nationalgrid

New England Power Company

Financial Statements

For the years ended March 31, 2015 and 2014

NEW ENGLAND POWER COMPANY

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Independent Auditor's Report

To the Board of Directors
of New England Power Company

We have audited the accompanying financial statements of New England Power Company (the "Company"), which comprise the balance sheets as of March 31, 2015 and 2014, and the related statements of income, cash flows, capitalization, and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

July 29, 2015

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NEW ENGLAND POWER COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating revenues	**$ 455,468**	$ 383,258
Operating expenses:		
Purchased electricity	**63,059**	55,442
Operations and maintenance	**119,845**	96,909
Depreciation and amortization	**47,628**	41,648
Other taxes	**38,382**	35,056
Total operating expenses	**268,914**	229,055
Operating income	**186,554**	154,203
Other income and (deductions):		
Interest on long-term debt	**(2,302)**	(2,593)
Other interest, including affiliate interest	**(9,338)**	(4,581)
Other income, net	**362**	6,935
Total other deductions, net	**(11,278)**	(239)
Income before income taxes	**175,276**	153,964
Income tax expense	**70,834**	61,191
Net income	**$ 104,442**	$ 92,773

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Net income	**$ 104,442**	$ 92,773
Other comprehensive income:		
Unrealized gains on securities	**213**	115
Total other comprehensive income	**213**	115
Comprehensive income	**$ 104,655**	$ 92,888
Related tax expense:		
Unrealized gains on securities	**$ (140)**	$ (77)
Total tax expense	**$ (140)**	$ (77)

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2015	2014
Operating activities:		
Net income	**$ 104,442**	$ 92,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**47,628**	41,648
Provision for deferred income taxes	**55,569**	20,646
Income from equity investments, net of dividends received	**(140)**	(96)
Allowance for equity funds used during construction	**(1,331)**	(5,550)
Net postretirement benefits expense (contributions)	**620**	(894)
Net environmental remediation (payments) recoveries	**(140)**	34
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**50,627**	(68,876)
Inventory	**591**	1,242
Regulatory assets and liabilities, net	**3,296**	82,959
Prepaid and accrued taxes	**(11,818)**	46,261
Accounts payable and other liabilities	**(4,885)**	(10,005)
Accrued Yankee nuclear plant costs	**(5,717)**	9,286
Other, net	**(300)**	(42)
Net cash provided by operating activities	**238,442**	209,386
Investing activities:		
Capital expenditures	**(192,262)**	(154,344)
Affiliated money pool investing and receivables/payables, net	**238,718**	(238,718)
Cost of removal and other	**(9,606)**	(12,576)
Net cash provided by (used in) investing activities	**36,850**	(405,638)
Financing activities:		
Common stock dividends to Parent	**(225,000)**	-
Preferred stock dividends	**(67)**	(67)
Affiliated money pool borrowing and receivables/payables, net	**299,686**	(180,712)
Advance from affiliate	**(375,000)**	375,000
Parent loss tax allocation	**25,915**	-
Net cash (used in) provided by financing activities	**(274,466)**	194,221
Net increase (decrease) in cash and cash equivalents	**826**	(2,031)
Cash and cash equivalents, beginning of year	**715**	2,746
Cash and cash equivalents, end of year	**$ 1,541**	$ 715
Supplemental disclosures:		
Interest paid	$ (4,120)	$ (2,210)
Income taxes (paid) refunded	(4,348)	462
State income taxes paid	(115)	(327)
Significant non-cash items:		
Capital-related accruals included in accounts payable	28,473	15,988

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,541**	$ 715
Accounts receivable	**67,660**	60,431
Other receivable	**-**	57,851
Accounts receivable from affiliates	**19,147**	11,724
Intercompany money pool	**-**	264,079
Inventory	**2,531**	3,122
Current portion of deferred income tax assets, net	**-**	18,855
Prepaid taxes	**122**	3,333
Other	**15**	104
Total current assets	**91,016**	420,214
Equity investments	**1,996**	1,856
Property, plant, and equipment, net	**1,964,026**	1,811,878
Other non-current assets:		
Regulatory assets	**139,573**	129,247
Goodwill	**337,614**	337,614
Postretirement benefits asset	**-**	7,386
Other	**12,722**	12,259
Total other non-current assets	**489,909**	486,506
Total assets	**$ 2,546,947**	$ 2,720,454

