KeySpan Corporation and Subsidiaries

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

KEYSPAN CORPORATION AND SUBSIDIARIES

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Independent Auditor's Report

To the Shareholders and Board of Directors
of KeySpan Corporation

We have audited the accompanying consolidated financial statements of KeySpan Corporation (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 KeySpan Corporation 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

September 7, 2014

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions of dollars)

	Years Ended March 31,	
	2014	**2013**
Operating revenues:		
Gas distribution	**$ 4,276**	$ 3,797
Electric services	**495**	506
Other	**24**	28
Total revenues	**4,795**	4,331
Operating expenses:		
Purchased gas	**1,844**	1,527
Operations and maintenance	**1,507**	1,232
Depreciation and amortization	**343**	342
Other taxes	**589**	594
Total operating expenses	**4,283**	3,695
Operating income	**512**	636
Other income and (deductions):		
Interest on long-term debt	**(184)**	(196)
Other interest, including affiliate interest	**(27)**	(16)
Equity income in unconsolidated subsidiaries	**35**	36
Other income, net	**66**	8
Total other deductions, net	**(110)**	(168)
Income before income taxes	**402**	468
Income tax expense	**158**	185
Income from continuing operations	**244**	283
Net income from discontinued operations, net of taxes	**139**	13
Net income	**$ 383**	$ 296

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions of dollars)

	Years Ended March 31,	
	2014	2013
Net income	$ 383	$ 296
Other comprehensive income (loss):		
Unrealized gains on investments, net of $1 and $1 tax expense	1	1
Change in pension and other postretirement obligations, net of $67 tax expense and $37 tax benefit	99	(56)
Reclassification of losses into net income, net of $68 and $33 tax benefit	100	49
Total other comprehensive income (loss)	200	(6)
Comprehensive income	$ 583	$ 290

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	Years Ended March 31, 2014	Years Ended March 31, 2013
Operating activities:		
Net income	**$ 383**	$ 296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**343**	342
Provision for deferred income taxes	**36**	65
Bad debt expense	**40**	26
Equity income in unconsolidated subsidiaries, net of dividends received	**(10)**	(15)
Allowance for equity funds used during construction	**(4)**	(5)
Regulatory amortizations	**94**	62
Net postretirement benefits expenses	**159**	23
Net environmental remediation payments	**(73)**	(89)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(227)**	(615)
Accounts receivable from/payable to affiliates, net	**-**	94
Inventory	**59**	94
Regulatory assets and liabilities, net	**(77)**	90
Derivative contracts	**8**	(16)
Prepaid and accrued taxes	**(80)**	60
Accounts payable and other liabilities	**115**	55
Other, net	**(1)**	3
Net cash provided by operating activities	**765**	470
Investing activities:		
Capital expenditures	**(773)**	(626)
Net proceeds from disposal of subsidiary assets	**-**	223
Advances to affiliate	**277**	(1,002)
Affiliated regulated money pool investing and receivables/payables	**173**	761
Affiliated unregulated money pool investing and receivables/payables	**(11)**	(767)
Cost of removal and other	**(87)**	(33)
Net cash used in investing activities	**(421)**	(1,444)
Financing activities:		
Dividends paid on common and preferred stock	**-**	(12)
Payments on long-term debt	**(160)**	(10)
Affiliated regulated money pool borrowing and receivables/payables	**508**	390
Affiliated unregulated money pool borrowing and receivables/payables	**(751)**	65
Capitalization of affiliates	**-**	(82)
Parent loss tax allocation	**89**	6
Net cash (used in) provided by financing activities	**(314)**	357
Net increase (decrease)in cash and cash equivalents from continuing operations	**30**	(617)
Net cashflow from discontinued operations - operating	**(372)**	(218)
Net cashflow from discontinued operations - investing	**28**	1
Net cashflow from discontinued operations - financing	**(88)**	673
Cash and cash equivalents, beginning of year	**593**	754
Cash and cash equivalents, end of year	**$ 191**	$ 593
Supplemental disclosures:		
Interest paid	$ 219	$ 191
Income taxes paid	73	14
Significant non-cash items:		
Capital-related accruals included in accounts payable	70	35
Long Island Power Authority settlement	371	-
Capitalization of affiliates	-	313
Service companies merger assets and liabilities transferred within operating activities	-	176
Service companies merger assets and liabilities transferred within investing activities	-	315
Service companies merger assets and liabilities transferred within financing activities	-	(491)

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 191**	$ 593
Accounts receivable	**1,212**	1,070
Allowance for doubtful accounts	**(85)**	(86)
Other receivable	**58**	67
Accounts receivable from affiliates	**708**	290
Intercompany money pool - regulated and unregulated	**1,442**	1,659
Advances to affiliate	**1,999**	2,276
Unbilled revenues	**331**	290
Inventory	**167**	226
Regulatory assets	**349**	265
Derivative contracts	**21**	26
Other	**144**	108
Current assets related to discontinued operations	**374**	560
Total current assets	**6,911**	7,344
Equity investments	**189**	179
Property, plant, and equipment, net	**9,046**	8,462
Property, plant, and equipment, net related to discontinued operations	**-**	28
Total property, plant, and equipment	**9,046**	8,490
Other non-current assets:		
Regulatory assets	**1,967**	2,029
Goodwill	**3,766**	3,766
Derivative contracts	**18**	4
Loans to affiliate	**80**	80
Financial investments	**171**	146
Other	**91**	88
Non-current assets related to discontinued operations	**29**	28
Total other non-current assets	**6,122**	6,141
Total assets	**$ 22,268**	$ 22,154

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	March 31,	
	2014	2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 477**	$ 443
Accounts payable to affiliates	**153**	16
Current portion of long-term debt	**2**	160
Taxes accrued	**12**	44
Interest accrued	**64**	85
Regulatory liabilities	**207**	170
Intercompany money pool - regulated and unregulated	**2,421**	2,440
Derivative contracts	**25**	7
Current portion of deferred income tax liabilities	**52**	34
Other	**162**	161
Current liabilities related to discontinued operations	**692**	850
Total current liabilities	**4,267**	4,410
Other non-current liabilities:		
Regulatory liabilities	**1,269**	1,177
Asset retirement obligations	**67**	88
Deferred income tax liabilities	**1,841**	1,531
Postretirement benefits	**1,617**	2,217
Environmental remediation costs	**676**	689
Derivative contracts	**5**	6
Other	**235**	259
Non-current liabilities related to discontinued operations	**-**	155
Total other non-current liabilities	**5,710**	6,122
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**8,985**	8,313
Long-term debt	**3,306**	3,309
Total capitalization	**12,291**	11,622
Total liabilities and capitalization	**$ 22,268**	$ 22,154

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(in millions of dollars)

			March 31,	
			2014	2013
Total shareholders' equity			**$ 8,985**	$ 8,313
Long - term debt:	Interest Rate	Maturity Date		
Medium and long-term notes	3.30% - 9.75%	October 2014 - March 2042	**2,390**	2,550
Gas facilities revenue bonds	Variable	December 2020 - July 2026	**230**	230
Gas facilities revenue bonds	4.70% - 6.95%	April 2020 - July 2026	**411**	411
Total			**641**	641
Industrial development bonds	5.25%	June 2027	**128**	128
First mortgage bonds	6.90% - 8.80%	July 2022 - April 2028	**75**	75
State Authority financing notes	Variable	December 2027 - October 2028	**66**	66
Unamortized debt premium			**8**	9
Total debt			**3,308**	3,469
Current portion of long-term debt			**(2)**	(160)
Long-term debt			**3,306**	3,309
Total capitalization			**$ 12,291**	$ 11,622

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in millions of dollars, except per share and number of shares data)

		Accumulated Other Comprehensive Income				
	Additional Paid-in Capital	Available for Sale Securities and Other Investments	Pension and Postretirement Benefit Plans	Total Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of March 31, 2012	$ 7,600	$ 31	$ (585)	$ (554)	$ 1,378	$ 8,424
Net income	-	-	-	-	296	296
Other comprehensive income:						
Unrealized gains on investments, net of $1 tax expense	-	1	-	1	-	1
Change in pension and other postretirement obligations, net of $37 tax benefit	-	-	(56)	(56)	-	(56)
Reclassification of losses into net income, net of $33 tax expense	-	-	49	49	-	49
Total comprehensive income						290
Parent loss tax allocation	6				-	6
Capitalization of affiliates	(395)					(395)
Dividend on common stock	-	-	-	-	(12)	(12)
Balance as of March 31, 2013	7,211	32	(592)	(560)	1,662	8,313
Net income		-	-	-	383	383
Other comprehensive income:						
Unrealized gains on investments, net of $1 tax expense	-	1	-	1	-	1
Change in pension and other postretirement obligations, net of $67 tax expense	-	-	99	99	-	99
Reclassification of losses into net income, net of $68 tax expense	-		100	100	-	100
Total comprehensive income						583
Parent loss tax allocation	89	-	-	-	-	89
Balance as of March 31, 2014	**$ 7,300**	**$ 33**	**$ (393)**	**$ (360)**	**$ 2,045**	**$ 8,985**

The Company had 100 shares of common stock authorized, issued and outstanding, with a par value of $0.10 per share and 2 shares of cumulative 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.

