Brooklyn Union Gas Company
d/b/a National Grid New York

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

To the Shareholders and Board of Directors
of Brooklyn Union Gas Company

We have audited the accompanying consolidated financial statements of Brooklyn Union Gas Company (the "Company"), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Union Gas Company at March 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 16, 2014

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BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating revenues	**$ 1,623,886**	$ 1,423,150
Operating expenses:		
Purchased gas	**662,944**	535,220
Operations and maintenance	**447,294**	371,554
Depreciation and amortization	**83,192**	84,058
Other taxes	**200,689**	193,853
Total operating expenses	**1,394,119**	1,184,685
Operating income	**229,767**	238,465
Other income and (deductions):		
Interest on long-term debt	**(49,022)**	(50,215)
Other interest, including affiliate interest	**(5,984)**	(8,662)
Equity investments in unconsolidated subsidiaries	**16,439**	19,416
Other income (deductions), net	**(1,245)**	9,058
Total other deductions, net	**(39,812)**	(30,403)
Income before income taxes	**189,955**	208,062
Income tax expense	**80,701**	84,460
Net income	**$ 109,254**	$ 123,602

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Net income	**$ 109,254**	$ 123,602
Other comprehensive income:		
Unrealized gains on marketable securities from equity investment, net of $208 and $52 tax expense	**298**	76
Total other comprehensive income	**298**	76
Comprehensive income	**$ 109,552**	$ 123,678

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating activities:		
Net income	**$ 109,254**	$ 123,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**83,192**	84,058
Regulatory amortizations	**38,289**	16,172
Provision for deferred income taxes	**61,363**	82,016
Bad debt expense	**3,266**	13,163
Income from equity investments, net	**(919)**	(1,956)
Allowance for equity funds used during construction	**(1,678)**	(1,334)
Amortization of debt discount	**2,280**	2,492
Net postretirement benefits contributions	**(20,873)**	(29,912)
Net environmental remediation payments	**(27,698)**	(47,858)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(118,456)**	(180,188)
Inventory	**5,057**	31,563
Regulatory assets and liabilities, net	**(24,316)**	39,709
Derivative contracts	**(4,109)**	7,097
Prepaid and accrued taxes	**(16,313)**	14,599
Accounts payable and other liabilities	**24,173**	26,506
Other, net	**(3,752)**	(5,680)
Net cash provided by operating activities	**108,760**	174,049
Investing activities:		
Capital expenditures	**(249,999)**	(174,506)
Proceeds from sale of assets	**13,877**	-
Affiliated money pool investing and receivables/payables, net	**(2,945)**	(18,038)
Cost of removal	**(27,495)**	(22,560)
Insurance proceeds applied to capital expenditures	**2,830**	3,635
Other	**(50)**	-
Net cash used in investing activities	**(263,782)**	(211,469)
Financing activities:		
Dividends to Parent	**-**	(110,000)
Affiliated money pool borrowing and receivables/payables, net	**164,488**	60,855
Parent loss tax allocation	**-**	5,036
Net cash provided by (used in) financing activities	**164,488**	(44,109)
Net change in cash and cash equivalents	**9,466**	(81,529)
Cash and cash equivalents, beginning of year	**17,433**	98,962
Cash and cash equivalents, end of year	**$ 26,899**	$ 17,433
Supplemental disclosures:		
Interest paid	$ 61,303	$ 48,387
Income taxes (refunded from)/paid to Parent	(6,130)	8,690
State income taxes paid	17,021	3,040
Significant non-cash item:		
Capital-related accruals included in accounts payable	21,445	15,058

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 26,899**	$ 17,433
Accounts receivable	**450,120**	373,380
Allowance for doubtful accounts	**(29,120)**	(43,231)
Other receivable	**19,005**	25,122
Accounts receivable from affiliates	**12,349**	45,730
Intercompany money pool	**79,993**	77,021
Unbilled revenues	**123,093**	104,525
Inventory	**55,373**	59,450
Regulatory assets	**77,176**	64,492
Derivative contracts	**3,171**	4,674
Current portion of deferred income tax assets	**-**	10,751
Prepaid taxes	**39,898**	34,545
Other	**15,776**	20,585
Total current assets	**873,733**	794,477
Equity investments	**76,905**	75,480
Property, plant, and equipment, net	**2,914,454**	2,714,286
Other non-current assets:		
Regulatory assets	**1,074,337**	1,056,361
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**7,124**	466
Other	**21,817**	18,530
Total other non-current assets	**2,554,419**	2,526,498
Total assets	**$ 6,419,511**	$ 6,110,741

