs used to measure a financial instrument fall within different levels of the fair value hierarchy within the commingled fund, the categorization is based on the lowest level input that is significant to the measurement of that financial instrument. The assets invested through commingled funds are classified as Level 2. Those which are open ended mutual funds with observable pricing are classified as Level 1. However, the underlying Level 3 assets that makeup these funds are classified in the same category as the investments to which they relate. Investments with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds) convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. If prices are based on uncorroborated and unobservable inputs, then the investments are classified as Level 3 investments. Commingled funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV per fund share, derived from the underlying securities' quoted prices in active markets, and are classified as Level 2 investments. Investments in commingled funds with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

Private equity and real estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital, and other investments are valued using evaluations (NAV per fund share) based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in Limited Partnerships with redemption restrictions and that use NAV are excluded from the fair value hierarchy.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the NAV as a practical expedient could result in a different fair value measurement at the reporting date.

Other Benefits

At March 31, 2016 and 2015, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported of $13 million and $14.4 million, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table represents the changes in the Company's AOCI for the years ended March 31, 2016 and 2015:

	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Total
	(in thousands of dollars)		
Balance as of March 31, 2014	$ 2,248	$ (668)	$ 1,580
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $133 tax benefit)	-	(204)	(204)
Gain on investment (net of $588 tax expense)	897	-	897
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $39 tax expense)[1]	-	60	60
Gain on investment (net of $321 tax benefit) [1]	(490)	-	(490)
Net current period other comprehensive income (loss)	407	(144)	263
Balance as of March 31, 2015	**$ 2,655**	**$ (812)**	**$ 1,843**
Other comprehensive (loss) income before reclassifications:			
Unrecognized net acturial loss (net of $4 tax benefit)	-	(5)	(5)
Loss on investment (net of $434 tax benefit)	(666)	-	(666)
Amounts reclassified from other comprehensive income (loss):			
Amortization of net actuarial loss (net of $51 tax expense)[1]	-	77	77
Gain on investment (net of $212 tax benefit) [1]	(318)	-	(318)
Net current period other comprehensive (loss) income	(984)	72	(912)
Balance as of March 31, 2016	**$ 1,671**	**$ (740)**	**$ 931**

(1) Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,	
2017	$ -
2018	-
2019	-
2020	750,000
2021	-
Thereafter	2,029,465
Total	$ 2,779,465

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt. The authorization is effective for a period of two years and expires on January 11, 2017. The Company had no short-term debt outstanding to third-parties as of March 31, 2016 or 2015.

In September 2012, the NYPSC granted multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In November 2012, the Company issued $700 million of unsecured long-term debt, and in September 2014, the Company issued the remaining $900 million of unsecured long-term debt under this authority.

On May 19, 2016, the NYPSC authorized the Company to issue up to $2.1 billion of long-term debt in one or more transactions through March 31, 2020. The Company can issue up to $429.5 million of the total authorization to refinance existing auction rate debt.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $429.5 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). The bonds bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.44% to 1.11% for the year ended March 31, 2016. The bonds are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum auction rate which depends on the current appropriate, short-term benchmark rate and the senior unsecured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in any of the years ended March 31, 2016, 2015, or 2014.

The Company also had $75 million of 5.15% fixed rate pollution control revenue bonds issued through NYSERDA which were callable at par. Pursuant to agreements between NYSERDA and the Company, proceeds from such issues were used for the purpose of financing the construction of certain pollution control facilities at the Company's generation facilities (which the Company subsequently sold) or to refund outstanding tax-exempt bonds and notes. In June 2015, the Company executed the optional redemption provision under the indenture and redeemed the bond at par.

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2016, 2015, and 2014.

The indenture securing the Company's mortgage debt provides that retained earnings shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not exceed 2.25% of depreciable property as defined therein. These provisions have never resulted in a restriction of the Company's retained earnings.

The Company is limited by the Merger Rate Plan, NYPSC orders, and FERC orders with respect to the amount of dividends the Company can pay. As long as the bond ratings on the least secure forms of debt issued by the Company and National Grid plc remain investment grade and do not fall to the lowest investment grade rating (with one or more negative watch downgrade notices issued with respect to such debt), the Company is allowed to pay dividends.

Cumulative Preferred Stock

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

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2016**	2015	**2016**	2015	**Price**
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Golden Share	**1**	1	**-**	-	Non-callable
Total	**289,848**	289,848	**$ 28,985**	$ 28,985	

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock, having one share (the "Golden Share") subordinate to any existing preferred stock. The holder of the Golden Share would have voting rights that limit the Company's right to commence any voluntary bankruptcy, liquidation, receivership, or similar proceeding without the consent of the holder of the Golden Share. The NYPSC subsequently authorized the issuance of the Golden Share to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Share subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Share in the best interests of NYS. On July 8, 2011, the Company issued the Golden Share with a par value of $1.