KEYSPAN CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

KeySpan Corporation ("KeySpan" or "the Company") is a public utility holding company operating in New York City, Long Island, and Massachusetts. KeySpan 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 indirectly wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

KeySpan has two major lines of business, "Gas Distribution" and "Electric Services," and operates various energy services and investment companies.

Gas Distribution

The Company's Gas Distribution business consists of four gas distribution subsidiaries. The Brooklyn Union Gas Company ("Brooklyn Union") provides gas distribution services to customers in the New York City boroughs of Brooklyn, Queens, and Staten Island. KeySpan Gas East Corporation ("KeySpan Gas East") provides gas distribution services to customers in the Long Island Counties of Nassau and Suffolk, and the Rockaway Peninsula of Queens County, New York. Boston Gas Company ("Boston Gas") and Colonial Gas Company ("Colonial Gas"), provide gas distribution service to customers in Massachusetts.

On July 3, 2012, the Company's previous subsidiary, EnergyNorth Natural Gas, Inc. ("EnergyNorth"), was sold to Liberty Energy Utilities Co. ("Liberty Energy"), a subsidiary of Algonquin Power & Utilities Corp. The results of EnergyNorth are reflected as discontinued operations in the accompanying consolidated statements of income for the year ended March 31, 2013.

Electric Services

The Company's Electric Services business consists of certain subsidiaries who have provided operational and energy management services and continue to supply capacity to and produce energy for the use of customers of the Long Island Power Authority ("LIPA"), on Long Island, New York. These services were, or are, provided through the following contractual arrangements. The Power Supply Agreement ("PSA") which was amended and restated for a maximum term of 15 years in October 2012, provides LIPA with electric generating capacity, energy conversion and ancillary services from the Company's Long Island generating units. The Energy Management Agreement ("EMA"), which expired on May 28, 2013, provided management of all aspects of fuel supply for the Company's Long Island generating facilities. The Management Service Agreement ("MSA"), which expired on December 31, 2013, provided operation, maintenance and construction services, and significant administrative services relating to the Long Island electric transmission and distribution system. The results of the MSA are reflected as discontinued operations in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013.

Other Services

The Company's Energy Services business includes companies that provide energy-related services to customers located primarily within the northeastern United States. These services comprise the operation, maintenance, and design of energy systems for commercial and industrial customers.

The Company's Energy Investments business consists of gas production and development investments such as natural gas pipelines, as well as certain other domestic energy-related investments. Through the Company's wholly-owned subsidiary, National Grid LNG, it owns a 600,000 barrel liquefied natural gas storage and receiving facility in Providence, Rhode Island.

The Company's consolidated financial statements also include a 26.25% interest in Millennium Pipeline Company LLC ("Millennium") and a 20.4% interest in Iroquois Gas Transmission System, which are accounted for under the equity method of accounting.

The Company uses the equity method of accounting for its investments in affiliates when it has the ability to exercise significant influence over the operating and financial policies, but does not control the affiliates. The Company's share of the earnings or losses of such affiliates is included as equity income in unconsolidated subsidiaries in the accompanying consolidated statements of income.

On November 5, 2012, the net assets of two service companies previously owned by KeySpan were transferred out and merged with NGUSA in exchange for shares of common stock. The services that had been provided to the Company's subsidiaries by these two service companies are now provided by NGUSA at cost.

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 as applicable. The consolidated financial statements reflect the rate-making practices of the applicable regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Non-controlling interests of majority-owned subsidiaries are calculated based upon the respective non-controlling interest ownership percentages. All intercompany transactions have been eliminated in consolidation.

Under its holding company structure, the Company has no independent operations or source of income of its own and conducts all of its operations through its subsidiaries. As a result, the Company depends on the earnings and cash flow of, and dividends or distributions from, its subsidiaries to provide the funds necessary to meet its debt and contractual obligations. Furthermore, a substantial portion of the Company's consolidated assets, earnings and cash flow is derived from the operations of its regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to the Company is subject to regulation by state regulatory authorities.

The Company has evaluated subsequent events and transactions through September 7, 2014, the date of issuance of these consolidated financial statements, and concluded that other than the matters incorporated in the accompanying financial statements, 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 consolidated 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 State Public Service Commission ("NYPSC") and the Massachusetts Department of Public Utilities ("DPU") regulate the rates the Company's subsidiaries charge their customers in the applicable states. In these cases, the subsidiaries defer costs (as regulatory assets) or recognize 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 ("FERC") and its rates are filed with the FERC.

Revenue Recognition

Gas Distribution

Revenues are recognized for gas distribution services provided on a monthly billing cycle basis. The Company's gas regulated subsidiaries 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 state regulators have approved revenue decoupling mechanisms ("RDM"), which require the Company's gas regulated subsidiaries to adjust their base rates periodically to reflect the over or under recovery of targeted base distribution revenues.

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

Electric Services

Electric revenues are recognized for sales of capacity and energy to LIPA under terms of the PSA, with rates approved by the FERC. The Company records unbilled revenues for the estimated amount of energy delivered from the bill date to the end of the accounting period.

Other Revenues

Revenues earned for service and maintenance contracts associated with commercial energy systems are recognized as earned or over the life of the service contract, as appropriate.

Other Taxes

The Company's subsidiaries collect 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).

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 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 fiscal 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 $38.7 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 applicable state regulators.

The Company had materials and supplies of $71.0 million and $84.0 million at March 31, 2014 and 2013, respectively, and gas in storage of $96.0 million and $142.0 million at March 31, 2014 and 2013, respectively.

Derivatives

All of the Company's derivative financial instruments are held by its regulated subsidiaries. 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 consolidated balance sheets. There were no special deposits as of March 31, 2014 or 2013.

Fair Value Measurements

The Company measures derivatives and available-for-sale securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the

measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

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

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

Property, Plant and Equipment

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

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 authorities. The average composite rates and average service lives for the years ended March 31, 2014 and 2013 are as follows:

	Electric		**Gas**	
	Years Ended March 31,		**Years Ended March 31,**	
	2014	2013	**2014**	2013
Composite rates	**3.3%**	3.3%	**3.0%**	3.0%
Average service lives	**39 years**	39 years	**45 years**	45 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 $817.0 million and $772.0 million at March 31, 2014 and 2013 respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the regulated subsidiaries record 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 (deduction), 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 $4.0 million and $5.0 million for the years ended March 31, 2014 and 2013, respectively. The Company recorded AFUDC related to debt of $3.0 million for each of the years ended March 31, 2014 and 2013. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 3.6% and 6.9% respectively.

In addition, approximately zero and $1.0 million of interest was capitalized for construction of non-regulated projects during the years ended March 31, 2014 and 2013, 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.

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 consolidated balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment, primarily associated with the Company's gas distribution and electric generation 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 Company has legal obligation to dismantle the Glenwood and Far Rockaway facilities and remediate the associated sites. These facilities were shut down and decommissioning began in July 2012; demolition and remediation activities are expected to be completed between October 2014 and April 2015.

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

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 88**	$ 101
Accretion expense	**4**	5
Liabilities settled	**(25)**	(18)
Balance as of the end of the year	**$ 67**	$ 88

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

Supplemental Executive Retirement Plans

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

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 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.

Discontinued Operations

In April 2014, the FASB issued amendments to the requirements for reporting discontinued operations. Under the amendments, the definition of a discontinued operation has been updated to include only those disposals of a component or group of components that represent a strategic shift that has or will have a major effect on an entity's operations and financial results. Additionally, the conditions requiring (1) that the operations and cash flows of the component are eliminated from the ongoing operations of the entity as a result of the disposal transaction, and (2) that the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction were incurred. The Company early adopted this guidance during the current fiscal year as reflected in the accompanying consolidated statements of income and Note 14, "Discontinued Operations".

Accounting Guidance Not Yet Adopted

Reclassifications From Accumulated Other Comprehensive Income

In February 2013, the FASB issued amendments to improve the reporting of reclassifications out of 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 will adopt this guidance effective April 1, 2014, which will only impact its disclosures.

Financial Statement Revisions

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

- 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. The 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 calculations.

