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Niagara Mohawk Power Corporation

Financial Statements

For the years ended March 31, 2014 and 2013

NIAGARA MOHAWK POWER CORPORATION

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Independent Auditor's Report

To the Shareholders and Board of Directors
of Niagara Mohawk Power Company

We have audited the accompanying financial statements of Niagara Mohawk Power Company (the Company), which comprise the balance sheets as of March 31, 2014 and 2013, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Niagara Mohawk Power Company at March 31, 2014 and 2013, and the results of its operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

August 22, 2014

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

	Years Ended March 31,	
	2014	**2013**
Operating revenues:		
Electric services	**$ 2,949,612**	$ 2,775,045
Gas distribution	**622,209**	587,655
Total operating revenues	**3,571,821**	3,362,700
Operating expenses:		
Purchased electricity	**1,074,126**	880,592
Purchased gas	**269,381**	247,183
Operations and maintenance	**1,265,431**	1,414,866
Depreciation and amortization	**218,660**	214,368
Other taxes	**254,802**	244,803
Total operating expenses	**3,082,400**	3,001,812
Operating income	**489,421**	360,888
Other income and (deductions):		
Interest on long-term debt	**(91,664)**	(76,407)
Other interest, including affiliate interest	**(8,337)**	(18,273)
Other income, net	**18,625**	5,986
Total other deductions, net	**(81,376)**	(88,694)
Income before income taxes	**408,045**	272,194
Income tax expense	**145,104**	96,034
Net income	**$ 262,941**	$ 176,160

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

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

	Years Ended March 31,	
	2014	2013
Net income	**$ 262,941**	$ 176,160
Other comprehensive income (loss):		
Unrealized gains on securities, net of $1,120 and $1,151 tax expense	**1,867**	1,727
Change in pension and other postretirement obligations, net of $661 tax expense and $449 tax benefit	**1,102**	(674)
Reclassification of gains into net income, net of $691 and $362 tax expense	**(1,152)**	(544)
Total other comprehensive income	**1,817**	509
Comprehensive income	**$ 264,758**	$ 176,669

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

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

	Years Ended March 31, 2014	2013
Operating activities:		
Net income	**$ 262,941**	$ 176,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**218,660**	214,368
Regulatory amortizations	**(38,365)**	197,260
Provision for deferred income taxes	**114,971**	98,293
Bad debt expense	**35,248**	(18,241)
Loss from equity investments	**87**	354
Allowance for equity funds used during construction	**(12,407)**	(7,138)
Amortization of debt discount and issuance costs	**3,692**	3,739
Net pension and other postretirement expense (contributions)	**1,484**	(51,085)
Net environmental remediation payments	**(41,554)**	(31,438)
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(185,417)**	(120,104)
Accounts receivable from/payable to affiliates, net	**-**	27,296
Inventory	**(4,938)**	15,900
Regulatory assets and liabilities, net	**34,475**	179,293
Derivative contracts	**(6,316)**	(69,274)
Prepaid and accrued taxes	**44,261**	(13,129)
Accounts payable and other liabilities	**49,322**	(85,830)
Other, net	**(9,808)**	(15,777)
Net cash provided by operating activities	**466,336**	500,647
Investing activities:		
Capital expenditures	**(546,363)**	(497,962)
Changes in restricted cash	**34,982**	(16,602)
Affiliated money pool investing and receivables/payables, net	**(65,157)**	89,925
Cost of removal	**(41,359)**	(49,152)
Other	**(2,750)**	(5,614)
Net cash used in investing activities	**(620,647)**	(479,405)
Financing activities:		
Dividends paid on common and preferred stock	**(1,060)**	(211,060)
Payments on long-term debt	**(45,600)**	(500,000)
Proceeds from long-term debt	**-**	700,000
Affiliated money pool borrowing and receivables/payables, net	**(30,189)**	-
Advances from affiliates	**205,000**	346
Capital contributions	**25,000**	-
Payment of debt issuance costs	**-**	(4,200)
Parent tax loss allocation	**15,715**	445
Share based compensation	**(2,677)**	5,686
Net cash provided by (used in) financing activities	**166,189**	(8,783)
Net increase in cash and cash equivalents	**11,878**	12,459
Cash and cash equivalents, beginning of year	**14,672**	2,213
Cash and cash equivalents, end of year	**$ 26,550**	$ 14,672
Supplemental disclosures:		
Interest paid	**$ (84,503)**	$ (91,047)
Income taxes refunded (paid)	**15,099**	(99,349)
Significant non-cash item:		
Capital-related accruals included in accounts payable	**30,236**	11,396