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

NEW ENGLAND POWER COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2015	2014
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	$ **36,156**	$ 33,302
Accounts payable to affiliates	**29,978**	37,085
Advance from affiliate	**-**	375,000
Current portion of long-term debt	**38,500**	-
Taxes accrued	**42,170**	57,199
Regulatory liabilities	**-**	57,851
Intercompany money pool	**288,855**	-
Current portion of deferred income tax liabilities, net	**2,267**	-
Other	**4,638**	16,590
Total current liabilities	**442,564**	577,027
Other non-current liabilities:		
Regulatory liabilities	**107,028**	57,362
Accrued Yankee nuclear plant costs	**26,835**	31,323
Deferred income tax liabilities, net	**462,100**	433,764
Postretirement benefits	**17,705**	-
Environmental remediation costs	**9,043**	8,377
Other	**12,502**	10,434
Total other non-current liabilities	**635,213**	541,260
Commitments and contingencies (Note 13)		
Capitalization:		
Shareholders' equity	**1,097,320**	1,191,817
Long-term debt	**371,850**	410,350
Total capitalization	**1,469,170**	1,602,167
Total liabilities and capitalization	$ **2,546,947**	$ 2,720,454

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2015	2014
Total shareholders' equity			**$ 1,097,320**	$ 1,191,817
Long-term debt:	Interest Rate	Maturity Date		
Polution control revenue bonds				
Connecticut Development Authority	Variable	October 15, 2015	**38,500**	38,500
Massachusetts Development Finance Agency 1	Variable	March 1, 2018	**79,250**	79,250
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**135,850**	135,850
Business Finance Authority of the State of New Hampshire	Variable	November 1, 2020	**50,600**	50,600
Massachusetts Development Finance Agency 2	Variable	October 1, 2022	**106,150**	106,150
Total debt			**410,350**	410,350
Current portion of long-term debt			**38,500**	-
Long-term debt			**371,850**	410,350
Total capitalization			**$ 1,469,170**	$ 1,602,167

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

NEW ENGLAND POWER COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2013	**$ 72,398**	**$ 1,112**	**$ 738,072**	**$ 723**	**$ 723**	**$ 286,691**	**$ 1,098,996**
Net income	-	-	-	-	-	92,773	92,773
Other comprehensive income							
Unrealized gains on securities, net of $77 tax expense	-	-	-	115	115	-	115
Total comprehensive income							92,888
Preferred stock dividends	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2014	**$ 72,398**	**$ 1,112**	**$ 738,072**	**$ 838**	**$ 838**	**$ 379,397**	**$ 1,191,817**
Net income	-	-	-	-	-	104,442	104,442
Other comprehensive income							
Unrealized gains on securities, net of $140 tax expense	-	-	-	213	213	-	213
Total comprehensive income							104,655
Parent loss tax allocation	-	-	25,915	-	-	-	25,915
Common stock dividends to Parent	-	-	-	-	-	(225,000)	(225,000)
Preferred stock dividends	-	-	-	-	-	(67)	(67)
Balance as of March 31, 2015	**$ 72,398**	**$ 1,112**	**$ 763,987**	**$ 1,051**	**$ 1,051**	**$ 258,772**	**$ 1,097,320**

The Company had 3,619,896 shares of common stock authorized, issued and outstanding, with a par value of $20 per share and 11,117 shares of preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2015 and 2014.

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

NEW ENGLAND POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

New England Power Company (the “Company”) operates electric transmission facilities in Massachusetts, New Hampshire, Rhode Island, Maine and Vermont. The Company is a wholly-owned subsidiary of National Grid USA (“NGUSA”), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is 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 Company also owns non-controlling interests in three companies (the “Yankees”) which own nuclear generating facilities that are permanently retired and are being decommissioned (refer to Note 6, Equity Investments).

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

The Company has evaluated subsequent events and transactions through July 29, 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”) regulates the rates the Company charges its customers. In certain cases, the rate actions of the FERC or the regulatory Commissions of Massachusetts, New Hampshire, Rhode Island, Maine and Vermont 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

The Company has two primary sources of revenue: transmission and stranded cost recovery. Transmission revenues are based on a formula rate that recovers the Company’s actual costs plus a return on investment. Stranded cost recovery revenues are collected through a contract termination charge (“CTC”), which is billed to former wholesale customers of the Company (affiliated companies Massachusetts Electric Company (“MECO”) and The Narragansett Electric Company (“NECO”), Granite State Electric Co. and the Towns of Merrimac, Groveland and Littleton) in connection with the Company’s divestiture of its electricity generation investments.