  A cumulative adjustment of $56.9 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2013, of which $58.0 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $1.1 million was recorded as an increase to net income within operations and maintenance expense and other deductions, net 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 $124.0 million in non-current regulatory assets, a decrease of $33.0 million in non-current regulatory liabilities and a decrease of $34.1 million in deferred income tax liabilities as of March 31, 2013.

- During 2013, the Company improperly presented balances within the Regulated and Unregulated Money Pools as a net current liability. As there is no legal right of offset, the presentation should be shown gross according to the positions of the underlying balances. The correction of this presentation resulted in an increase in both current assets and current liabilities of approximately $1.7 billion.

- During 2013, the Company did not account for labor charges related to discontinued operations properly. The Company recorded an adjustment of $14.4 million (net of income taxes) in the consolidated financial statements for the year ended March 31, 2013 related to this correction.

In addition to the above, the Company has corrected various account balances in continuing and discontinued operations that were improperly recorded. A cumulative adjustment of $29.5 million (net of income taxes) was recorded in the consolidated financial statements for the year ended March 31, 2013, of which $21.0 million was recorded as an adjustment to opening retained earnings (as of March 31, 2012), and $8.5 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 tables shows the amounts previously reported as revised:

	As Previously Reported [1]	Adjustments	As Revised
		(in millions of dollars)	
	March 2013		March 2013
Consolidated Statement of Income			
Total revenues	$ 4,344	$ (13)	$ 4,331
Operating income	640	(4)	636
Total other deduction, net	(180)	12	(168)
Income before income taxes	460	8	468
Income tax expense	187	(2)	185
Net income from discontinued operations, net of taxes	(1)	14	13
Net income	272	24	296
Consolidated Statement of Cash Flows			
Net income	$ 272	$ 24	$ 296
Net cash provided by operating activities	476	(6)	470
Net cash used in investing activities	(1,467)	23	(1,444)
Net cash provided by financing activities	358	(1)	357
Net cashflow from discontinued operations - operating	(203)	(15)	(218)
Capital-related accruals included in accounts payable	20	15	35

During 2014, the Company reclassified fiscal year 2013 activities relating to the MSA as discontinued operations in accordance with the guidance on discontinued operations.

	As Previously Reported [1]	Adjustments	As Revised
		(in millions of dollars)	
	March 2013		March 2013
Consolidated Balance Sheets			
Total current assets	$ 5,700	$ 1,644	$ 7,344
Total other non-current assets	6,257	(116)	6,141
Total current liabilities	2,746	1,664	4,410
Total other non-current liabilities	6,250	(128)	6,122
			-
Total long-term debt	3,300	9	3,309
Additional paid-in capital	7,212	(1)	7,211
Retained Earnings			
March 31, 2013	1,675	(13)	1,662
March 31, 2012	1,415	(37)	1,378

(1) During 2014, the Company reclassified the 2013 asset and liability balances relating to the MSA as discontinued operations.

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,	
	2014	2013
	(in millions of dollars)	
Regulatory assets		
Current:		
Derivative contracts	**$ 25**	$ 7
Environmental response costs	**59**	77
Gas costs adjustments	**199**	77
Postretirement benefits	**36**	39
Other	**30**	65
Total	**349**	265
Non-current:		
Asset retirement obligation	**42**	39
Capital tracker	**34**	19
Derivative contracts	**5**	6
Environmental response costs	**1,008**	1,003
Postretirement benefits	**475**	584
Rate mitigation	**35**	32
Recovery of acquisition premium	**200**	208
Other	**168**	138
Total	**1,967**	2,029
Regulatory liabilities		
Current:		
Derivative contracts	**21**	26
Gas costs adjustments	**49**	88
Profit sharing	**38**	43
Revenue decoupling mechanism	**38**	-
Temporary state assessment	**51**	6
Other	**10**	7
Total	**207**	170
Non-current:		
Cost of removal	**817**	772
Delivery rate adjustment	**128**	128
Derivative contracts	**18**	4
Energy efficiency	**43**	41
Excess earnings	**95**	95
Postretirement benefits	**49**	45
Other	**119**	92
Total	**1,269**	1,177
Net regulatory assets	**$ 840**	$ 947

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

Capital tracker: The Company's regulated subsidiaries have capital tracker mechanisms that reconcile their capital expenditures to the amounts permitted in rates.

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.

Delivery rate adjustment: The NYPSC authorized a combined annual surcharge for recovery of regulatory assets (“Delivery Rate Surcharge”) of $15.0 million in January 2008 and 2009, respectively, for Brooklyn Union and KeySpan Gas East (“The New York Gas Companies”). The annual surcharge increased incrementally by $5.0 million for the first five years of the Brooklyn Union’s rate plan and increased by $10.0 million in rate year 2010 through 2012 of KeySpan Gas East’s rate plan, aggregating to a total of $175.0 million over the term of the rate agreement. In its order issued and effective November 28, 2012, the NYPSC authorized a Site Investigation and Remediation (“SIR”) Surcharge in the amount of $65.0 million which superseded the Delivery Rate Surcharge effective January 1, 2013.

Derivative contracts (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 mechanism. Accordingly, the Company’s gas regulated subsidiaries evaluate 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 state authorities.

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 New York Gas Companies are required to provide the NYPSC with a computation of its return on common equity capital (“ROE”). If the ROE in the applicable rate year exceeds 10.5%, the New York Gas Companies are required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers. Beginning January 1, 2013, Brooklyn Union’s threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism will be 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’s gas regulated subsidiaries are 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 state regulators. 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 2007 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.

Profit sharing: This regulatory liability represents a portion of deferred margins from off-system sale transactions. Under current rate orders, Boston Gas and Colonial Gas (the “Massachusetts Gas Companies”) are required to return 90% of margins earned from such optimization transactions to firm customers. The amounts deferred in the accompanying balance sheet will be refunded to customers over the next year.

Rate mitigation: The existing rate agreement provides for the establishment of a regulatory liability to be amortized through revenues for the deferral of amortization adjustments. The NYPSC recognized a negotiated five year revenue increase settlement, aggregating $625.7 million. As part of the NGUSA and KeySpan merger (“Grid merger”) settlement

these revenues were eliminated with rate mitigators. Of these mitigators, the NYPSC deferred recovery of certain deferred costs, reflected net synergy savings of the Grid merger, and modified the overall allowed rate of return. The rate mitgator is amortizing at an annual rate of $2.0 million from January 1, 2013 and December 31, 2014.

Recovery of acquisition premium: This represents the unrecovered amount (plus related taxes) by which the purchase price paid exceeded the asset's net book value in the 1998 acquisition from the Eastern Enterprises, Inc. In exchange for certain rate concessions and the achievement of certain merger savings targets, the DPU has allowed the Company to recover the acquisition premium through rates over 25 years (through August 2039).

Revenue decoupling mechanism: As approved by the NYPSC, the RDM applies only to the New York Gas Companies' firm residential heating sales and transportation customers. The RDM allows for annual adjustment to the Company's delivery rates as a result of the conciliation between allowed revenue per customer and actual revenue per customer. For the Massachusetts Gas Companies, the DPU approved a RDM which allows for seasonal (winter/summer) adjustments to the Massachusetts Gas Companies' 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 New York Gas Companies, 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 beginning July 1, 2009 and ending June 30, 2014. On June 18, 2014, the NYPSC issued an order authorizing certain utilities, including the New York Gas Companies, to recover the Temporary State Assessment subject to reconciliation, including carrying charges, from July 1, 2014 through June 30, 2017. As of May 31, 2014, the New York Gas Companies over-collected on these costs. The New York Gas Companies are required to net any deferred over-collected amounts against the amount to be collected during fiscal years 2014 and 2015 as well as the first payment relating to fiscal years 2015 and 2016.

The Company records carrying charges on all regulatory balances, with the exception of derivative contracts, cost of removal, environmental remediation costs, and regulatory tax balances, where 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

The New York Gas Companies

General Rate Case

KeySpan Gas East has been subject to a rate plan with a primary term of five years (2008-2012), which remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates include an allowed ROE of 9.8%.

On June 13, 2013, the NYPSC approved a settlement covering the Brooklyn Union's 2013 and 2014 rate years. Brooklyn Union'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, (ii) the allowed ROE has decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure has increased from 45% to 48%.

Capital Investment

On June 13, 2014, KeySpan Gas East filed a petition with the NYPSC to implement a three-year capital investment program that would allow the Company to invest more than $700.0 million in gas infrastructure projects designed to enhance the safety and reliability of its gas systems and promote gas growth, while maintaining base delivery rates. The petition seeks (i) a new deferral mechanism that would permit KeySpan Gas East to defer for future recovery in rates the pre-tax revenue requirement associated with its capital spending program to the extent the amount of such

investments exceeds the level of book depreciation expense reflected in KeySpan Gas East's rates; and (ii) the elimination of its existing city/state construction and non-growth related capital deferral mechanisms. KeySpan Gas East has requested that the Commission grant this relief no later than September 2014.