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

	March 31, 2014	March 31, 2013 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 103,098**	$ 90,144
Accounts payable to affiliates	**132,074**	231,672
Intercompany money pool	**337,371**	106,639
Customer deposits	**31,961**	34,716
Taxes accrued	**8,344**	20,111
Interest accrued	**12,055**	20,054
Regulatory liabilities	**42,543**	29,466
Derivative contracts	**8,429**	6,429
Current portion of deferred income tax liabilities	**6,533**	-
Other	**41,588**	34,465
Total current liabilities	**723,996**	573,696
Other non-current liabilities:		
Regulatory liabilities	**397,028**	381,192
Asset retirement obligations	**12,205**	11,514
Postretirement benefits	**104,585**	141,919
Environmental remediation costs	**532,123**	503,928
Derivative contracts	**3,831**	4,785
Deferred income tax liabilities	**781,677**	737,989
Other	**73,617**	74,821
Total other non-current liabilities	**1,905,066**	1,856,148
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**2,749,949**	2,640,397
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,790,449**	3,680,897
Total liabilities and capitalization	**$ 6,419,511**	$ 6,110,741

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			$ **2,749,949**	$ 2,640,397
Long-term debt:	Interest Rate	Maturity Date		
Notes payable - Senior Unsecured Note	5.60%	November 29, 2016	**400,000**	400,000
Gas facilities revenue bonds:				
1993A and 1993B	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996	5.50%	January 1, 2021	**153,500**	153,500
2005A	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
			640,500	640,500
Long-term debt			**1,040,500**	1,040,500
Total capitalization			$ **3,790,449**	$ 3,680,897

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Equity Investments	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ -**	**$ -**	**$ 2,609,759**	**$ (486)**	**($486)**	**$ 12,410**	**$ 2,621,683**
Net income	-	-	-	-	-	123,602	123,602
Other comprehensive income:							
Unrealized gains on marketable securities from equity investment, net of $52 tax expense	-	-	-	76	76	-	76
Total comprehensive income							123,678
Parent loss tax allocation	-	-	5,036	-	-	-	5,036
Dividends to Parent	-	-	-	-	-	(110,000)	(110,000)
Balance as of March 31, 2013	**$ -**	**$ -**	**$ 2,614,795**	**$ (410)**	**$ (410)**	**$ 26,012**	**$ 2,640,397**
Net income	-	-	-	-	-	109,254	109,254
Other comprehensive income:							
Unrealized gains on marketable securities from equity investment, net of $208 tax expense	-	-	-	298	298	-	298
Total comprehensive income							109,552
Balance as of March 31, 2014	**$ -**	**$ -**	**$ 2,614,795**	**$ (112)**	**$ (112)**	**$ 135,266**	**$ 2,749,949**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.01 per share and 1 share of preferred stock, authorized, issued and outstanding, with a par value of $1 per share at March 31, 2014 and 2013.

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

BROOKLYN UNION GAS COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company") distributes natural gas to approximately 959,000 retail customers and transports natural gas to approximately 264,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"), which 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.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), the Company owns a 19.4% interest in Iroquois Gas Transmission System L.P. ("Iroquois"), which owns a 375-mile pipeline that transports Canadian gas supply daily to markets in the northeastern United States. Through another wholly-owned subsidiary, the total interest in Iroquois under KeySpan's common control is 20.4%. Because this interest provides KeySpan and its subsidiaries the ability to exercise significant influence over the operating and financial policies of Iroquois, the Company accounts for its interest under the equity method of accounting. The Company's share of the earnings or losses of the affiliate is included as equity investments in unconsolidated subsidiaries in the consolidated statements of income.

The accompanying consolidated 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 for the regulated business of the Company. The consolidated financial statements reflect the rate-making practices of the applicable regulatory authorities as applicable. All intercompany balances and transactions have been eliminated in consolidation.

The Company has evaluated subsequent events and transactions through August 16, 2014, the date of issuance of these consolidated financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the consolidated financial statements as of and for the year ended March 31, 2014.

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 consolidated financial statements. Actual results could differ from those estimates.

Regulatory Accounting

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

Revenue Recognition

Revenues are recognized for gas distribution services 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.

With respect to base distribution rates, the NYPSC has approved 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 year (May-April).

The Company’s tariff includes a cost of gas adjustment factor which requires an annual reconciliation of recoverable gas costs and revenues. Any difference is deferred pending recovery from, or refund to, customers.

The gas distribution business is influenced by seasonal weather conditions, and therefore, the Company’s tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

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. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2014 and 2013 were $54.8 million and $43.7 million, respectively.

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

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 consolidated 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 consolidated 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.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. 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. In prior years, the estimate placed a higher emphasis on write off history. Management believes the more fulsome analysis of all information disclosed above results in an improved estimate and the updated approach resulted in a decrease of approximately $14.3 million in the reserve. The collectability of receivables is continuously assessed, and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

Inventory is comprised of materials and supplies as well as gas in storage. Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized as used. The Company’s policy is to write-off obsolete inventory; there were no material write-offs of obsolete inventory for the years ended March 31, 2014 or 2013.

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

The Company had materials and supplies of $13.4 million and $10.2 million and gas in storage of $42.0 million and $49.3 million at March 31, 2014 and 2013, respectively.

Derivatives

The Company uses derivative instruments for commodity price risk management. All derivative contracts are recorded on the accompanying consolidated balance sheets at their fair value. Commodity costs, including derivative contracts, are passed on to customers through the Company’s gas cost adjustment mechanism. Therefore, gains or losses on the settlement of these contracts are initially deferred and then refunded to, or collected from customers consistent with regulatory requirements.