The Company did not redeem any preferred stock during the years ended March 31, 2016, 2015, or 2014. The annual dividend requirement for cumulative preferred stock was $1.1 million for each of the years ended March 31, 2016, 2015, and 2014.

11. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Current tax expense (benefit):			
Federal	**$ 8,555**	$ (9,498)	$ 22,946
State	**15,777**	11,869	7,187
Total current tax expense (benefit)	**24,332**	2,371	30,133
Deferred tax expense (benefit):			
Federal	**89,257**	77,491	77,166
State	**5,977**	12,101	17,639
Total deferred tax expense (benefit)	**95,234**	89,592	94,805
Amortized investment tax credits [1]	**(2,564)**	(1,936)	(1,936)
Total deferred tax expense (benefit)	**92,670**	87,656	92,869
Total income tax expense	**$ 117,002**	$ 90,027	$ 123,002

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2016, 2015, and 2014 are 37.4%, 34.7%, and 34.9%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Computed tax	**$ 109,397**	$ 90,723	$ 123,289
Change in computed taxes resulting from:			
Allowance for equity funds used during construction	**(3,487)**	(3,722)	(4,342)
Investment tax credits	**(2,564)**	(1,936)	(1,936)
State income tax, net of federal benefit	**14,140**	15,579	16,137
Temporary differences flowed through	**(834)**	(5,053)	(4,247)
Other items, net	**350**	(5,564)	(5,899)
Total	**7,605**	(696)	(287)
Total income tax expense	**$ 117,002**	$ 90,027	$ 123,002

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

During the period there was no material change in the Company's deferred tax liability for the decrease in the tax rate from 7.1% to 6.5% applicable to New York entities beginning with the fiscal year ended March 31, 2017.

Deferred Tax Components

	March 31, 2016	March 31, 2015
	(in thousands of dollars)	
Deferred tax assets:		
Allowance for doubtful accounts	**$ 64,172**	$ 55,373
Environmental remediation costs	**154,568**	172,574
Future federal benefit on state taxes	**53,046**	49,871
Postretirement benefits and other employee benefits	**228,550**	256,583
Regulatory liabilities - other	**247,668**	211,173
Other items	**97,991**	86,153
Total deferred tax assets [(1)]	**845,995**	831,727
Deferred tax liabilities:		
Property related differences	**2,208,179**	2,044,847
Regulatory assets - environmental response costs	**138,480**	159,104
Regulatory assets - postretirement benefits	**235,341**	262,498
Other items	**113,451**	110,516
Total deferred tax liabilities	**2,695,451**	2,576,965
Net deferred income tax liabilities	**1,849,456**	1,745,238
Deferred investment tax credits	**17,474**	20,038
Deferred income tax liabilities, net	**$ 1,866,930**	$ 1,765,276

(1) The Company established a valuation allowance for deferred tax assets in the amount of $1.5 million related to expiring charitable contribution carryforwards at March 31, 2016. There was no valuation allowance for deferred tax assets at March 31, 2015.

As a result of retrospective adoption of ASU 2015-17, the Company adjusted its current portion of deferred income tax assets and non-current deferred income tax liabilities, net by $165 million as of March 31, 2015.

Unrecognized Tax Benefits

As of March 31, 2016, 2015, and 2014, the Company's unrecognized tax benefits totaled $131 million, $128.1 million, and $121 million, respectively, of which $6.7 million for each of the years ended March 31, 2016 and 2015 and $12.4 million for the year ended March 31, 2014 would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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

	Years Ended March 31,		
	2016	2015	2014
	(in thousands of dollars)		
Balance as of the beginning of the year	**$ 128,105**	$ 120,983	$ 120,195
Gross increases - tax positions in prior periods	**15**	7,925	9,028
Gross decreases - tax positions in prior periods	**(3,768)**	(10,234)	(335)
Gross increases - current period tax positions	**6,614**	9,431	3,917
Gross decreases - current period tax positions	**-**	-	(41)
Settlements with tax authorities	**-**	-	(11,781)
Balance as of the end of the year	**$ 130,966**	$ 128,105	$ 120,983

As of March 31, 2016 and 2015, the Company has accrued for interest related to unrecognized tax benefits of $14.2 million and $10.8 million, respectively. The Company recorded interest expense of $3.4 million for each of the years ended March 31, 2016 and 2015 and recorded a reduction to interest expense of $1.3 million during the year ended March 31, 2014. The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2016, 2015, or 2014.