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

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

	March 31, 2014	March 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 26,550**	$ 14,672
Restricted cash and special deposits	**15,842**	50,653
Accounts receivable	**732,812**	572,794
Allowance for doubtful accounts	**(120,723)**	(126,209)
Unbilled revenues	**134,449**	149,784
Accounts receivable from affiliates	**12,647**	7,327
Intercompany money pool	**131,670**	97,171
Inventory	**48,116**	43,178
Regulatory assets	**96,440**	36,186
Derivative contracts	**38,277**	19,497
Current portion of deferred income tax assets, net	**82,855**	100,784
Prepaid taxes	**15,367**	41,026
Other	**52,854**	58,483
Total current assets	**1,267,156**	1,065,346
Equity investments	**2,718**	3,933
Property, plant, and equipment, net	**7,469,908**	7,080,116
Other non-current assets:		
Regulatory assets	**1,105,478**	1,099,393
Goodwill	**1,289,132**	1,289,132
Postretirement benefits asset	**310,382**	302,911
Derivative contracts	**7,762**	6,202
Other	**74,569**	62,803
Total other non-current assets	**2,787,323**	2,760,441
Total assets	**$ 11,527,105**	$ 10,909,836

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

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

	March 31,	
	2014	2013
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 247,842**	$ 183,196
Accounts payable to affiliates	**79,160**	134,687
Advances from affiliates	**225,000**	20,000
Current portion of long-term debt	**500,000**	45,600
Taxes accrued	**20,370**	1,770
Interest accrued	**27,887**	27,716
Customer deposits	**30,032**	34,669
Regulatory liabilities	**158,523**	104,185
Derivative contracts	**6,734**	492
Other	**90,421**	78,993
Total current liabilities	**1,385,969**	631,308
Other non-current liabilities:		
Regulatory liabilities	**822,230**	810,744
Asset retirement obligations	**10,380**	10,329
Deferred income tax liabilities, net	**1,770,629**	1,672,886
Postretirement benefits	**506,034**	547,136
Environmental remediation costs	**432,923**	438,847
Derivative contracts	**8,254**	472
Other	**328,112**	337,323
Total other non-current liabilities	**3,878,562**	3,817,737
Commitments and contingencies (Note 12)		
Capitalization:		
Shareholders' equity	**4,208,211**	3,906,475
Long-term debt	**2,054,363**	2,554,316
Total capitalization	**6,262,574**	6,460,791
Total liabilities and capitalization	**$ 11,527,105**	$ 10,909,836

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

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

			March 31,	
			2014	2013
Total shareholders' equity			**$ 4,208,211**	$ 3,906,475
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	3.55%	October 1, 2014	**500,000**	500,000
Senior Note	4.88%	August 15, 2019	**750,000**	750,000
Senior Note	4.12%	November 28, 2042	**400,000**	400,000
Senior Note	2.72%	November 28, 2022	**300,000**	300,000
			1,950,000	1,950,000
State Authority Financing - Tax exempt				
NYSERDA Tax exempt	5.15%	November 1, 2025	**75,000**	75,000
NYSERDA Tax exempt	Variable	October 1, 2013 - July 1, 2029	**529,465**	575,065
			604,465	650,065
Unamortized debt discounts			**(102)**	(149)
Total debt			**2,554,363**	2,599,916
Current portion of long-term debt			**500,000**	45,600
Long-term debt			**2,054,363**	2,554,316
Total capitalization			**$ 6,262,574**	$ 6,460,791