The Company’s accounting policy is to present on a gross basis, fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement. The related cash collateral is recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2014 or 2013.

Fair Value Measurements

The Company measures derivatives 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 NYPSC. The average composite rates for each of the years ended March 31, 2014 and 2013 was 2.6%. The average service lives for each of the years ended March 31, 2014 and 2013 was 54 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 $181.3 million and $178.9 million at March 31, 2014 and 2013, 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 consolidated statements of income as non-cash income in other income (deductions), 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 $1.7 million and $1.3 million and AFUDC related to debt of $1.2 million and $0.6 million for the years ended March 31, 2014 and 2013 respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 3.2% and 6.4% respectively.

Goodwill

The Company tests goodwill for impairment annually on January 31, 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, 2014 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, 2014 to March 31, 2019; (b) a discount rate of 5.5%, 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 10.0, 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, 2014 or 2013.

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 gas distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

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

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 11,514**	$ 10,862
Accretion expense	**691**	652
Balance as of the end of the year	**$ 12,205**	$ 11,514

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

New and Recent Accounting Guidance

Offsetting Assets and Liabilities

In December 2011 and January 2013, the Financial Accounting Standards Board ("FASB") issued amendments to address and clarify the scope of the disclosures related to offsetting assets and liabilities. Under the amendments, reporting entities are required to disclose both gross and net information about instruments and transactions eligible for offset in the consolidated statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement, such as for derivatives. The instruments and activities subject to these disclosures are recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. The Company adopted this guidance effective April 1, 2013, which only impacted its disclosures.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued amendments to address diversity in practice related to the presentation of unrecognized tax benefits in certain situations. The amendments require a liability related to an unrecognized tax benefit to be presented on a net basis with its associated deferred tax asset when utilization of such deferred tax assets is required or expected in the event the uncertain tax position is disallowed. Otherwise, the unrecognized tax benefit will be presented as a liability and will not be netted against deferred tax assets. The Company early adopted this guidance effective April 1, 2013 with no material impact on its financial position, results of operations or cash flows.

Financial Statement Revisions

During 2014, management determined that certain accounting transactions were not properly recorded in the Company's previously issued financial statements. The Company corrected the accounting by revising the prior period financial statements, the impacts of which are described below.

Historically, the Company has calculated its capital tracker regulatory asset using its weighted average cost of capital ("WACC"), and carrying charges on regulatory assets using its AFUDC rate. WACC and AFUDC have both a debt and equity component. Accounting standards allow for the capitalization of all or part of an incurred cost that would otherwise be charged to expense if the regulator's actions create probable recovery of those costs through future rates. Because the equity component of a WACC or an AFUDC rate is not an incurred cost that would otherwise be charged to expense, accounting guidance for rate regulated activities does not allow for the capitalization of such equity amounts, and thus, the equity component should not have been included in the Company's capital tracker and carrying charges calculation.

A cumulative adjustment of $30.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $34.7 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $3.8 million was recorded as an increase to net income within operations and maintenance expense and other income and deductions for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these corrections. This adjustment also resulted in a decrease of $49.5 million in non-current regulatory assets, a decrease of $1.8 million in non-current regulatory liabilities and a decrease of $19 million in deferred income tax liabilities as of March 31, 2013.

In addition, during 2013, the Company incorrectly determined the balance of capital related accruals included in accounts payable in calculating it's cash flows for the year, resulting in an overstatement of net cash provided by operating activities, and net cash used in investing activities. The Company recorded an adjustment of $14.5 million to net cash used in investing activities and $14.5 million to net cash provided by operating activities for the year ended March 31, 2013 related to this correction.

Further, the Company has corrected various account balances that were improperly recorded. A cumulative adjustment of $8.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2013, of which $5.4 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $3.5 million was recorded as an increase to net income for the year ended March 31, 2013 to reflect the fiscal year 2013 activity related to these items.

The following table shows the amounts previously reported as revised:

	As Previously Reported [i]	Adjustments	As Revised
	(in thousands of dollars)		
	March 2013		March 2013
Consolidated Statement of Income			
Operating revenues	$ 1,432,308	$ (9,158)	$ 1,423,150
Operating income	248,297	(9,832)	238,465
Other deductions, net	(48,466)	18,063	(30,403)
Income before income taxes	199,831	8,231	208,062
Income tax expense	83,474	986	84,460
Net income	116,357	7,245	123,602
Consolidated Statement of Cash Flows			
Net income	$ 116,357	$ 7,245	$ 123,602
Net cash provided by operating activities	188,452	(14,403)	174,049
Net cash used in investing activities	(226,703)	15,234	(211,469)
Net cash used in financing activities	(43,496)	(613)	(44,109)
Capital-related accruals included in accounts payable	548	14,510	15,058

	As Previously Reported [i]	Adjustments	As Revised
	(in thousands of dollars)		
	March 2013		March 2013
Consolidated Balance Sheet			
Total current assets	793,427	1,050	794,477
Property, plant, and equipment, net	2,717,226	(2,940)	2,714,286
Total other non-current assets	2,576,553	(50,055)	2,526,498
Total current liabilities	574,684	(988)	573,696
Total other non-current liabilities	1,886,051	(29,903)	1,856,148
Additional paid in capital	2,613,764	1,031	2,614,795
Retained Earnings			
March 31, 2013	48,096	(22,084)	26,012
March 31, 2012	41,739	(29,329)	12,410

(i) During 2014 the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013.