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 electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

Income Taxes

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

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

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary 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.

Inventory

Inventory is comprised of materials and supplies. 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 or 2014.

Fair Value Measurements

The Company measures 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 state regulatory bodies. The average composite rates for each of the years ended March 31, 2015 and 2014 was 2.3%. The average service lives for each of the years ended March 31, 2015 and 2014 was 30 years.

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs of removal recovered in excess of costs incurred of $9.3 million and $12.3 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, net, and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $1.3 million and $5.6 million and AFUDC related to debt of $0.1 million and $1.1 million for the years ended March 31, 2015 and 2014, respectively. The average AFUDC rates for the years ended March 31, 2015 and 2014 were 6.7% and 4.6%, 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 the assets are recorded within other comprehensive income.

Employee Benefits

The Company participates with other subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status in the 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 share of pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 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	2014
	(in thousands of dollars)	
Regulatory assets		
Non-current:		
Environmental response costs	**9,137**	9,067
Postretirement benefits	**86,716**	64,733
Regulatory deferred tax asset	**16,441**	22,363
Yankee nuclear decomissioning costs	**27,197**	32,913
Other	**82**	171
Total	**139,573**	129,247
Regulatory liabilities		
Current:		
CTC decommissioning rebate	**-**	57,851
Total	**-**	57,851
Non-current:		
Cost of removal	**9,294**	12,266
CTC Charges	**86,810**	31,229
CTC buyout revenues	**2,599**	2,943
Postretirement benefits	**6,371**	8,927
Other	**1,954**	1,997
Total	**107,028**	57,362
Net regulatory assets	**$ 32,545**	$ 14,034

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

CTC buyout revenues: Represents the unamortized balance of an upfront payment made by the Towns of Littleton, Groveland and Merrimac for termination of their contracts with NEP in 1998, representing their share of total estimated CTC. This upfront payment is being amortized annually over the life of the CTC contact through December 2020.

CTC charges: Stranded cost recovery revenues are collected through a CTC, which is billed to former wholesale customers of the Company in connection with the Company's divestiture of its electricity generation investments. CTC related liabilities consist of obligations to customers that resulted from the sale of certain stranded assets. These amounts are being refunded to customers as determined per rate filings.

CTC decommissioning rebate: Represents the U.S. Department of Energy ("DOE") litigation awards for spent fuel storage costs that had been incurred through 2001 and 2008. These decommissioning rebates will be returned to customers through CTC charges.

Environmental response costs: Represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Postretirement benefits: The regulatory asset represents the non-cash accrual of net actuarial gains and losses.

As a result of the fiscal year 2000 merger of the Company with NGUSA and the fiscal year 2001 acquisition of Montaup Electric Co., the Company revalued its pension and other postretirement benefit plans and recognized previously unrecognized net gains in these benefit plans. These gains were deferred as a regulatory liability which is being returned to customers over a 15-year period.

Yankee nuclear decommissioning costs: The Yankees operated nuclear generating units which have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is ongoing at each site. The Company has recorded a regulatory asset reflecting the estimated future decommissioning billings and the remaining asset retirement obligation from the Yankees.

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. In 2014, the Company recorded an increase in the regulatory deferred tax asset in the current year as a result of the increase in deferred tax liabilities stemming from a Massachusetts state income tax rate change. The Company will address the recovery period of the regulatory asset created by the Massachusetts rate change as well as an existing balance representing a historic unrecovered rate change in its next rate case.

The Company records carrying charges on all regulatory balances (with the exception of environmental response costs and postretirement benefits), 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

Stranded Cost Recovery

Under settlement agreements approved by state commissions and the FERC, the Company is permitted to recover stranded costs (those costs associated with its former generating investments (nuclear and non-nuclear) and related contractual commitments that were not recovered through the sale of those investments). The Company earns a return on equity

("ROE") of approximately 11% on stranded cost recovery. The Company will recover its remaining non-nuclear stranded costs through 2020. See the "Decommissioning Nuclear Units" in Note 13 "Commitments and Contingencies," for a discussion of ongoing costs associated with decommissioned nuclear units.