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

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

	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Available-for-Sale Securities	Accumulated Other Comprehensive Income (Loss): Pension and Postretirement Benefits	Accumulated Other Comprehensive Income (Loss): Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2012	**$ 187,365**	**$ 28,985**	**$ 2,954,692**	**$ 350**	**$ (1,096)**	**$ (746)**	**$ 764,439**	**$ 3,934,735**
Net income	-	-	-	-	-	-	176,160	176,160
Other comprehensive income (loss):								
Unrealized gains on securities, net of $1,151 tax expense	-	-	-	1,727	-	1,727	-	1,727
Changes in pension and other postretirement obligations, net of $449 tax benefit	-	-	-	-	(674)	(674)	-	(674)
Reclassification of gains into net income, net of $362 tax expense	-	-	-	(544)	-	(544)	-	(544)
Total comprehensive income								176,669
Parent tax loss allocation	-	-	445	-	-	-	-	445
Share based compensation	-	-	5,686	-	-	-	-	5,686
Dividends on common stock	-	-	-	-	-	-	(210,000)	(210,000)
Dividends on preferred stock	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2013	**$ 187,365**	**$ 28,985**	**$ 2,960,823**	**$ 1,533**	**$ (1,770)**	**$ (237)**	**$ 729,539**	**$ 3,906,475**
Net income	-	-	-	-	-	-	262,941	262,941
Other comprehensive income (loss):								
Unrealized gains on securities, net of $1,120 tax expense	-	-	-	1,867	-	1,867	-	1,867
Changes in pension and other postretirement obligations, net of $661 tax expense	-	-	-	-	1,102	1,102	-	1,102
Reclassification of gains into net income, net of $691 tax expense	-	-	-	(1,152)	-	(1,152)	-	(1,152)
Total comprehensive income								264,758
Capital contributions	-	-	25,000	-	-	-	-	25,000
Parent tax loss allocation	-	-	15,715	-	-	-	-	15,715
Share based compensation	-	-	(2,677)	-	-	-	-	(2,677)
Dividends on preferred stock	-	-	-	-	-	-	(1,060)	(1,060)
Balance as of March 31, 2014	**$ 187,365**	**$ 28,985**	**$ 2,998,861**	**$ 2,248**	**$ (668)**	**$ 1,580**	**$ 991,420**	**$ 4,208,211**

The Company had 187,364,863 shares of common stock authorized, issued and outstanding, with a par value of $1 per share and 289,847 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $100 per share at March 31, 2014 and 2013.

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

NIAGARA MOHAWK POWER CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Niagara Mohawk Power Corporation ("the Company"), a New York Corporation, is engaged principally in the regulated energy delivery business in New York State. The Company provides electric service to approximately 1.6 million customers in the areas of eastern, central, northern, and western New York and sells, distributes, and transports natural gas to approximately 0.6 million customers in the areas of central, northern, and eastern New York.

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

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

Management recorded out-of-period adjustments during the current fiscal year that resulted in a net increase in net income of $8.8 million. The adjustments primarily related to correction of operations and maintenance expense and income tax expense. Management concluded that the impact of recording these adjustments was not material to the current fiscal year or any prior period.

The Company has evaluated subsequent events and transactions through August 22, 2014, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Regulatory Accounting

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

Revenue Recognition

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

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

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues), while taxes imposed on the Company, such as excise taxes, are recognized on a gross basis. Excise taxes collected and paid for the years ended March 31, 2014 and 2013 were $41.7 million and $39.1 million, respectively.

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

Income Taxes

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

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

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

Cash and Cash Equivalents

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

Restricted Cash and Special Deposits

Restricted cash primarily consists of deposits held by the New York Independent System Operator ("NYISO"). Special deposits primarily consist of health care claims deposits. The Company had restricted cash of zero and $35 million and special deposits of $15.8 million and $15.7 million at March 31, 2014 and 2013, respectively.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. During the year ended March 31, 2014, the Company enhanced its estimation methodology. The allowance is determined based on a variety of factors, including for each type of receivable, applying an estimated reserve percentage to

each aging category, taking into account historical collection and write-off experience and management's assessment of collectability from individual customers as appropriate. In prior years, the estimate placed a higher emphasis on a 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 $13.3 million in the reserve. The collectability of receivables is continuously assessed, and if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible.