3. REGULATORY ASSETS AND LIABILITIES

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

	March 31, 2014	March 31, 2013 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Cost to achieve	**$ 6,425**	$ 6,425
Derivative contracts	**8,429**	6,429
Environmental response costs	**30,973**	30,973
Gas cost adjustment	**17,252**	-
Postretirement benefits	**11,832**	11,832
Revenue decoupling mechanism	**-**	3,803
Other	**2,265**	5,030
Total	**77,176**	64,492
Non-current:		
Capital tracker	**26,482**	26,474
Derivative contracts	**3,831**	4,785
Environmental response costs	**687,109**	659,380
Postretirement benefits	**268,878**	297,171
Property taxes	**16,481**	7,047
Regulatory deferred tax assets	**2,325**	11,529
Other	**69,231**	49,975
Total	**1,074,337**	1,056,361
Regulatory liabilities:		
Current:		
Derivative contracts	**3,171**	4,674
Gas cost adjustment	**-**	20,057
Revenue decoupling mechanism	**6,136**	-
Temporary state assessment	**32,751**	4,380
Other	**485**	355
Total	**42,543**	29,466
Non-current:		
Carrying charges	**3,241**	8,359
Cost of removal	**181,329**	178,926
Delivery rate adjustment	**44,974**	44,974
Derivative contracts	**7,124**	466
Energy efficiency	**41,100**	35,365
Excess earnings	**88,082**	88,082
Other	**31,178**	25,020
Total	**397,028**	381,192
Net regulatory assets	**$ 711,942**	$ 710,195

Capital Tracker: During the primary term of the rate plan (2008–2012), the Company had a capital tracker mechanism that reconciled the Company's capital expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The Company deferred the full revenue requirement equivalent of CSC expenditures above or below the CSC rate as well as the full revenue requirement equivalent of amounts below the rate allowance for all other capital expenditures. Beginning January 1, 2013, the Capital Tracker was replaced by a Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("NUP Tracker"). The NUP tracker requires the Company to reconcile its annual actual average net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. If the cumulative two year actual net utility plant and depreciation expense revenue requirement are below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

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.

Cost to achieve: Represents deferred costs incurred to achieve merger savings related to the 2007 acquisition of KeySpan by NGUSA.

Delivery rate adjustment: The NYPSC authorized a surcharge for recovery of regulatory assets (Delivery Rate Surcharge) of $5.0 million beginning January 1, 2008, which increased incrementally by $5.0 million in rate years two through five; aggregating to a total of approximately $75.0 million over the term of the rate agreement. In its order issued and effective November 28, 2012 (Order Authorizing Recovery of Deferred Balances), the NYPSC authorized a Site Investigation and Remediation ("SIR") Surcharge in the amount of $25.0 million which superseded the Delivery Rate Surcharge effective January 1, 2013. These SIR recoveries will be used to amortize existing SIR deferral balances.

Derivative assets and liabilities: Gains or losses resulting from commodity derivatives are required to be refunded to or recovered from customers through the gas cost adjustment. Accordingly, the Company evaluates open derivative contracts to determine if they are probable of recovery or refund through future rates charged to customers and qualify for regulatory deferral. 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: This amount represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of its energy efficiency programs as approved by the NYPSC.

Environmental response costs: This regulatory asset represents deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former manufactured gas plant ("MGP") sites and related facilities. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Excess earnings: At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its return on common equity capital ("ROE"). During the primary term of the rate plan (2008-2012), if the level of earned common equity in the applicable rate year exceeded 10.5%, the Company was required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, the threshold for earnings sharing was reduced from 10.5% to 9.4% and the sharing mechanism is calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

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

Postretirement benefits: This amount primarily represents the excess costs of the Company's pension and PBOP plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods, and the non-cash accrual of net actuarial gains and losses. Also included within this amount are certain pension deferral amounts from prior to the acquisition of KeySpan by NGUSA, which are being recovered in rates over a 10-year period ending August 2017, and the non-cash accrual of net actuarial gains and losses.

Property taxes: The regulatory assets and liabilities represent 90% of actual property and special franchise tax expenses above or below the rate allowance for future collection from or refund to the Company's customers.

Regulatory deferred tax asset: This amount represents unrecovered federal and state deferred taxes of the Company primarily as a result of regulatory flowthrough accounting treatment and state 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 expects to address the amortization period of the regulatory asset created by the New York state rate change in the next rate case.

Revenue decoupling mechanism: As approved by the NYPSC, the Company has a RDM which applies only to the Company's firm residential heating sales and transportation customers. The RDM 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.

Temporary state assessment: In June 2009, the NYPSC authorized utilities, including the Company, to recover the costs required for payment of the Temporary State Energy & Utility Service Conservation Assessment ("Temporary State Assessment"), including carrying charges. The Temporary State Assessment is subject to reconciliation over a five year period which began July 1, 2009. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the Company, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of March 31, 2014, the Company over-collected on these costs. The Company is required to net any deferred over-collection amounts against the amount to be collected in fiscal year 2014 and 2015 as well as the first payment relating to fiscal year 2015 and 2016.