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 New York Gas Companies 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. On September 3, 2014 the NYPSC issued a final order approving the Joint Proposal for $24.7 million to be returned for the benefit of customers. This amount is recorded as a regulatory liability in the accompanying consolidated balance sheets.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of National Grid's New York gas businesses, including the New York Gas Companies, pursuant to the Public Service Law requirement that requires major electric and gas utilities to 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 New York Gas Companies. On December 19, 2013, the NYPSC selected Overland to conduct the audit, which commenced in February 2014. At the time of the issuance of the consolidated financial statements, the Company has not received the final audit findings and cannot predict the outcome of this audit.

The Massachusetts Gas Companies

General Rate Case

In November 2010, the DPU issued an order in the Massachusetts Gas Companies' 2010 rate case approving a revenue increase of $58.0 million based upon a 9.75% rate of return on equity and a 50% equity ratio. The Massachusetts Gas Companies filed two motions in response. These motions resulted in a final revenue increase of $65.3 million reflected in rates effective February 1, 2013.

DPU Audit Settlement

Associated with its general rate case, the DPU opened an investigation to address the allocation and assignment of costs to the Company by the NGUSA service companies. Subsequently, the Company filed a Settlement Agreement on May 19, 2014, which was approved by the DPU on July 25, 2014. As a result of the approval of the Settlement, there is no need for an audit and NGUSA will contribute $1.0 million to the Massachusetts Association for Community Action that will be used for the benefit of Massachusetts gas and electric customers who are eligible for fuel assistance.

PBOP Carrying Charges

On June 1, 2011, in conjunction with the DPU's annual investigation of Boston Gas' calendar year 2009 pension and PBOP rate reconciliation mechanism, the Massachusetts Attorney General ("AG") argued that Boston Gas be obligated to provide carrying charges to the benefit of customers on its PBOP liability balances related to its 2003 to 2006 rate reconciliation filings. In August 2010, the DPU ordered Boston Gas to provide carrying charges on its PBOP liability

balances on its 2007 and 2008 rate reconciliation filings, but the order was silent about providing carrying charges prior to those years. On August 29, 2014, the DPU agreed with the AG and ordered Boston Gas to provide carrying charges on its 2003 to 2006 PBOP liability balances in its next annual pension and PBOP reconciliation filing. The Company is evaluating the impact of this decision.

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
	(in millions of dollars)	
Plant and machinery	**$ 8,649**	$ 7,909
Land and buildings	**718**	729
Assets in construction	**449**	382
Software and other intangibles	**155**	248
Total property, plant, and equipment	**9,971**	9,268
Accumulated depreciation and amortization	**(925)**	(806)
Property, plant, and equipment, net	**$ 9,046**	$ 8,462

6. DERIVATIVE CONTRACTS

The Company's subsidiaries utilize derivative instruments, such as gas swap contracts, gas option contracts and gas purchase contracts, to manage commodity price risk associated with its natural gas purchases. The Company's risk management strategy is to reduce fluctuations in firm gas sales prices to its customers.

The Company's subsidiaries' 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 are as follows:

	March 31,	
	2014	2013
	(in millions)	
Gas purchase contracts	**68,271**	36,982
Gas swap contracts	**36,202**	47,194
Gas option contracts	**16,540**	3,200
Total:	**121,013**	87,376

Amounts recognized in the accompanying balance sheets:

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2014	2013		**2014**	2013
	(in millions of dollars)			*(in millions of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 8**	$ 10	Gas swap contracts	**$ 4**	$ 5
Gas option contracts	**2**	1	Gas option contracts	**-**	-
Gas purchase contracts	**11**	15	Gas purchase contracts	**21**	2
	21	26		**25**	7
Other non-current assets:			Other non-current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**-**	1	Gas swap contracts	**-**	-
Gas purchase contracts	**18**	3	Gas purchase contracts	**5**	6
	18	4		**5**	6
Total	**$ 39**	$ 30	Total	**$ 30**	$ 13

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

The credit policy for commodity transactions is managed and monitored by NGUSA's Executive Energy Risk Management Committee ("EERC"), which is responsible for approving risk management policies and objectives for risk assessment, control and valuation, and the monitoring and reporting of risk exposures. NGUSA's Energy Procurement Risk Management Committee ("EPRMC") is responsible for approving transaction strategies, annual supply plans, 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 $9.2 million and $15.5 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 $6.7 million and $4.1 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 $7.6 million and $4.2 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 millions of dollars)

ASSETS: Description	Gross amounts of recognized assets	Gross amounts offset in the Balance Sheets	Net amounts of assets presented in the Balance Sheets	Financial instruments	Cash collateral received	Net amount
	A	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Commodity Derivatives						
Gas swap and option contracts	$ 10	$ -	$ 10	$ -	$ -	$ 10
Gas purchase contracts	29	-	29	-	-	29
Total	$ 39	$ -	$ 39	$ -	$ -	$ 39

LIABILITIES: Description	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheets	Net amounts of liabilites presented in the Balance Sheets	Financial instruments	Cash collateral paid	Net amount
	A	*B*	*C=A+B*	*Da*	*Db*	*E=C-D*
Commodity Derivatives						
Gas swap and option contracts	$ 4	$ -	$ 4	$ -	$ -	$ 4
Gas purchase contracts	26	-	26	-	-	26
Total	$ 30	$ -	$ 30	$ -	$ -	$ 30

March 31, 2013

Gross Amounts Not Offset in the Balance Sheets

(in millions 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 swap and option contracts	$ 12	$ -	$ 12	$ -	$ -	$ 12
Gas purchase contracts	18	-	18	-	-	18
Total	$ 30	$ -	$ 30	$ -	$ -	$ 30

LIABILITIES: Description	Gross amounts of recognized liabilities A	Gross amounts offset in the Balance Sheets B	Net amounts of liabilites presented in the Balance Sheets C=A+B	Financial instruments Da	Cash collateral paid Db	Net amount E=C-D
Commodity Derivatives						
Gas swap and option contracts	$ 5	$ -	$ 5	$ -	$ -	$ 5
Gas purchase contracts	8	-	8	-	-	8
Total	$ 13	$ -	$ 13	$ -	$ -	$ 13

7. FAIR VALUE MEASUREMENTS

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

	March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in millions of dollars)			
Assets:				
Derivative contracts				
Gas swap and option contracts	$ -	$ 8	$ 2	$ 10
Gas purchase contracts	-	1	28	29
Available-for-sale securities	7	5	-	12
Total	7	14	30	51
Liabilities:				
Derivative contracts				
Gas swap and option contracts	-	4	-	4
Gas purchase contracts	-	-	26	26
Total	-	4	26	30
Net assets	$ 7	$ 10	$ 4	$ 21

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in millions of dollars)			
Assets:				
Derivative contracts				
Gas swap and option contracts	$ -	$ 11	$ 1	$ 12
Gas purchase contracts	-	-	18	18
Available-for-sale securities	36	7	-	43
Total	36	18	19	73
Liabilities:				
Derivative contracts				
Gas swap and option contracts	-	5	-	5
Gas purchase contracts	-	-	8	8
Total	-	5	8	13
Net assets	$ 36	$ 13	$ 11	$ 60

Derivative Contracts: The Company's Level 2 fair value derivative instruments primarily consist of over-the-counter ("OTC") gas swap 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 consist of OTC gas option contracts and gas purchase 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.

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

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	**2013**
	(in millions of dollars)	
Balance as of the beginning of the year	**$ 11**	$ 29
Total gains or losses included in regulatory assets and liabilities	**(7)**	(24)
Settlements	**-**	6
Balance as of the end of the year	**$ 4**	$ 11

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

Quantitative Information About Level 3 Fair Value Measurements

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase Contracts	$ 25	$ (12)	$ 13	Discounted Cash Flow	Forward Curve	$2.434-$17.31/Dth
Gas	Cross Commodity Contracts	3	-	3	Discounted Cash Flow	Forward Curve	$43.19-$98.98/Dth
Gas	Purchase Contracts	-	(14)	(14)	Discounted Cash Flow	LNG Forward Curve	$6.620-$11.01/Dth
Gas	Option Contract	2	-	2	Discounted Cash Flow	Implied Volatility	29%-31%
	Total	$ 30	$ (26)	$ 4			

Commodity	Level 3 Position	Fair Value as of March 31, 2013			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in millions of dollars)					
Gas	Purchase Contracts	$ 18	$ (8)	$ 10	Discounted Cash Flow	Forward Curve	$3.53-$6.41/Dth
Gas	Option Contract(A)	1	-	1			
	Total	$ 19	$ (8)	$ 11			

(A) Included gas option contracts which are immaterial.