Transmission Return on Equity

The Company's transmission rates applicable to transmission service through October 15, 2014 reflect a base ROE of 11.14% applicable to the Company's transmission facilities, plus an additional 0.5% Regional Transmission Organization ("RTO") participation adder applicable to transmission facilities included under the Regional Network Service ("RNS") rate. Approximately 70% of the Company's transmission facilities are included under RNS rates. The Company earns an additional 1% ROE incentive adder on RNS-related transmission facilities approved under the RTO's Regional System Plan and placed in service on or before December 31, 2008. It also earns a 1.25% ROE incentive on its portion of New England East-West Solution ("NEEWS") as described below. Effective as of October 16, 2014, the FERC issued a series of orders as the result of a ROE complaint case (see the "FERC ROE Complaints' in Note 13, "Commitments and Contingencies") reducing the Company's base ROE to 10.57%. The FERC also established a maximum ROE such that the aforementioned incentives, taken together, may not exceed a cap of 11.74%.

New England East-West Solution

In September 2008, the Company, its affiliate NECO, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS, pursuant to the FERC's Transmission Pricing Policy Order No. 679. Effective November 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64% including the RTO participation adder), (2) 100% construction work in progress in rate base and (3) recovery of plant abandoned for reasons beyond the companies' control. Effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2015	2014
	(in thousands of dollars)	
Plant and machinery	**$ 2,087,649**	$ 1,971,502
Land and buildings	**94,673**	88,741
Assets in construction	**193,273**	148,258
Software and other intangibles	**266**	2,282
Total property, plant and equipment	**2,375,861**	2,210,783
Accumulated depreciation and amortization	**(411,835)**	(398,905)
Property, plant and equipment, net	**$ 1,964,026**	$ 1,811,878

6. EQUITY INVESTMENTS

Yankee Nuclear Power Companies

The Company has non-controlling interests in Yankee Atomic (34.5%), Connecticut Yankee (19.5%), and Maine Yankee (24%), which own nuclear generating units that have been permanently decommissioned. Spent nuclear fuel remains on each site, awaiting fulfillment by the DOE of its statutory obligation to remove it. In addition, groundwater monitoring is

ongoing at each site. The Company has power contracts with each of the Yankees that require the Company to pay an amount equal to its share of total fixed and operating costs of the plant plus a return on equity.

Summarized balance sheet and statement of income data for the Yankees are as follows:

	As of and for the Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Property, plant and equipment	**$ 882**	$ 882
Current assets	**18,057**	255,770
Other non-current assets	**1,000,548**	877,367
Total assets	**1,019,487**	1,134,019
Current liabilities	**1,575**	2,206
Other non-current liabilities	**1,012,311**	1,126,373
Equity	**5,601**	5,440
Total liabilities and equity	**1,019,487**	1,134,019
Operating revenue	**3,152**	21,642
Operating expenses	**2,859**	21,332
Other deductions, net	**167**	161
Total expenses	**3,026**	21,493
Net income	**$ 126**	$ 149

7. FAIR VALUE MEASUREMENTS

The following tables present available for sale securities 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:				
Available-for-sale securities	$ 4,151	$ 5,451	$ -	$ 9,602

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands of dollars)			
Assets:				
Available-for-sale securities	$ 3,679	$ 5,065	$ -	$ 8,744

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).

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.

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 estimated using quoted market prices for similar debt. The fair value of this debt at both March 31, 2015 and 2014 was $410.4 million, respectively.

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

8. EMPLOYEE BENEFITS

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

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

During the years ended March 31, 2015 and 2014, the Company made contributions of approximately $38 thousand and $2.4 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 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 and 2014 are as follows:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Pension	**$ 6,177**	$ 6,208
PBOP	**1,391**	2,328
	$ 7,568	$ 8,536

Other Benefits

The Company accrued $4.9 million and $4.3 million at March 31, 2015 and 2014, respectively, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Unrealized Gain (Loss) on Available for Sale Securities
	(in thousands of dollars)
Balance as of the beginning of the year	$ 838
Other comprehensive income before reclassifications:	
Gain on investment (net of $326 tax expense)	495
Amounts reclassified from other comprehensive income:	
Gain on investment (net of $186 tax benefit) [1]	(282)
Net current period other comprehensive income	213
Balance as of the end of the year	1,051

[1] Amounts are reported as other income, net in the accompanying statements of income.

10. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $750 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 NGUSA which provided the Company with the ability to call upon NGUSA 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.

Long-term Debt

At March 31, 2015, the Company had $410.4 million outstanding of Pollution Control Revenue Bonds in tax exempt commercial paper mode with maturity dates ranging from October 2015 to October 2022. The debt is remarketed at periods of 1-270 days, and had variable interest rates ranging from 0.07% to 0.46% and from 0.29% to 0.50% for the years ended March 31, 2015 and 2014, respectively.

The Company has a Standby Bond Purchase Agreement ("SBPA") of $410.4 million which expires on November 20, 2015. This agreement was available to provide liquidity support for $410.4 million of the Company's long-term bonds in tax-exempt commercial paper mode. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if it is not able to remarket it. At March 31, 2015 and 2014, there were no bond purchases made by the banks participating in this agreement.

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

(in thousands of dollars)	
Years Ending March 31,	
2016	$ 38,500
2017	-
2018	79,250
2019	-
2020	-
Thereafter	292,600
Total	$ 410,350

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

Dividend Restrictions

Pursuant to provisions in connection with the New England Electric System and Eastern Utilities Associates merger, payment of dividends on common stock are not permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2015 and 2014 common equity was 74.7% and 74.4% of total capitalization, respectively. Under these provisions, none of the Company's retained earnings at March 31, 2015 and 2014 were restricted as to common dividends.

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, and the stock is non-callable. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		**Amount**	
	March 31,		**March 31,**	
Series	**2015**	2014	**2015**	2014
		(in thousands of dollars)		
$100 par value - 6.00% Series	**11,117**	11,117	**$ 1,112**	$ 1,112

The Company did not redeem any preferred stock during the years ended March 31, 2015 or 2014. The annual dividend requirement for cumulative preferred stock was $0.07 million for the years ended March 31, 2015 and 2014.

11. INCOME TAXES

The components of federal and state income tax expense for the years ended March 31, 2015 and 2014 are as follows:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Current tax expense :		
Federal	**$ 9,541**	$ 30,066
State	**5,724**	10,479
Total current tax expense	**15,265**	40,545
Deferred tax expense:		
Federal	**53,794**	19,909
State	**2,148**	1,118
Total deferred tax expense	**55,942**	21,027
Amortized investment tax credits, net [1]	**(373)**	(381)
Total deferred tax expense	**55,569**	20,646
Total income tax expense	**$ 70,834**	$ 61,191

[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 and 2014 is 40.4% and 39.7%, respectively. Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35% to the Company's actual income tax expense for the years ended March 31, 2015 and 2014 is as follows:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Computed tax at the statutory rate	**$ 61,348**	$ 53,888
Change in computed taxes resulting from:		
Investment tax credits	**(373)**	(381)
State income tax, net of federal benefit	**5,117**	7,539
Temporary differences flowed through	**3,157**	3,514
Other items, net	**1,585**	(3,369)
Total	**9,486**	7,303
Federal and state income taxes	**$ 70,834**	$ 61,191

The Company is a member of 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 ("TPR") 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 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 $4.8 million related to dispositions of depreciable property and unfavorable §481(a) adjustment of $0.6 million related to repairs deduction following casualty loss.

On July 24, 2013, Massachusetts legislature enacted into law transportation finance legislation which included significant tax changes affecting the classification of utility corporations. For tax years beginning on or after January 1, 2014, Massachusetts utility corporations will be taxed in the same manner as general business corporations. The state income tax rate increased from 6.5% to 8.0%. Also, any unitary net operating loss generated post-2013 and allocated to the utilities is allowed as a carry forward tax attribute. As of March 31, 2015, all state deferred tax balances at the regulated utilities were remeasured to the 8% rate, resulting in an increase in deferred tax liabilities of $10.4 million with an offset to regulatory deferred tax asset.