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

The Company is included in NGNA and subsidiaries' administrative appeal with the Internal Revenue Service ("IRS") related to the issues disputed in the examination cycles for the years ended March 31, 2008 and March 31, 2009. During the period the IRS commenced its next examination cycle which includes income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is not expected to conclude until December 2017. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the IRS.

The state of New York is in the process of examining the Company's NYS income tax returns for the years ended March 31, 2009 through March 31, 2012. The income tax returns for the years ended March 31, 2013 through March 31, 2016 remain subject to examination by the state of New York.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2010
New York	March 31, 2009

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), and the New York State Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former

Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2016, 2015, and 2014 were $33.5 million, $32.6 million, and $41.6 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $372.5 million and $415.2 million at March 31, 2016 and 2015, respectively. These costs are expected to be incurred over approximately 44 years, and these undiscounted amounts have been recorded as reserves in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2016 and 2015, the Company has recorded environmental regulatory assets of $372.5 million and $415.2 million, respectively, and environmental regulatory liabilities of $38.8 million and $31.8 million, respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.6 million, $4.9 million, and $4.6 million for the years ended March 31, 2016, 2015, and 2014, respectively.

The future minimum lease payments for the years subsequent to March 31, 2016 are as follows:

(in thousands of dollars) Years Ending March 31,		
2017	$	4,457
2018		4,396
2019		4,128
2020		4,107
2021		4,015
Thereafter		18,148
Total	$	39,251

Purchase Commitments

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

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2016 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2017	$ 166,710	$ 114,540
2018	155,316	5,870
2019	145,766	-
2020	145,077	-
2021	144,697	-
Thereafter	606,519	-
Total	$ 1,364,085	$ 120,410

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

Legal Matters

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

Nuclear Contingencies

As of March 31, 2016 and 2015, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved Department of Energy ("DOE") disposal facility.

In March 2010, the DOE filed a motion with the Nuclear Regulatory Commission ("NRC") to withdraw the license application for a high-level nuclear waste repository at Yucca Mountain. The DOE's withdrawal motion has been challenged and is being litigated before the NRC and the District of Columbia Circuit. In January 2010 the U.S. government announced that it has established a Blue Ribbon Commission ("BRC") to perform a comprehensive review and provide recommendations regarding the disposal of the nation's spent nuclear fuel and waste. In January 2012, the BRC issued its report and recommendations which provides for numerous policy recommendations currently under review and consideration by the U.S. Secretary of Energy. Therefore, the Company cannot predict the impact that the recent actions of the DOE and the U.S. government will have on the ability to dispose of the spent nuclear fuel and waste.

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2016	2015	**2016**	2015
	(in thousands of dollars)			
Boston Gas Company	**$ 88**	$ -	**$ -**	$ 1,699
Colonial Gas Company	**11**	-	**-**	516
KeySpan Gas East Corporation	**512**	-	**-**	452
Massachusetts Electric Company	**9,714**	8,057	**-**	-
National Grid Electric Services, LLC	**-**	-	**718**	718
National Grid Engineering Services, LLC	**6,134**	2,643	**-**	-
NGUSA	**-**	-	**5,893**	4,240
NGUSA Service Company	**-**	7,236	**15,795**	-
Other	**2,102**	1,234	**11**	273
Total	**$ 18,561**	$ 19,170	**$ 22,417**	$ 7,898

Advance from Affiliate

In June 2009, the Company received board authorization to borrow up to $500 million from NGUSA from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2016 and 2015, the Company had no outstanding advance from affiliate.

In June 2009, the Company received board authorization to borrow up to $450 million from NMHI from time to time for working capital needs. The average interest rates were 0.7%, 0.3%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively. At March 31, 2016 and 2015, the Company had an outstanding advance from affiliate of zero and $25 million, respectively.

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool investments of $288.2 million and $278 million at March 31, 2016 and 2015, respectively. The average interest rates for the intercompany money pool were 0.7%, 0.3%, and 0.7% for the years ended March 31, 2016, 2015, and 2014, respectively.

Service Company Charges

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

Net charges from the service companies of NGUSA to the Company for the years ended March 31, 2016, 2015, and 2014 were $478.4 million, $467 million, and $463.7 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the United Kingdom) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected in these financial statements. The estimated effect on net income would be $9.6 million, $14.1 million, and $15 million before taxes and $5.8 million, $8.5 million, and $9.1 million after taxes, for the years ended March 31, 2016, 2015, and 2014, respectively, if these amounts were allocated to the Company.