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, forward gas curve and implied volatility. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The Company's balance sheets reflect long-term debt at amortized cost. The fair value of the Company's long-term debt was based on quoted market prices when available, or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $3.7 billion and $4.2 billion, respectively.

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

8. EMPLOYEE BENEFITS

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

Pension Plans

The Pension Plans are comprised of both qualified and non-qualified plans. The qualified pension plans provide substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plans are a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The Company funds the qualified plans by contributing at least the minimum amount required under Internal Revenue Service ("IRS") regulations. The Company expects to contribute $131.0 million to the qualified pension plan during the year ending March 31, 2015.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The Company funds these plans based on the requirements of the various regulatory jurisdictions in which it operates. The Company expects to contribute $80.0 million to the PBOP Plans during the year ending March 31, 2015.

Defined Contribution Plan

NGUSA offers two defined contribution plans to eligible union and management employees. These plans are defined contribution plans subject to the Employee Retirement Income Security Act, which requires disclosure of financial and other information concerning plans to beneficiaries and minimum standards for pension plans. In the plans, eligible employees contribute to their own participant account. In addition, employees may receive certain employer contributions, including matching contributions and a 15% discount on the purchase of National Grid plc common stock.

Components of Net Periodic Benefit Costs

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Service cost	**$ 68**	$ 69	**$ 35**	$ 35
Interest cost	**188**	189	**89**	93
Expected return on plan assets	**(227)**	(211)	**(56)**	(47)
Net amortization and deferral	**119**	119	**41**	45
Settlement/curtailment	**1**	1	**-**	(4)
Total cost	**$ 149**	$ 167	**$ 109**	$ 122

The Company's gas distribution subsidiaries have regulatory recovery of these costs and therefore have recorded related regulatory assets (liabilities) in the accompanying consolidated balance sheets. The Company records amounts for its unregulated subsidiaries within operations and maintenance expense in the accompanying consolidated statements of income.

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Net actuarial (gain) loss	**$ (41)**	$ 101	**$ (330)**	$ 124
Prior service cost (credit)	**-**	11	**(31)**	-
Amortization of (gain) loss	**(117)**	(118)	**98**	(41)
Amortization of prior service cost	**(3)**	(2)	**1**	-
Total	**$ (161)**	$ (8)	**$ (262)**	$ 83
Included in regulatory assets	**$ (48)**	$ 5	**$ (41)**	$ 16
Included in AOCI	**(113)**	(13)	**(221)**	67
Total	**$ (161)**	$ (8)	**$ (262)**	$ 83

The Company's gas distribution subsidiaries have regulatory recovery of these obligations and therefore amounts are included in regulatory assets in the accompanying consolidated balance sheets. Costs of non-regulated subsidiaries are recorded as part of AOCI in the accompanying consolidated balance sheets.

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

	Pension Plans		PBOP Plans		Expected Amortization
	Years Ended March 31,		Years Ended March 31,		March 31,
	2014	2013	**2014**	2013	**2015**
	(in millions of dollars)				
Net loss	**$ 736**	$ 894	**$ 248**	$ 481	**$ 151**
Prior service cost (credit)	**21**	24	**(29)**	-	**(3)**
Total	**$ 757**	$ 918	**$ 219**	$ 481	**$ 148**
Included in regulatory assets	**$ 274**	$ 322	**$ 93**	$ 134	
Included in AOCI	**483**	596	**126**	347	
Total	**$ 757**	$ 918	**$ 219**	$ 481	

Reconciliation of Funded Status to Amount Recognized

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (4,079)**	$ (3,844)	**$ (2,062)**	$ (1,869)
Service cost	**(68)**	(69)	**(35)**	(35)
Interest cost on projected benefit obligation	**(188)**	(189)	**(89)**	(93)
Plan amendments	**-**	(11)	**31**	-
Net actuarial loss	**(60)**	(211)	**(9)**	(140)
Benefits paid	**195**	195	**78**	83
Actual Medicare Part D Subsidy received	**-**	-	**-**	(11)
Curtailments and settlement	**27**	50	**304**	8
Employer group waiver plan subsidy received	**-**	-	**(10)**	-
Other	**-**	-	**(1)**	(5)
Benefit obligation as of the end of the year	**(4,173)**	(4,079)	**(1,793)**	(2,062)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**3,186**	2,914	**722**	605
Actual return on plan assets	**302**	309	**92**	56
Company contributions	**176**	196	**140**	145
Benefits paid	**(195)**	(195)	**(78)**	(83)
Divestitures	**-**	(38)	**-**	(1)
Fair value of plan assets as of the end of the year	**3,469**	3,186	**876**	722
Funded status	**$ (704)**	$ (893)	**$ (917)**	$ (1,340)

The benefit obligation shown above is the projected benefit obligation ("PBO") for the Pension Plans and the accumulated benefit obligation ("ABO") for the PBOP Plans. The Company is required to reflect the funded status of its Pension Plans above in terms of the PBO, which is higher than the ABO, because the PBO includes the impact of expected future compensation increases on the pension obligation. The aggregate ABO balances for the Pension Plans were $4.0 billion and $3.9 billion as of March 31, 2014 and 2013, respectively.

Amounts Recognized in the Accompanying Balance Sheets

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Current liabilities	**$ (12)**	$ (12)	**$ (7)**	$ (7)
Non-current assets	-	-	**15**	-
Non-current liabilities	**(692)**	(881)	**(925)**	(1,333)
Total	**$ (704)**	$ (893)	**$ (917)**	$ (1,340)

Expected Benefit Payments

Based on current assumptions, the Company expects to make the following benefit payments subsequent to March 31, 2014:

(in millions of dollars) Years Ending March 31,	**Pension Benefits**	**PBOB Benefits**
2015	$ 219	$ 80
2016	225	83
2017	230	86
2018	234	89
2019	240	92
Thereafter	1,282	501
Total	$ 2,430	$ 931

Assumptions Used for Employee Benefits Accounting

	Pension Plans		**PBOP Plans**	
	Years Ended March 31,		**Years Ended March 31,**	
	2014	2013	**2014**	2013
Benefit Obligations				
Discount rate	**4.80%**	4.70%	**4.80%**	4.70%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**7.00%**	7.25%	**7.00%-7.25%**	7.25%
Net Periodic Benefit Costs				
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**7.25%**	7.25%	**7.25%**	7.45%

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

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

Assumed Health Cost Trend Rate

	March 31,	
	2014	2013
Health care cost trend rate assumed for next year		
Pre-65	**8.00%**	8.00%
Post-65	**7.00%**	7.50%
Prescription	**7.00%**	8.25%
Rate to which the cost trend is assumed to decline (ultimate)	**5.00%**	5.00%
Year that rate reaches ultimate trend		
Pre-65	**2022**	2019
Post-65	**2021**	2018
Prescription	**2021**	2020

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in millions of dollars)	March 31, 2014
1% point increase	
Total of service cost plus interest cost	$ 23
Postretirement benefit obligation	258
1% point decrease	
Total of service cost plus interest cost	(18)
Postretirement benefit obligation	(207)

Plan Assets

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

The target asset allocations for the benefit plans as of March 31, 2014 and 2013 are as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
U.S. equities	**20%**	20%	**40%**	40%
Global equities	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**10%**	10%	**21%**	21%
Fixed income	**40%**	40%	**24%**	24%
Private equity	**5%**	5%	**-**	-
Real estate	**5%**	5%	**-**	-
Infrastructure	**3%**	3%	**-**	-
	100%	100%	**100%**	100%

Fair Value Measurements

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

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
		(in millions of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1	$ 64	$ -	$ 65
Accounts receivable	71	-	-	71
Accounts payable	(60)	-	-	(60)
Equity	485	915	130	1,530
Global tactical asset allocation	-	126	25	151
Fixed income securities	-	1,356	4	1,360
Futures contracts	2	-	-	2
Private equity	-	-	197	197
Real estate	-	-	153	153
Total	$ 499	$ 2,461	$ 509	$ 3,469
PBOP Assets:				
Cash and cash equivalents	$ 8	$ 16	$ -	$ 24
Accounts receivable	1	-	-	1
Equity	118	365	25	508
Global tactical asset allocation	25	35	8	68
Fixed income securities	2	265	-	267
Private equity	-	-	8	8
Total	$ 154	$ 681	$ 41	$ 876

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in millions of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1	$ 69	$ -	$ 70
Accounts receivable	85	-	-	85
Accounts payable	(74)	-	-	(74)
Equity	546	861	24	1,431
Global tactical asset allocation	-	127	23	150
Fixed income securities	-	1,201	5	1,206
Preferred securities	4	-	-	4
Private equity	-	-	189	189
Real estate	-	-	125	125
Total	$ 562	$ 2,258	$ 366	$ 3,186
PBOP Assets:				
Cash and cash equivalents	$ 12	$ 38	$ -	$ 50
Accounts receivable	2	-	-	2
Accounts payable	(1)	-	-	(1)
Equity	113	268	9	390
Global tactical asset allocation	20	29	6	55
Fixed income securities	-	210	1	211
Private equity	-	-	15	15
Total	$ 146	$ 545	$ 31	$ 722

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

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

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

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

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

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

Private Equity and Real Estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital and other investments are valued using evaluations (NAV per fund share), based on proprietary models, or based on the NAV. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in the fund or partnership is estimated based on the NAV. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. As a result, the Company classifies these investments as Level 3.