The Company records carrying charges on all regulatory balances (with the exception of derivative contracts and regulatory tax balances) where cash expenditures have been made and are subject to recovery, or for where 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 June 13, 2013, the NYPSC approved a rate plan extension covering the Company's 2013 and 2014 rate years. The Company's revenue requirements for both years have been modified as follows: (i) there is no change in base delivery rates, other than those previously approved by the NYPSC in the rate plan extension, (ii) the allowed ROE decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure increased from 45% to 48%.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of National Grid's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On May 23, 2014, a Joint Proposal between National Grid and the Staff of the Department of Public Service was filed for NYPSC approval that resolves all financial and rate issues arising from or related to the audit, and a $13.3 million regulatory liability was recorded. At the time of the issuance of these financial statements, the NYPSC had yet to issue its approval.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. The audit commenced in August 2013. At the time of issuance of the consolidated financial statements, the Company cannot predict the outcome of this audit.

Operations Audit

In August 2013, the NYPSC initiated an operational audit to review the accuracy of the customer service, electric reliability, and gas safety data reported by the investor owned utilities operating in New York, including the Company. On December 19, 2013, the NYPSC selected Overland Consulting to conduct the audit, which commenced in February 2014. At the time of the issuance of these consolidated financial statements, the Company cannot predict the outcome of this audit.

5. PROPERTY, PLANT AND EQUIPMENT

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

	March 31,	
	2014	2013 (Revised)
	(in thousands of dollars)	
Plant and machinery	**$ 3,523,161**	$ 3,369,349
Land and buildings	**174,708**	163,511
Assets in construction	**200,583**	122,271
Software and other intangibles	**124,399**	124,387
Total property, plant and equipment	**4,022,851**	3,779,518
Accumulated depreciation and amortization	**(1,108,397)**	(1,065,232)
Property, plant and equipment, net	**$ 2,914,454**	$ 2,714,286

6. DERIVATIVE CONTRACTS

The Company utilizes derivative instruments, such as gas purchase contracts, gas swap contracts and gas option 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 to, 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,	
	2014	2013
	(in thousands)	
Physical contracts:		
Gas purchase contracts (dths)	**22,310**	8,721
Financial contracts:		
Gas swap contracts (dths)	**13,732**	19,174
Gas option contracts (dths)	**9,350**	1,750
Total	**45,392**	29,645

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives							
	March 31,					March 31,		
	2014		2013			**2014**		2013
	(in thousands of dollars)					*(in thousands of dollars)*		
Current assets:				Current liabilities:				
Rate recoverable contracts:				Rate recoverable contracts:				
Gas purchase contracts	**509**	$	1,992	Gas purchase contracts	**$**	**4,744**	$	1,988
Gas swap contracts	**1,757**		2,213	Gas swap contracts		**3,432**		4,436
Gas option contracts	**905**		469	Gas option contracts		**253**		5
	3,171		4,674			**8,429**		6,429
Other non-current assets:				Non-current liabilities:				
Rate recoverable contracts:				Rate recoverable contracts:				
Gas purchase contracts	**7,124**		466	Gas purchase contracts		**3,831**		4,785
	7,124		466			**3,831**		4,785
Total	**$ 10,295**	$	5,140	Total	**$**	**12,260**	$	11,214

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 consolidated statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

Credit and Collateral

The Company is exposed to credit risk related to transactions entered 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, 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 instruments, applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was a liability of $3.2 million and $7.6 million as of March 31, 2014 and 2013, respectively.

The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $4.1 million and $4.0 million, respectively. The Company had no collateral posted for these instruments at March 31, 2014 or 2013. 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 $4.4 million and $4.1 million additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

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

ASSETS: Description	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*
Commodity Derivatives						
Gas purchase contracts	$ 7,633	$ -	$ 7,633	-	$ -	$ 7,633
Gas swap contracts	1,757	-	1,757	-	-	1,757
Gas option contracts	905	-	905	-	-	905
Total	$ 10,295	$ -	$ 10,295	$ -	$ -	$ 10,295

LIABILITIES: Description	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas purchase contracts	$ (8,575)	$ -	$ (8,575)	$ -	$ -	$ (8,575)
Gas swap contracts	(3,432)	-	(3,432)	-	-	(3,432)
Gas option contracts	(253)	-	(253)	-	-	(253)
Total	$ (12,260)	$ -	$ (12,260)	$ -	$ -	$ (12,260)

March 31, 2013
Gross Amounts Not Offset in the Balance Sheets
(in thousands of dollars)

ASSETS: Description	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
Commodity Derivatives						
Gas purchase contracts	$ 2,458	$ -	$ 2,458	$ -	$ -	$ 2,458
Gas swap contracts	2,213	-	2,213	-	-	2,213
Gas option contracts	469	-	469	-	-	469
Total	$ 5,140	$ -	$ 5,140	$ -	$ -	$ 5,140