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2015 and March 31, 2014 are as follows:

	2015	2014
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 3,646**	$ 3,365
Future federal benefit on state taxes	**21,474**	21,120
Pensions, OPEB and other employee benefits	**7,990**	-
Regular liabilities - other	**38,582**	34,952
Reserve - nuclear and decommissioning	**5,855**	4,595
Other items	**2,233**	726
Total deferred tax assets [1]	**79,780**	64,758
Deferred tax liabilities:		
Property related differences	**490,166**	437,756
Regulatory assets - postretirement benefits	**33,930**	23,418
Other items	**16,610**	14,678
Total deferred tax liabilities	**540,706**	475,852
Net deferred income tax liabilities	**460,926**	411,094
Deferred investment tax credits	**3,441**	3,815
Net deferred income tax liabilities and investment tax credits	**464,367**	414,909
Current portion of deferred income tax liabilities (assets), net	**2,267**	(18,855)
Deferred income tax liabilities, net	**$ 462,100**	$ 433,764

[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 state and city net operating losses:	Federal
	(in thousands of dollars)
3/31/2033	926

Unrecognized Tax Benefits

As of March 31, 2015 and 2014, the Company's unrecognized tax benefits for both years totaled $8.8 million, respectively, of which none would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2015 and 2014:

	Years Ended March 31,	
	2015	2014
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 8,794**	$ 17,514
Gross increases - tax positions in prior periods	**195**	2,081
Gross decreases - tax positions in prior periods	**(383)**	(228)
Gross increases - current period tax positions	**227**	300
Settlements with tax authorities	**-**	(10,873)
Balance as of the end of the year	**$ 8,833**	$ 8,794

As of March 31, 2015 and 2014, the Company has accrued for interest related to unrecognized tax benefits of $0.7 million and $2.6 million, respectively. During the years ended March 31, 2015 and 2014, the Company recorded interest expense of $0.9 million and $1.8 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliate interest in the accompanying statement of income. Related penalties, if applicable, are recorded to other deductions, net. No penalties were recognized during the years ended March 31, 2015 and 2014.

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

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

During fiscal year 2014 the IRS has concluded its examination of the NGNA consolidated filing group's corporate income tax returns for the periods ended March 31, 2008 and March 31, 2009. The 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 items 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 fiscal years ended March 31, 2010 through March 31, 2015 remain subject to examination by the IRS.

The Company is a member of the National Grid USA Service Company Massachusetts unitary group since fiscal year ended March 31, 2010. The fiscal years ended March 31, 2010 through March 31, 2015 remain subject to examination by the State of Massachusetts.

The following table indicates the earliest tax year subject to examination:

Jurisdiction	Tax Year
Federal	March 31, 2008*
Massachusetts	March 31, 2010
New Hampshire	March 31, 2009

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

12. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred. The Company is currently investigating and remediating, as necessary, those Manufactured Gas Plant sites and certain other properties under agreements with the Environmental Protection Agency. Expenditures incurred for the years ended March 31, 2015 and 2014, were $0.1 million, respectively.

At March 31, 2015 and 2014, the Company had total reserves for environmental remediation costs of $9.0 million and $8.4 million, respectively, which include reserves established in connection with the Company’s hazardous waste fund referred to below. These costs are expected to be incurred over approximately 40 years. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

As of March 31, 2015 and 2014, the Company has recorded environmental regulatory assets of $9.1 million, respectively.

The Company is currently conducting a program to investigate and remediate, as necessary to meet current environmental standards, certain properties which the Company has learned may be contaminated with industrial waste as to which it may be determined that the Company has contributed. The Company has also been advised that various federal, state or local agencies believe certain properties require investigation and has prioritized the sites based on available information in order to enhance the management of investigation and remediation, if necessary.

The Company believes that obligations imposed on it because of environmental laws will not have a material impact on its results of operations or financial position.

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 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	$ 57,002	$ 30,803
2017	38,350	-
2018	18,908	-
2019	-	-
2020	-	-
Thereafter	-	-
Total	$ 114,260	$ 30,803

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

Financial Guarantees

Three affiliates of NGUSA were created to construct and operate transmission facilities to transmit power from Hydro Quebec (a power company in Quebec, Canada) to New England. Under the financial and organizational agreements entered into at the time these transmission facilities were constructed, the Company agreed to guarantee a portion of the project debt. At March 31, 2015, the Company had guaranteed approximately $1.0 million of project debt with terms through 2015. Costs associated with these agreements are recoverable from the Company's customers through CTCs.