While management believes its valuation methodologies are appropriate, the use of different methodologies or assumptions to determine the fair value of Level 3 financial instruments could result in a different fair value measurement at the reporting date.

Changes in Level 3 Plan Investments

	Pension Plans		PBOP Plans	
	Years Ended March 31,		**Years Ended March 31,**	
	2014	2013	**2014**	2013
	(in millions of dollars)			
Balance as of the beginning of the year	**$ 366**	$ 351	**$ 31**	$ 31
Transfers out of Level 3	**-**	(2)	**(41)**	-
Transfers in to Level 3	**104**	6	**39**	1
Actual gain or loss on plan assets				
Realized gain	**14**	27	**2**	1
Unrealized gain	**29**	-	**-**	
Purchases	**51**	43	**28**	14
Sales	**(55)**	(59)	**(18)**	(16)
Balance as of the end of the year	**$ 509**	$ 366	**$ 41**	$ 31

Other Benefits

During the fiscal 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 fiscal 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 estimated change in allocation methodology was a decrease in income before income taxes of approximately $0.3 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $51.7 million and $49.0 million respectively.

9. CAPITALIZATION

Debt Authorizations

The Company's electric generation subsidiary, National Grid Generation ("Genco"), had regulatory approval from the FERC to issue up to $250.0 million of short-term debt, which expired on November 30, 2013. Effective April 2014, Genco entered into an Equity Contribution Agreement with NGUSA, which provides Genco with the ability to call upon NGUSA for contributions to Genco's capital, in an aggregate amount equal to the short-term borrowing limit until such time as regulatory approval for short-term borrowing is regained. Genco has not made use of this facility since its effective date. Genco had no short-term debt outstanding to third parties as of March 31, 2014 or 2013.

Gas Facilities Revenue Bonds

Brooklyn Union has outstanding tax-exempt Gas Facilities Revenue Bonds ("GFRB") issued through the New York State Energy Research and Development Authority ("NYSERDA"). At March 31, 2014 and 2013, $640.5 million of GFRB 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 GFRB are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to Brooklyn Union and, in the case of a failed auction; the resulting interest rate on the bonds would revert to the maximum rate which depends on the current appropriate, short-term benchmark rates and the senior unsecured rating of the Brooklyn Union's bonds. The effect of the failed auctions on interest expense was not material for the years ended March 31, 2014 or 2013.

Promissory Notes to LIPA

The Company had previously issued $155.0 million of promissory notes to LIPA to support certain debt obligations assumed by LIPA. Following the expiration of the MSA on December 31, 2013, the debt was fully extinguished (refer to Note 14, "Discontinued Operations").

Industrial Development Revenue Bonds

At March 31, 2014 and 2013, Genco had outstanding $128.3 million of 5.25% tax-exempt bonds due in June 2027. Of the amount, $53.3 million was issued through the Nassau County Industrial Development Authority for the construction of the Glenwood Energy electric-generation peaking plant and the balance of $75.0 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. The Company has fully and unconditionally guaranteed the payment obligations with regard to these tax-exempt bonds.

Authority Financing Notes

Genco can issue tax-exempt bonds through the NYSERDA. At March 31, 2014 and 2013, $41.1 million of 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rates are reset weekly and ranged from 0.15% to 1.35% for the year ended March 31, 2014, and 0.25% to 1.60% for the year ended March 31, 2013.

Genco also has outstanding $24.9 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and ranged from 0.04% to 0.25% during the year ended March 31, 2014 and from 0.10% to 0.27% for the year ended March 31, 2013.

Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company's New York subsidiaries, the New York Gas Companies became subject to a requirement to issue a class of preferred stock (the "Golden Shares"), subordinate to any existing preferred stock. The holder of the Golden Shares 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 Shares. The NYPSC subsequently authorized the issuance of the Golden Shares to a trustee, GSS Holdings, Inc. ("GSS"), who will hold the Golden Shares subject to a Services and Indemnity Agreement requiring GSS to vote the Golden Shares in the best interests of New York State. On July 8, 2011, the Company issued a total of 2 Golden Shares pertaining to the New York Gas Companies, each with a par value of $1.

Debt Maturities

The aggregate maturities of long-term debt subsequent to March 31, 2014 are as follows:

(in millions of dollars) Years Ending March 31,	
2015	$ 2
2016	10
2017	510
2018	8
2019	20
Thereafter	2,750
Total	$ 3,300

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

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Current tax expense:		
Federal	**$ 90**	$ 80
State	**32**	40
Total current tax expense	**122**	120
Deferred tax expense (benefit):		
Federal	**26**	107
State	**11**	(41)
Total deferred tax expense (benefit)	**37**	66
Amortized investment tax credits [1]	**(1)**	(1)
Total deferred tax expense (benefit)	**36**	65
Total income tax expense	**$ 158**	$ 185

(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 38% and 40%, 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 millions of dollars)	
Computed tax	**$ 142**	$ 165
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**26**	24
Change in cash surrender value	**(9)**	(4)
Other	**(1)**	-
Total	**16**	20
Federal and state income taxes	**$ 158**	$ 185

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. The Company also files unitary, combined and separate state income tax returns.

In September 2013, the 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, $11.2 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 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 will be allowed as a carry forward tax attribute. As of March 31, 2014, the Company re-measured its deferred tax assets and liabilities, increasing its deferred tax liability by $17.4 million with an offset to the regulatory deferred tax asset. The application of this legislation 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 and income tax expense by $11.1 million and $2.9 million, respectively, with an offset of $14.0 million to regulatory liabilities.

Deferred Tax Components

	March 31,	
	2014	2013
	(in millions of dollars)	
Deferred tax assets:		
Postretirement benefits and other employee benefits	**$ 602**	$ 637
Reserve - environmental response costs	**294**	302
Regulatory liabilities - other	**150**	39
Net operating losses	**141**	148
Future federal benefit on state taxes	**101**	94
Other items	**68**	107
Total deferred tax assets [1]	**1,356**	1,327
Deferred tax liabilities:		
Property related differences	**2,107**	1,961
Regulatory assets - environmental response costs	**463**	476
Regulatory assets - postretirement	**328**	186
Other items	**347**	264
Total deferred tax liabilities	**3,245**	2,887
Net deferred income tax liabilities	**1,889**	1,560
Deferred investment tax credits	**4**	5
Net deferred income tax liability and investment tax credits	**1,893**	1,565
Current portion of deferred income tax liabilities	**52**	34
Deferred income tax liabilities	**$ 1,841**	$ 1,531

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

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

Expiration of state and city net operating losses:	State of New York	City of New York
	(in millions of dollars)	
12/31/2024	$ 49	$ 38
12/31/2025	61	82
12/31/2026	-	-
12/31/2027	-	-
03/31/2028	8	7
03/31/2029	273	37
03/31/2030	58	28
03/31/2031	-	-
03/31/2032	33	10
03/31/2033	324	232
03/31/2034	90	-

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company’s unrecognized tax benefits totaled $245.0 million and $435.0 million, respectively, which $57.0 million and $61.0 million 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 millions of dollars)	
Balance as of the beginning of the year	**$ 435**	$ 420
Gross increases - tax positions in prior periods	**40**	12
Gross decreases - tax positions in prior periods	**(79)**	(16)
Gross increases - current period tax positions	**45**	25
Gross decreases - current period tax positions	**-**	(2)
Settlements with tax authorities	**(196)**	(4)
Balance as of the end of the year	**$ 245**	$ 435

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $40.0 million and $51.0 million, respectively. During the year ended March 31, 2014 and 2013, the Company recorded interest expense of $15.0 million and $0.3 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, net in the accompanying consolidated statements of income. No penalties were recognized during the years ended March 31, 2014 and 2013.

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

During fiscal year 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 Company is a member of the NGUSA Service Company Massachusetts unitary group since fiscal year ended March 31, 2010. The tax returns for the fiscal years ended March 31, 2010 through March 31, 2014 remain subject to examination by the State of Massachusetts.