Inventory

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

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

The Company had materials and supplies of $40.4 million and $36.1 million and gas in storage of $7.7 million and $7.0 million at March 31, 2014 and 2013, respectively.

Derivatives

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

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

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

Power Purchase Agreements

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

Fair Value Measurements

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

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

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

Property, Plant and Equipment

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

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

	Electric		Gas		Common	
	Years Ended March 31,		Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013	**2014**	2013
Composite rates	**2.2%**	2.1%	**2.1%**	2.5%	**4.5%**	4.5%
Average service lives	**58 years**	58 years	**49 years**	49 years	**38 years**	38 years

Depreciation expense includes a component for estimated future cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company had cumulative costs of removal recovered in excess of costs incurred of $380.0 million and $390.9 million at March 31, 2014 and 2013, respectively.

Allowance for Funds Used During Construction

In accordance with applicable accounting guidance, the Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. AFUDC equity is reported in the statements of income as non-cash income in other income, net and AFUDC debt is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rate base and corresponding depreciation expense. The Company recorded AFUDC related to equity of $12.4 million and $7.1 million and AFUDC related to debt of $5.7 million and $3.8 million for the years ended March 31, 2014 and 2013, respectively. The average AFUDC rates for the years ended March 31, 2014 and 2013 were 6.5% and 6.1%, 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 balance sheets. Changes in the fair value of these assets are recorded within other comprehensive income.

Sales and Use Tax Contingencies

The Company is subject to periodic tax audits by federal and state authorities. The State of New York commenced an audit for the period December 2005 through February 2012 during the quarter ended September 30, 2012. The Company accrued $8.5 million and $8.1 million at March 31, 2014 and 2013, respectively, as other current liabilities in the accompanying balance sheets.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant, and equipment, primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the

associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value.

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

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 10,329**	$ 9,937
Accretion expense	**507**	510
Liabilities settled	**(456)**	(118)
Balance as of the end of the year	**$ 10,380**	$ 10,329

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

Employee Benefits

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

New and Recent Accounting Guidance

Accounting Guidance Adopted in Fiscal Year 2014

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.

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 accumulated other comprehensive income ("AOCI"). The amendments require an entity to provide information either on the face of the financial statements or in a single footnote on significant amounts reclassified out of AOCI and the related income statement line items to the extent an amount is reclassified in its entirety to net income. For significant items not reclassified to net income in their entirety, an entity is required to cross-reference to other disclosures that provide additional information. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company will adopt this guidance effective April 1, 2014, which will only impact its disclosures.

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.

	March31,	
	2014	2013
	(in thousands of dollars)	
Regulatory assets		
Current:		
Amortization of deferral recoveries	$ **15,819**	$ -
Energy efficiency	**-**	6,106
Rate adjustment mechanisms	**78,590**	30,080
Other	**2,031**	-
	96,440	36,186
Non-current:		
Dunkirk settlement deferral	**65,794**	29,114
Environmental response costs	**432,923**	438,847
Postretirement benefits	**428,913**	488,692
Regulatory deferred tax asset	**67,839**	68,332
Storm costs	**73,332**	28,472
Other	**36,677**	45,936
Total	**1,105,478**	1,099,393
Regulatory liabilities		
Current:		
Derivative contracts	**31,052**	24,735
Energy efficiency	**61,582**	46,449
Rate adjustment mechanisms	**21,772**	31,551
Other	**44,117**	1,450
	158,523	104,185
Non-current:		
Carrying charges	**56,901**	169
Cost of removal	**380,001**	390,914
Economic development fund	**37,502**	40,346
Environmental insurance proceeds	**20,627**	26,884
Excess storm reserve	**58,778**	29,778
Postretirement benefits	**104,915**	176,139
Temporary state assessment	**59,537**	21,231
Unbilled gas revenue	**21,556**	22,628
Other	**82,413**	102,655
Total	**822,230**	810,744
Net regulatory assets	$ **221,165**	$ 220,650