LIABILITIES: Description	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Commodity Derivatives						
Gas purchase contracts	$ (6,773)	$ -	$ (6,773)	$ -	$ -	$ (6,773)
Gas swap contracts	(4,436)	-	(4,436)	-	-	(4,436)
Gas option contracts	(5)	-	(5)	-	-	(5)
Total	$ (11,214)	$ -	$ (11,214)	$ -	$ -	$ (11,214)

7. FAIR VALUE MEASUREMENTS

The following tables present assets and liabilities measured and recorded at fair value in the accompanying consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2014 and 2013:

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas purchase contracts	$ -	$ 34	$ 7,599	$ 7,633
Gas swap contracts	-	1,757	-	1,757
Gas option contracts	-	-	905	905
Total	-	1,791	8,504	10,295
Liabilities:				
Derivative contracts				
Gas purchase contracts	-	107	8,468	8,575
Gas swap contracts	-	3,432	-	3,432
Gas option contracts	-	-	253	253
Total	-	3,539	8,721	12,260
Net liabilities	$ -	$ (1,748)	$ (217)	$ (1,965)

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Gas purchase contracts	$ -	$ 127	$ 2,331	$ 2,458
Gas swap contracts	-	2,213	-	2,213
Gas option contracts	-	-	469	469
Total	-	2,340	2,800	5,140
Liabilities:				
Gas purchase contracts	-	76	6,697	6,773
Gas swap contracts	-	4,436	-	4,436
Gas option contracts	-	-	5	5
Total	-	4,512	6,702	11,214
Net liabilities	$ -	$ (2,172)	$ (3,902)	$ (6,074)

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

The Company's Level 3 fair value derivative instruments primarily consist of OTC gas purchase contracts and gas option contracts, 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.

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	**2013**
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ (3,902)**	$ (5,186)
Total gains or losses included in regulatory assets and liabilities	**5,209**	(721)
Settlements	**(1,524)**	2,005
Balance as of the end of the year	**$ (217)**	$ (3,902)

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, 2014 or 2013.

The following table provides information about the Company's Level 3 valuations:

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
Physical (A)							
Gas	Gas Purchase Contract	$ 7,385	$ (8,468)	$ (1,083)	Discounted Cash Flow	Forward Curve (A)	$2.434 - $17.310/Dth
Gas/Power	Cross Commodity Contract	214		214	Discounted Cash Flow	Forward Curve	$50.93 - $98.98/Dth
Financial							
Gas	Gas Option Contract	905	(253)	652	Discounted Cash Flow	Implied Volatility	29% - 31%
	Total	$ 8,504	$ (8,721)	$ (217)			

(A) Includes deals with valuation assumptions on gas supply.

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 and gas option derivatives are forward commodity prices, both gas and electric, implied volatility and valuation assumptions pertaining to the peaking gas deals based on the forward gas 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 consolidated 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, 2014 and 2013 was $1.2 billion.

All other financial instruments in the accompanying consolidated 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 certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP plan (together with the Pension Plans (the "Plans")), covering substantially all employees.

The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, 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, 2014 and 2013, the Company made contributions of approximately $45.6 million and $50.2 million to the Plans.

Plan assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in them. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying balance sheets. Pension and PBOP expense is included in operations and maintenance expense in the accompanying consolidated statements of income.

KeySpan's unfunded obligations at March 31, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 704,169**	$ 892,701
PBOP	**916,706**	1,339,788
	$ 1,620,875	$ 2,232,489

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, 2014 and 2013 are as follows:

	March 31,	
	2014	2013
	(in thousands of dollars)	
Pension	**$ 15,634**	$ 15,407
PBOP	**19,186**	19,207
	$ 34,820	$ 34,614

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying consolidated statements of income of $1.0 million and $1.2 million, respectively, for matching contributions.

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in an increase in income before income taxes of approximately $19.3 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $10.0 million and $16.9 million respectively

9. CAPITALIZATION

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt bonds (Gas Facilities Revenue Bonds, or "GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2014 and 2013, $640.5 million of GFRBs were outstanding; $230.0 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.07% to 0.51% during the year ended March 31, 2014 and 0.14% to 2.17% during the year ended March 31, 2013. The GFRBs are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and in the case of a failed auction, the resulting interest rate on the bonds revert to the maximum rate which depends on the current appropriate, short term benchmark rates and the senior unsecured rating of the Company's bonds. The effect of the failed auctions on interest expense has not been material at this time.

Current Maturities of Long-term Debt

(in thousands of dollars)	
Years Ending March 31,	
2015	$ -
2016	-
2017	400,000
2018	-
2019	-
Thereafter	640,500
Total	$ 1,040,500

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

Dividend Restrictions

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56% of total utility capitalization. At March 31, 2014 and 2013, the Company was in compliance with the utility capital structure required by the NYPSC. In August 2012, the Company issued a dividend in the amount of $110 million to KeySpan which was settled via the money pool.