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

Jurisdiction	Tax Year
Federal	August 24, 2007*
Massachusetts	March 31, 2010
New York	December 31, 2003
New York City	December 31, 2003

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

The State of New York is in the process of examining the Company's NYS income tax returns for KeySpan Gas East for the period begins January 1, 2003 through March 31, 2008, and for Brooklyn Union for the period begins January 1, 2007 through 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. The Company has filed New York ITC claims for the New York Gas Companies for the tax years ended December 31, 2002 through March 31, 2010. New York State has disallowed the claims for December 31, 2002 through December 31, 2006 upon audit, and also denied them on appeal to the New York Tax Tribunal, which decision was further appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and made tax and interest payments of $29.7 million and $19.9 million, respectively, during the year ended March 31, 2014.

New York State and New York City are in the process of an examining the returns of Keyspan Corporation and Subsidiaries for the period January 1, 2003 through March 31, 2008, and January 1, 2003 through December 31, 2005, respectively.

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.

Air

Genco’s generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the Environmental Protection Agency and the Department of Environment and Conservation (“DEC”). In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. Genco’s previous investments in low nitrogen oxide (“NOx”) boiler combustion modifications, the use of natural gas firing systems at its steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled Genco to achieve its prior emission reductions in a cost-effective manner. Ongoing investments include the installation of enhanced NOx controls and efficiency improvement projects at certain of Genco’s Long Island based electric generating facilities. The total cost of these improvements is estimated to be approximately $103.0 million, all of which planned in service, a mechanism for recovery from LIPA of these investments has been established. Genco is currently developing a compliance strategy to address anticipated future requirements. At this time, Genco is unable to predict what effect, if any, these future requirements will have on its consolidated financial position, results of operations, and cash flows.

Water

Additional capital expenditures associated with the renewal of the surface water discharge permits for Genco’s power plants will likely be required by the DEC at each of the Long Island power plants pursuant to Section 316 of the Clean Water Act to mitigate the plants’ alleged cooling water system impacts to aquatic organisms. Genco is currently engaged in discussions with the DEC and environmental groups regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts. Although these discussions have been productive and have led to mutually agreeable final permits at some of the plants, it is possible that the determination of required capital improvements and the issuance of final renewal permits for the remaining plants could involve adjudicatory hearings among Genco, the agency, and the environmental groups. Capital costs for expected mitigation requirements at the plants had been estimated on the order of approximately $100.0 million and did not anticipate a need for cooling towers at any of the plants. Depending on the outcome of the adjudicatory process, which could extend beyond the next fiscal year, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would be reimbursable from LIPA under the PSA.

Land, Manufactured Gas Plants and Related Facilities

Within the Company's service areas, 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 DEC for inclusion on appropriate site inventories. Administrative Consent Orders or Voluntary Cleanup Agreements have been executed with the DEC to address the investigation and remediation activities associated with certain sites. The Company is also aware of numerous former MGP sites and related facilities within the existing or former service territories of the Company in the Commonwealth of Massachusetts.

Expenditures incurred for the years ended March 31, 2014 and 2013 were $72.0 million and $88.0 million, respectively.

Upon acquisition by NGUSA, the Company recognized its 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 $654.0 million and $667.0 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 $799.0 million and $830.0 million, respectively. These costs are expected to be incurred over the next 44 years, and the discounted amounts have been recorded as reserves 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.

Through various rate orders issued by the NYPSC and DPU, costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, the Company has reflected a regulatory asset of $1.1 billion on the consolidated balance sheets at March 31, 2014 and 2013.

Non-Utility Sites

The Company is aware of two non-utility sites for which it may have, or share, environmental remediation or ongoing maintenance responsibility. Expenditures incurred were approximately $1.0 million for each of the years ended March 31, 2014 and 2013. The Company presently estimates the remaining cost of the environmental cleanup activities for these two non-utility sites will be approximately $22.0 million, which has been accrued at March 31, 2014 and 2013. The Company's environmental obligation is net of a discount rate of 6.5%, and the undiscounted amount totaled $27.0 million in liabilities at both March 31, 2014 and 2013. The Company believes this to be a reasonable estimate of probable costs for known sites; however, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered.

The Company believes that in the aggregate, the accrued liability for all of the sites and related facilities identified above are reasonable estimates of the probable cost for the investigation and remediation of these sites and facilities. As circumstances warrant, the Company periodically re-evaluates the accrued liabilities associated with MGP sites and related facilities. The Company may be required to investigate and, if necessary, remediate each site previously noted, or other currently unknown former sites and related facility sites, the cost of which is not presently determinable.

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 generally recoverable from customers.

12. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment utilized by both the Company and its affiliates. Additionally, a portion of the Company's affiliates' lease expense is allocated to the Company according to usage. Total rental expense for operating leases included in operations and maintenance expense in the accompanying consolidated statements of income was $84.9 million and $61.4 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 millions of dollars) Years Ending March 31,	
2015	$ 71
2016	71
2017	72
2018	72
2019	58
Thereafter	168
Total	$ 512

Purchase Commitments

The Company and its subsidiaries have entered into various contracts for gas delivery, storage and supply services. Certain of these contracts require payment of annual demand charges. The Company's gas distribution subsidiaries are liable for these payments regardless of the level of services required from third-parties. Such charges are currently recovered from customers as gas costs. In addition, the Company has various capital commitments related to the construction of property, plant and equipment.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2014 are summarized in the table below:

(in millions of dollars) Years Ending March 31,	Gas Purchases	Capital Expenditures
2015	$ 805	$ 88
2016	528	42
2017	463	40
2018	357	50
2019	285	34
Thereafter	973	-
Total	$ 3,411	$ 254

Sales and Use Tax

The Company's subsidiaries are subject to periodic sales and use tax audits by the state authorities. In 2013, Massachusetts commenced a sales and use tax audit for the January 2006 through December 2010 period for the Massachusetts Gas Companies, subsequent years remain subject to examination. The audits are in preliminary phases and the potential liability cannot be estimated. As of March 31, 2014 and 2013, the Massachusetts Gas Companies have not established a reserve for the current audit cycle.

Financial Guarantees

The Company has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2014, the following amounts would have to be paid by the Company in the event of non-payment by the primary obligor at the time payment is due:

Guarantees for Subsidiaries:		Amount of Exposure	Expiration Dates
		(in millions of dollars)	
Industrial Development Revenue Bonds	(i)	$ 128	June 2027
Surety Bonds	(ii)	69	Revolving
Commodity Guarantees and Other	(iii)	33	November 2027 - June 2032
Letters of Credit	(iv)	79	May 2014 - December 2014
		$ 309	

The following is a description of the Company's outstanding subsidiary guarantees:

(i) The Company has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to $128.0 million of Industrial Development Revenue Bonds issued through the Nassau County and Suffolk County Industrial Development Authorities for the construction of two electric-generation peaking plants on Long Island, New York. The face value of these notes is included in long-term debt in the accompanying consolidated balance sheets.

(ii) The Company has agreed to indemnify the issuers of various surety bonds associated with various construction requirements or projects of its subsidiaries. In the event that the Company or its subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. The Company would then be obligated to reimburse the surety for any expenses or cash outlays it incurs.

(iii) The Company has guaranteed commodity-related payments for certain subsidiaries. These guarantees are provided to third-parties to facilitate physical and financial transactions involved in the purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and marketing activities. The guarantees cover actual purchases by these subsidiaries that are still outstanding as of March 31, 2014.

(iv) The Company has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require the posting of letters of credit to guarantee subsidiary performance under the Company's contracts and to ensure payment to the Company's subsidiary subcontractors and vendors under those contracts. Certain of the Company's vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of the Company's subsidiaries, such as to beneficiaries under the Company's self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that the Company has failed to perform specified actions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit.

As of the date of this report, the Company has not had a claim made against it for any of the above guarantees and has no reason to believe that the Company's subsidiaries or former subsidiaries will default on their current obligations. However, the Company cannot predict when, or if, any defaults may take place or the impact any such defaults may have on its consolidated results of operations, financial position, or cash flows.

The Company has guaranteed $210.0 million of an $800.0 million Millennium Pipeline construction loan. The $210.0 million represents the Company's proportionate share of the $800.0 million loan based on the Company's 26.25% ownership interest in the Millennium Pipeline project.

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.

LIPA Agreements

Effective May 23, 2013, Genco provides services to LIPA under an amended and restated PSA. Under the PSA, Genco has a revenue requirement of $418.6 million, a return on equity of 9.75% and a capital structure of 50% debt and 50% equity. The PSA has a term of fifteen years, provided LIPA has the option to terminate the agreement as early as April 2025 on two years advance notice. Genco accounts for the PSA as an operating lease.