Legal Matters

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

FERC ROE Complaints

On September 30, 2011, several state and municipal parties in New England, ("Complainants"), filed a complaint against certain New England Transmission Owners, ("NETOs") including the Company, to lower the base ROE for transmission rates in New England from 11.14% to 9.2 %. On August 6, 2013, a FERC Administrative Law Judge ("ALJ") issued an Initial Decision finding that the base ROE for the refund period and the prospective period should be 10.6% and 9.7%, respectively, prior to any adjustments in a final FERC order. The refund period is the 15-month period from October 1, 2011 through December 31, 2012; the prospective period begins when the FERC issues its final order. In response to the ALJ's Initial Decision, the Company recorded an estimated reduction to revenues of $7.1 million and an increase to interest expense of $0.2 million for the fiscal year ended March 31, 2013, reflecting an effective ROE of 10.6% for the portion that would be refunded to transmission customers for the refund period. On June 19, 2014, the FERC issued Opinion No. 531, an initial order modifying the ALJ's findings and its previous methodology for establishing ROE. The FERC tentatively set the ROE at 10.57% and capped the ROE for incentive rates of return to 11.74% subject to further proceedings to establish and quantify growth rates applicable to the ROE. In response, the Company recorded an additional reduction to revenues of $1.2 million and an increase of $0.2 million to interest expense for the fiscal year ended March 31, 2014.

On October 16, 2014, the FERC issued a final order in Opinion No. 531-A establishing a 10.57% base ROE for the NETOs effective as of October 16, 2014 and capped the ROE, including incentives, at 11.74%. The FERC also directed that refunds be issued to transmission customers taking service during the 15-month refund period from October 1, 2011 through December 31, 2012 to reflect these reductions. 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. A further compliance filing will be submitted to the FERC shortly to clarify the applications of the 11.74% ROE cap.

On December 27, 2012, a second ROE complaint was filed against the NETOs by a coalition of consumers seeking to lower the base ROE for New England transmission rates to 8.7% effective as of December 27, 2012. On June 19, 2014, the FERC issued an order setting the complaint for investigation and a trial-type, evidentiary hearing. The FERC stated that it expects parties to present evidence and any discounted cash flow analyses, as guided by the rulings found in FERC's June 19 order on the first complaint. The FERC's order also established a 15-month refund period for the second complaint beginning on December 27, 2012. In its order setting the complaint for hearing, the FERC noted that, if the case is fully litigated, the FERC expects to issue its final decision no earlier than April 30, 2016.

On July 31, 2014, a third ROE Complaint was filed against the NETOs by the Complainants. FERC has not yet acted on this complaint.

Decommissioning Nuclear Units

The Company is a minority equity owner of, and former purchaser of electricity from the Yankees. The Yankees have been permanently shut down and physically decommissioned. Spent nuclear fuel remains on each site awaiting fulfillment by the DOE of its statutory and contractual obligation to remove it. Future estimated billings, which are included in accrued costs of the Yankees and other current liabilities in the accompanying balance sheets, are as follows:

(in thousands of dollars)	The Company's Investment as of March 31, 2015			Future Estimated Billings to the Company
Unit	%	Amount	Date Retired	Amount
Yankee Atomic	34.5	$ 520	Feb 1992	$ 3,685
Connecticut Yankee	19.5	317	Dec 1996	14,921
Maine Yankee	24.0	593	Aug 1997	7,913

The Yankees are periodically required to file rate cases for FERC review, which present the Yankees' estimated future decommissioning costs. The Yankees collect the approved costs from their purchasers, including the Company. Future estimated billings from the Yankees are based on cost estimates. These estimates include the projections of groundwater monitoring, security, liability and property insurance and other costs. They also include costs for interim spent fuel storage facilities which the Yankees have constructed while they await removal of the fuel by the DOE as required by the Nuclear Waste Policy Act of 1982 and contracts between DOE and each of the Yankees. The Company has recorded a liability and a regulatory asset reflecting the estimated future decommissioning billings from the Yankees.

In 2013, the FERC accepted settlements establishing rate mechanisms by which each of the Yankees maintains funding for operations and decommissioning and credits to its purchasers, including the Company, any net proceeds in excess of funding costs received as part of the DOE litigation proceedings discussed below.