Preferred Stock

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

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31, 2014	2013
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	$ 10,596	$ 1,784
State	8,742	660
Total current tax benefit	19,338	2,444
Deferred tax expense:		
Federal	51,689	66,475
State	10,585	16,452
Total deferred tax expense	62,274	82,927
Amortized investment tax credits, net [1]	(911)	(911)
Total deferred tax expense	61,363	82,016
Total income tax expense	$ 80,701	$ 84,460

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

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2014 and 2013 is 42.5% and 40.6%, 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, 2014	2013
	(in thousands of dollars)	
Computed tax at the statutory rate	$ 66,483	$ 72,821
Change in computed taxes resulting from:		
State income tax, net of federal benefit	12,563	11,123
Depreciation differences not normalized	1,404	3,301
Investment tax credit	(911)	(911)
Other items, net	1,162	(1,874)
Total	14,218	11,639
Federal and state income taxes	$ 80,701	$ 84,460

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 Internal Revenue Service ("IRS") issued final regulations, effective for tax years beginning in 2014, that provide guidance on the appropriate tax treatment of costs incurred to acquire, produce or improve tangible property, as well as routine maintenance and repair costs. Proposed regulations were issued addressing the tax treatment of asset dispositions. The Company has evaluated tax accounting method changes that may be elected, or required by the final regulations. At March 31, 2014, $3.4 million of deferred tax liabilities have been classified as current in the Company's balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015. The application of these regulations is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

On March 31, 2014, New York's legislature enacted as part of the 2014-15 budget package, legislation which included significant tax changes. For tax years beginning on or after January 1, 2016, the New York corporate franchise rate is reduced from 7.1% to 6.5%. Additionally, for tax years beginning on or after January 1, 2015, New York State will generally require combined reporting if the taxpayer is engaged in a unitary business and a 50% common ownership test is met. The Metropolitan Transportation Authority surcharge rate increased from 17% to 25.6% of the New York rate for taxable years beginning after 2014 and before 2016. For subsequent years, the rate is to be adjusted by the Commissioner of the New York State Department of Taxation and Finance. As of March 31, 2014, the Company remeasured its New York State deferred tax assets and liabilities based upon the enacted law that will apply when the corresponding state temporary differences are expected to be realized or settled. Specifically, the Company decreased its New York State deferred tax liability by $8.5 million with an offset of $8.0 million to regulatory liability and an offset of $0.5 million to income tax expense to reflect the decrease in tax rate.

Deferred Tax Components

	March 31,	
	2014	2013
	(in thousands of dollars)	
Deferred tax assets:		
Net operating losses		
Pensions, PBOP and other employee benefits	**$ 51,667**	$ 78,775
Environmental reserve	**230,171**	219,864
Other Regulatory assets/liabilities - net		
Allowance for uncollectible accounts		
Future federal benefit on state taxes	**37,805**	45,595
Regulatory liabilities - other	**59,536**	60,229
Other items	**25,120**	48,829
Total deferred tax assets (1)	**404,299**	453,292
Deferred tax liabilities:		
Property related differences	**701,026**	659,559
Regulatory assets - pension and PBOP	**120,907**	136,969
Regulatory assets - environmental	**311,307**	302,454
Other items	**55,455**	76,823
Total deferred tax liabilities	**1,188,695**	1,175,805
	784,396	722,513
Deferred investment tax credits	**3,814**	4,725
Net deferred income tax liabilities and investment tax credits	**788,210**	727,238
Current portion of deferred income tax liabilities (assets), net	**6,533**	(10,751)
Deferred income tax liabilities, net	**$ 781,677**	$ 737,989

(1) There were no valuation allowances for deferred tax assets at March 31, 2014 or 2013.

During the year ended March 31, 2014, the Company changed its accounting policy for presentation of tax balances. The change in policy resulted in a reclassification of balances reported at March 31, 2013, which decreased accounts payable to affiliates by $29.4 million, increased taxes accrued by $1.9 million, and increased other non-current liabilities by $27.5 million.

The following table presents the amounts and expiration dates of operating losses as of March 31, 2014:

Expiration of net operating losses:	Federal	
	(in thousands of dollars)	
03/31/2033	$	12,085
03/31/2034		5,634

Expiration of state and city net operating losses:	NYS	
	(in thousands of dollars)	
03/31/2029	$	97,012
03/31/2033		39,254

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $72.2 million and $113.0 million, respectively, of which none and $16.8 million, respectively, would affect the effective tax rate, if recognized.

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

	Years Ended March 31,			
	2014		2013	
	(in thousands of dollars)			
Balance as of the beginning of the year	**$**	**113,030**	$	103,367
Gross increases - tax positions in prior periods		**2,046**		3,065
Gross decreases - tax positions in prior periods		**(16,622)**		(466)
Gross increases - current period tax positions		**13,727**		7,998
Gross decreases - current period tax positions		**-**		(934)
Settlements with tax authorities		**(40,001)**		-
Balance as of the end of the year	**$**	**72,180**	$	113,030

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $2.5 and $12.9 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded interest expense of $3.9 million and $3.4 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest, including affiliate interest. Related penalties, if applicable, are recorded to other income (deductions), net in the accompanying consolidated statements of income. No penalties were recognized during the years ended March 31, 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 liquidity.

