The Narragansett Electric Company

Financial Statements

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

THE NARRAGANSETT ELECTRIC COMPANY

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Independent Auditor's Report

To the Board of Directors
of The Narragansett Electric Company

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

July 17, 2015

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE NARRAGANSETT ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

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

Other Taxes

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

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

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Inventory

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

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

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

Derivative Contracts

Commodity Derivative Contracts – Regulated Accounting

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

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

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

Commodity Derivative Contracts – Non-Regulated Accounting

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

Fair Value Measurements

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

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

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

Property, Plant and Equipment

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

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

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

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

Allowance for Funds Used During Construction

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

Goodwill

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

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

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

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

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

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

Available-For-Sale Securities

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

Asset Retirement Obligations

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

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

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

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

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2015

Reclassifications From Accumulated Other Comprehensive Income

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

Accounting Guidance Not Yet Adopted

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

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

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

Revenue Recognition

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

3. REGULATORY ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. RATE MATTERS

General Rate Case

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

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

In September 2008, the Company, its affiliate, New England Power ("NEP"), and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order, Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment is approximately $575 million. The Company is fully reimbursed for its transmission revenue requirements on a monthly basis by NEP through NEP's Tariff No. 1. Effective November 18, 2008, the FERC granted for NEEWS (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. In conformance with the provisions of NEP's Tariff No. 1 as stated above, NEP has made a FERC filing to reduce the Company's base ROE. On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets to a maximum ROE of 11.74%, effective immediately It is currently unclear whether the FERC will also require retroactive reductions to the NEEWS ROE incentive for the 15-month period from October 1, 2011 through December 31, 2012.

5. PROPERTY, PLANT AND EQUIPMENT

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

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

6. DERIVATIVE CONTRACTS

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

Volumes

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

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

Amounts Recognized in the Accompanying Balance Sheets

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

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

Credit and Collateral

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

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

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

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

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

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

Offsetting Information for Derivatives Subject to Master Netting Arrangements

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

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

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

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

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

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

7. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

Changes in Level 3 Derivative Contracts

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

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

Quantitative Information About Level 3 Fair Value Measurements

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

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

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

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

Other Fair Value Measurements

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

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

8. EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

Defined Contribution Plan

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

Other Benefits

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

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

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

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

10. CAPITALIZATION

Debt Authorizations

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

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

First Mortgage Bonds

At March 31, 2015, the Company had $50.2 million of First Mortgage Bonds ("FMB") outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. Interest rates on these FMB range from 6.82% to 9.63%. Maturities range on these FMB from April 2018 to December 2025. The FMB have annual sinking fund requirements totaling approximately $1.4 million.

The Company has a maximum 70% of debt-to-capitalization covenant. Furthermore, if at any time the Company's debt exceeds 60% of the total capitalization, each holder of bonds then outstanding shall receive effective as of the first date of such occurrence, a one time, and permanent 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2015 and 2014, the Company was in compliance with this covenant. At March 31, 2015 and 2014 the Company's debt-to-capitalization ratio was 33% and 34%, respectively.

Debt Maturities

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

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

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

Dividend Restrictions

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

Cumulative Preferred Stock

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

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

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

11. INCOME TAXES

Components of Income Tax Expense

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

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

Statutory Rate Reconciliation

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

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

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

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

Deferred Tax Components

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

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

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

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

Unrecognized Tax Benefits

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

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

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

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

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

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

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

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

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

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

12. ENVIRONMENTAL MATTERS

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

The United States Environmental Protection Agency ("EPA"), the Massachusetts Department of Environmental Protection

("DEP"), and the Rhode Island Department of Environmental Management ("DEM") have alleged that the Company is a potentially responsible party under state or federal law for a number of sites at which hazardous waste is alleged to have been disposed. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned by the Blackstone Valley Gas and Electric Company and the Rhode Island gas distribution assets of New England Gas. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA, DEM and DEP. Expenditures incurred for the years ended March 31, 2015, 2014, and 2013 were $0.3 million, $8.0 million, and $1.9 million, respectively.

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

The RIPUC has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Rhode Island. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability in the accompanying balance sheets. Rate-recoverable contributions of approximately $3 million are added annually to the fund along with interest and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2015 and 2014, the Company has recorded environmental regulatory assets of $136.9 million and $138.0 million, respectively, and environmental regulatory liabilities of $4.0 million and $2.4 million, respectively.

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

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

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

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

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

Long-term Contracts for Renewable Energy

Town of Johnston Project

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

Deepwater Agreement

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

Annual Solicitations

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

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

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

The Renewable Energy Growth Program

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

Legal Matters

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

14. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

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

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

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

Recovery of Transmission Costs

NEP operates the transmission facilities of its New England affiliates as a single integrated system and reimburses the Company for the cost of its transmission facilities, including a return on those facilities under NEP's Tariff No. 1. In turn, these costs are allocated among transmission customers in New England in accordance with the ISO New England transmission tariff. According to the FERC order, the Company is compensated for its actual monthly transmission costs with its authorized maximum ROE of 11.74% on certain transmission assets. The amounts reimbursed to the Company by NEP for the years ended March 31, 2015, 2014, and 2013 were $114.4 million, $100.7 million, and $84.1 million, respectively, which are included within operations and maintenance expense in the accompanying statements of income. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. NEP will be submitting an amended Tariff No. 1 filing in the near future to reflect the terms of Opinion No. 531-B.

Advance from Affiliate

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

Intercompany Money Pool

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

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

Service Company Charges

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

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

Holding Company Charges

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