The PSA provides potential penalties to Genco if it does not maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, plant availability, and efficiency. These penalties may total $4.0 million annually. Although the PSA provides LIPA with all of the capacity from the generating facilities, LIPA has no obligation to purchase energy from the generating facilities and can purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution system. Genco must, therefore, operate its generating facilities in a manner such that the Company can remain competitive with other producers of energy. To date, Genco has dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. Under the terms of the PSA, LIPA is obligated to pay for capacity at rates that reflect recovery of an agreed level of the overall cost of maintaining and operating the generating facilities, including recovery of depreciation and return on its investment in plant. A monthly variable maintenance charge is billed for each unit of energy actually acquired from the generating facilities. The billings to LIPA under the PSA do not include a provision for fuel costs, as such fuel is owned by LIPA.

In June 2011, LIPA and Genco executed an amendment to the then-current PSA pursuant to which the parties agreed that LIPA would reduce purchases of capacity from specified generating facilities, specifically the Glenwood and Far Rockaway, New York steam facilities. The Company has retired these generating facilities and removed them from the PSA and is in the process of dismantling these facilities. As part of this amendment, Genco paid an Economic Equivalent Payment ("EEP") of $18.0 million which represented the economic benefit to LIPA which would have been realized under the original agreement. Half of the EEP was paid on July 3, 2012, with the remaining balance on May 28, 2013. The EEP was accrued on a straight-line basis over the 24-month term, from June 2011 through May 2013, as a reduction in operating revenues.

Pursuant to the EMA, the Company procured and managed fuel supplies for LIPA to fuel the Company's Long Island based generating facilities. In exchange for these services, the Company earned an annual fee of $750,000. The EMA expired on May 28, 2013. LIPA did not renew the EMA contract with the Company.

Storm Costs Recovery

In October 2012, SuperStorm Sandy hit the northeastern United States, 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 $204.1 million through March 31, 2014, for the New York Gas Companies.

The Company has recorded an "other receivable" in the accompanying consolidated balance sheets in the amount of $58.0 million and $67.0 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 allowance. As of March 31, 2014, the Company has received $83.4 million from its insurers.

Total costs from SuperStorm Sandy associated with electricity customers' service restoration charged to LIPA through March 31, 2014, were approximately $668.0 million. The Company had outstanding accounts receivable from LIPA related to costs incurred in connection with SuperStorm Sandy of $88.4 million and $328.6 million at March 31, 2014 and 2013, respectively.

13. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

The Company engages in various transactions with NGUSA and its subsidiaries. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning are shared between the Company and NGUSA. At March 31, 2014 and 2013, the Company had net receivable balances from NGUSA subsidiaries of $555.0 million and $274.0 million, respectively.

Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the Regulated and Unregulated Money Pools. The Company, as a participant in both Money Pools, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. All changes in the intercompany money pool balances and affiliate receivables and affiliate payables are reflected as investing or financing activities in the accompanying consolidated 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 receipts and payments, and therefore are presented as such.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable pool. Collectively, the Company and NGUSA have the ability to borrow up to $3.0 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary.

The following table provides information about the Company's Regulated and Unregulated Money Pools:

	March 31	
	2014	2013
	(in millions of dollars)	
Assets:		
Regulated Money Pool	**$ 194**	$ 405
Unregulated Money Pool	**1,248**	1,254
Total	**$ 1,442**	$ 1,659
Liabilities:		
Regulated Money Pool	**$ 1,011**	$ 505
Unregulated Money Pool	**1,410**	1,935
Total	**$ 2,421**	$ 2,440

Advances to Affiliate

In January 2008, the Company and NGUSA entered into an agreement whereby either party can borrow up to $2.5 billion from time to time for working capital needs. These advances do not bear interest. At March 31, 2014 and 2013, the Company had outstanding advances to affiliate of $2.0 billion and $2.3 billion, respectively.

Capitalization of Affiliates

In October 2012, the Company and NGUSA's service company entered into an agreement whereby the Company transferred to NGUSA's service company $313.0 million of debt as part of the merger of two service companies that the Company previously owned. In addition, the Company advanced an additional $82.0 million in cash to NGUSA's service company. The Company has accounted for this transaction as a capitalization of the service companies' merger and has reflected these amounts as a reduction of the Company's additional paid-in capital. Dividends are to be paid semi-annually at a rate of 3.3%. During the years ended March 31, 2014 and 2013, $10.3 million and $5.4 million of dividends, respectively, were received from NGUSA's service company, which have been recorded in other interest in the accompanying consolidated statements of income.

Loan to Affiliates

In December 2009, the Company and an affiliate of NGUSA entered into a loan agreement whereby the Company loaned the affiliate $80.0 million at an interest rate of 5.8%, due April 2035. The loan was issued for the purpose of the Company providing an investment in information systems technology which is being utilized by the Company and its subsidiaries. At March 31, 2014 and 2013, the outstanding balance on this loan was $80.0 million.

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 consolidated financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $17.0 million and $17.6 million before taxes and $11.0 million and $11.5 million after taxes, for the years ended March 31, 2014 and 2013, respectively.

14. DISCONTINUED OPERATIONS

On December 8, 2010, NGUSA and Liberty Energy entered into a stock purchase agreement which was subsequently amended and restated on January 21, 2011, pursuant to which NGUSA sold and Liberty Energy purchased all of the common stock of EnergyNorth. The parties received FERC approval in July 2011 and New Hampshire Public Utilities Commission approval in May 2012. EnergyNorth was sold on July 3, 2012 for proceeds of $223.0 million. The results of EnergyNorth are reflected as discontinued operations in the accompanying consolidated statements of income for the year ended March 31, 2013.

On December 15, 2011, LIPA announced that it was not renewing the MSA contract beyond its expiration on December 31, 2013. During the year ended March 31, 2013, the MSA contract represented approximately 23% of the Company's annual revenue and 2.6% of its operating income. In addition, the loss of the contract resulted in 1,950 employees transferring to a new employer. The results of the MSA are reflected as discontinued operations in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013.

Following the expiration of the MSA, the Company entered into a Settlement and Release Agreement (“SRA”) with LIPA. Under the terms of this SRA, LIPA (1) fully released the Company from its obligations under certain promissory notes payable to LIPA, and (2) agreed to make a one-time lump sum payment to the Company of $91.5 million. In return, the Company fully released LIPA from certain claims for reimbursement of pension and PBOP costs. As a result, the Company recorded a gain of approximately $231.0 million, primarily related to the extinguishment of debt and recognition of a receivable for the lump sum cash payment (which was received from LIPA in April 2014).

In addition, a $97.0 million net settlement gain and a $43.0 million net curtailment gain were recognized for the employees who transferred to a new employer. The new employer had assumed responsibility for the transferred employees’ obligations under the PBOP.

The reconciliation below highlights the major classes of line items constituting income before income taxes of discontinued operations for the EnergyNorth and MSA for the years ended March 31, 2014 and 2013:

	Years Ended March 31,	
	2014	2013
	(in millions of dollars)	
Major classes of line items constituting income before income taxes of discontinued operations		
Revenue	**$ 449**	$ 1,271
Purchased gas	**-**	(8)
Operations and maintenance	**(564)**	(1,268)
Other expenses	**(19)**	(11)
Loss before income taxes from discontinued operations	**(134)**	(16)
Gain on disposal of discontinued operations	**371**	-
Total income (loss) before income taxes from discontinued operations	**237**	(16)
Income tax expense (benefit)	**98**	(29)
Income from discontinued operations, net of taxes	**$ 139**	$ 13

The reconciliation below highlights the carrying values of assets and liabilities of the discontinued operations that are disclosed in the accompanying consolidated balance sheets for the MSA at March 31, 2014 and 2013:

	March 31,	
	2014	2013
	(in millions of dollars)	
Carrying values of assets included in the discontinued operations:		
Cash and cash equivalents	**$ -**	$ 1
Accounts receivable	**219**	96
Accounts receivable from affiliates	**221**	137
Allowance for doubtful accounts	**(70)**	(33)
Unbilled revenues	**2**	336
Inventory	**-**	16
Property, plant, and equipment, net	**-**	28
Deferred income tax assets	**29**	9
Other assets that are not major	**2**	26
Total assets classified as discontinued operation in the consolidated balance sheets	**$ 403**	$ 616
Carrying values of liabilities included in the discontinued operations:		
Accounts payable	**$ 9**	$ 146
Accounts payable to affiliates	**186**	40
Intercompany money pool	**487**	637
Taxes accrued	**2**	5
Long-term debt	**-**	155
Other liabilities that are not major	**8**	22
Total liabilties classified as discontinued operation in the consolidated balance sheets	**$ 692**	$ 1,005