Each of the Yankees brought litigation against the DOE for failure to remove their respective nuclear fuel stores as required by the Nuclear Waste Policy Act and contracts. Following a trial at the U.S. Court of Claims ("Claims Court") to determine the level of damages, on October 4, 2006, the Claims Court awarded the three companies an aggregate of $143 million for spent fuel storage costs that had been incurred through 2001 and 2002 (the "Phase I Litigation"). The Yankees had requested $176.3 million. The DOE appealed to the US Court of Appeals for the Federal Circuit, which rendered an opinion generally supporting the Claims Court's decision and remanded the matter to it for further proceedings. In September, 2010, the Claims Court again awarded the companies an aggregate of approximately $143 million. The DOE again appealed and the Yankees cross-appealed. On May 18, 2012, the Court of Appeals again ruled in favor of the Yankees, awarding them an aggregate of approximately $160 million. The DOE sought reconsideration but, on September 5, 2012, the Court of Appeals for the Federal Circuit denied the petition for rehearing. The DOE elected not to file a petition for writ of certiorari

seeking review by the U.S. Supreme Court and in January 2013 the awards were paid to the Yankees. As of March 31, 2015 total net proceeds of $20.9 million have been refunded to the Company by Connecticut Yankee and Maine Yankee. Yankee Atomic did not provide a refund, but reduced monthly billing effective June 1, 2013. The Company will refund its share to its customers through the CTCs

On December 14, 2007, the Yankees brought further litigation in the Claims Court to recover subsequent damages incurred through 2008 (the “Phase II Litigation”). A Claims Court trial took place in October 2011. On November 1, 2013, the judge awarded the Yankees an aggregate of $235.4 million in damages for the Phase II Litigation. The DOE elected not to seek appellate review and the awards were paid to the Yankees. As of March 31, 2015 total net proceeds of $57.9 million have been refunded to the Company by the Yankees. The Company will refund its share of the net proceeds to its customers through the CTCs.

On August 15, 2013 the Yankees brought further litigation in the Claims Court to recover damages incurred from 2009 through 2012.

The U.S. Congress and the DOE have effectively terminated budgetary support for the proposed long-term spent fuel storage facility at Yucca Mountain in Nevada and the DOE took actions designed to prevent its construction. However, on August 12, 2013 the U.S. Court of Appeals for the DC Circuit directed the Nuclear Regulatory Commission (“NRC”) to resume the Yucca Mountain licensing process despite insufficient funding to complete it. On October 28, 2013, the Circuit Court denied the NRC’s petition for rehearing. On November 18, 2013, NRC ordered its staff to resume work on its Yucca Mountain safety report. A Blue Ribbon Commission (“BRC”) charged with advising the DOE regarding alternatives to disposal at Yucca Mountain issued its final report on January 26, 2012. In the report, the BRC recommended that priority be given to removal of spent fuel from shutdown reactor sites. It is impossible to predict when the DOE will fulfill its obligation to take possession of the Yankees’ spent fuel. The decommissioning costs that are actually incurred by the Yankees may substantially exceed the estimated amounts.

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 balances 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)*	
Massachusetts Electric Company	**$ 13,006**	$ 7,110	**$ -**	$ -
National Grid Generation LLC	**2,116**	2,116	**-**	-
NGUSA Service Company	**-**	-	**5,991**	24,754
Niagara Mohawk Power Corporation	**-**	648	**363**	-
The Narragansett Electric Company	**-**	-	**23,588**	11,664
Other	**4,025**	1,850	**36**	667
Total	**$ 19,147**	$ 11,724	**$ 29,978**	$ 37,085

Approximately 81% of the Company's local transmission service was provided to MECO, NECO and Nantucket for the years ended March 31, 2015 and 2014, respectively.

Advance from Affiliate

In December 2008, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $400 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 $0 million and $375 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 financing of $288.9 million and intercompany money pool investments of $264.1 million at March 31, 2015 and 2014, respectively. The average interest rates for the intercompany money pool were 0.3% and 0.7% for the years ended March 31, 2015 and 2014, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to

the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2015 and 2014 were $116.6 million and $85.5 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 $2.2 million and $2.3 million before taxes and $1.3 million and $1.4 million after taxes, for the years ended March 31, 2015 and 2014, respectively, if these amounts were allocated to the Company.