During the year ended March 31, 2014 the IRS concluded its examination of the NGNA consolidated filing group's corporate income tax returns, which includes corporate income tax returns of KeySpan Corporation and subsidiaries for the short period ended August 24, 2007, and of NGNA and subsidiaries for the periods ended March 31, 2008 and 2009. These examinations were completed on March 27, 2014 and March 31, 2014, respectively, 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 the 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 years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's NYS income tax returns for the short period ended August 24, 2007 and March 31, 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York. During fiscal year 2014 the Company made tax and interest payments of $19.1 million and $14.3 million, respectively, for the previously disallowed investment tax credit claims.

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

Jurisdiction	Tax Year
Federal	August 24, 2007*
New York	August 24, 2007

*The NGNA consolidated filing group is in the process of appealing certain disputed issues with the IRS Office of Appeals for the short year ended August 24, 2007 and fiscal years ended March 31, 2008 through March 31, 2009

11. 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.

In March of 2010, the Gowanus Canal was named to the United States Environmental Protection Agency ("EPA") Superfund List. The Company's predecessor owned three historical manufactured gas plants located along the Canal. In September of 2013, the EPA issued its Record of Decision, which prescribes the remedy for the Canal. The EPA estimates the entire remedy will cost $506 million. On March 21, 2014, the EPA issued a Unilateral Administrative Order to the Company and more than twenty-five other industrial potentially responsible parties ("PRPs"), to commence the design of the remedy. Although no estimate for the design of the remedy was given, an estimate of 10% of remedy cost ($50 million) is typically used when estimating design costs. The Company is negotiating with the other PRPs to share work and costs.

The Company has identified numerous MGP sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Order on Consent or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2014 and 2013 were $27.7 million and $47.9 million, respectively.

Upon the acquisition of KeySpan by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve, which is being accreted over the period for which remediation is expected to occur. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with the current accounting guidance for environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $532.1 million and $503.9 million at March 31, 2014 and 2013, respectively. The Company's environmental obligation is discounted at a rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2014 and 2013 was $647.2 million and $632.4 million, respectively. These costs are expected to be incurred over the next 43 years, and the discounted amounts have been recorded as liabilities in the accompanying consolidated 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, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of SIR costs. Accordingly, as of March 31, 2014 and 2013, the Company has recorded net environmental regulatory assets of $718.0 million and $690.3 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, and 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 since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has long-term commitments with a variety of suppliers and pipelines to purchase gas supply, gas storage capability, and transportation of gas on interstate gas pipelines. The Company is liable for these payments regardless of the level of services required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ending March 31,		Gas
2015	$	190,913
2016		123,869
2017		107,090
2018		57,775
2019		27,665
Thereafter		49,140
Total	$	556,452

Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately $11.5 million and $11.2 million the years ended March 31, 2014 and 2013, respectively. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statement of income was approximately $3.1 million and $6.5 million for the years ended March 31, 2014 and 2013, respectively.

The future minimum lease payments for the years subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ending March 31,		
2015	$	11,569
2016		11,882
2017		11,963
2018		12,047
2019		12,133
Thereafter		72,374
Total	$	131,968

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.

SuperStorm Sandy

October 2012, SuperStorm Sandy hit the northeastern U.S. affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer service restoration from this storm (including capital expenditures) were approximately $69.1 million through March 31, 2014.

The Company has recorded an "other receivable" in the accompanying consolidated balance sheets in the amount of $19.0 million and $25.1 million as of March 31, 2014 and 2013, respectively, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles and allowances. As of March 31, 2014, NGUSA has received multiple advance payments from its insurers, of which $29.2 million has been allocated to the Company.

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
		(Revised)		(Revised)
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ -**	$ -	**$ 11,527**	$ 92,008
NGUSA Service Company	-	-	**117,927**	132,831
KeySpan Gas East Corporation	**10,034**	45,238	-	-
National Grid Engineering Services	**2,226**	57	-	-
Other	**89**	435	**2,620**	6,833
Total	**$ 12,349**	$ 45,730	**$ 132,074**	$ 231,672

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool. The Company is a participant in the Regulated Money Pool, except for NETCO, which participates in the Unregulated Money Pool, and can both borrow and lend funds. Borrowings from the Regulated Money and Unregulated Money Pools bear interest in accordance with the terms of the intercompany money pool agreement. As the Company fully participates in the Regulated and Unregulated Money Pools rather than settling intercompany charges with cash, all changes in the intercompany money pool balance and accounts receivable and payable from affiliate balances, are reflected as investing or financing activities in the accompanying statements of cash flows. In addition, for the purpose of presentation in the consolidated 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 and Unregulated Money Pools are funded by operating funds from participants. Collectively, NGUSA and 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 payable of $337.4 million and $106.6 million at March 31, 2014 and 2013, respectively. NETCO had short-term intercompany money pool investments of $80.0 million and $77.0 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 1.5% for the years ended March 31, 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, 2014 and 2013 were $243.1 million and $210.2 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 on these consolidated financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $5.4 million and $5.1 million before taxes, and $3.5 and $3.3 million after taxes, for each of the years ended March 31, 2014 and 2013.