Amortization of deferral recoveries: In March 2013, the Company implemented the revised Electricity Supply Reconciliation Mechanism ("ESRM") methodology to better align the revenue with expense. This change resulted in unintentional financial impacts that the Company would not be able to recover. Therefore, the Company and NYPSC Staff agreed that the best way to allow the Company to recover the unreconciled dollars would be a return to the original ESRM methodology that was in place prior to March 2013. The NYPSC allowed the Company to recover the unreconciled costs of $31.6 million over a 12-month period beginning November 2013 applied to ESRM 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.

Derivative contracts (assets and liabilities): Gains or losses resulting from commodity derivatives are required to be refunded to, or recovered from, customers through the Company's commodity rate adjustment mechanisms. Accordingly, the Company evaluates open derivative contracts to determine if they are probable of recovery, or refund, through future rates charged to customers and qualify for regulatory deferral. Derivative contracts that qualify for regulatory deferral are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Dunkirk settlement deferral: Represents the Company's deferral costs of procuring Reliability Support Services ("RSS") from Dunkirk Power LLC and related accrued carrying charges. In accordance with the NYPSC Case 12-E-0136 dated August 16, 2012, the Company entered into an agreement under which it would procure RSS from NRG Energy, Inc.'s Dunkirk Power LLC generating station to maintain transmission system reliability in western New York for an interim period. Case 12-E-0201 addressed RSS cost recovery and provides that up to $57.0 million of electric deferred credits will be used to offset RSS costs associated with the RSS agreement relating to Dunkirk. Amounts incurred in excess of $57.0 million would be recovered through the generic RSS Surcharge. On March 1, 2014, the Company filed RSS Surcharge Statement No. 1 which provides for recovery from customers of cost incurred by the Company, and approved by the NYPSC, for third party services to ensure that local reliability needs are met.

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

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

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

Environmental issuance proceeds: Represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs.

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

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

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

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

Storm costs: The Company's rate plan provides for a rate allowance of $29 million regulatory liability annually for incremental major storm costs. The Company has recorded $44.9 million storm cost regulatory assets arising from qualified storm events for recovery during the year.

Temporary state assessment: In June 2009, the Company made a gas and electric compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment ("Temporary State Assessment"). The NYPSC authorized recovery of the costs required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over the five years of July 1, 2009 through June 30, 2014. On September 13, 2013 and August 7, 2013, the Company submitted a compliance filing (updated from June 14, 2013) proposing to maintain the currently effective surcharge. The estimated Temporary State Assessment filed amounted to $54.4 million and $15.0 million for electric and gas, respectively. On June 18, 2014, a final order implementing a revised Temporary State Assessment resulted in a $2.7 million and $3.9 million credit to electric and gas customers respectively for rates effective July 1, 2014 through June 30, 2015.

Unbilled gas revenue: Per a stipulation in Case No. 93-G-1062, the Company is permitted to recognize unbilled revenues subject to offsetting the revenues with a regulatory liability for future customers benefit.

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

4. RATE MATTERS

March 2013 Electric and Gas Filing

In March 2013 the NYPSC issued a final order regarding the Company's electric and gas base rate filing made on April 27, 2012. The term of the new rate plan is from April 1, 2013 through March 31, 2016 and provides for an electric revenue requirement of $1,338 million in the first year, $1,396 million in the second year, and $1,443 million in the third year. It also provides for a gas revenue requirement of $307 million in the first year, $315 million in the second year, and $322 million in the third year.

Transmission Return on Equity ("ROE") Complaint

On September 11, 2012, the New York Association of Public Power ("NYAPP") filed a complaint against the Company, seeking to have the base ROE for transmission service of 11.5%, which includes a NYISO participation incentive adder, lowered to 9.49%. Similarly, on November 2, 2012 the Municipal Electric Utilities Association ("MEUA") filed a complaint to lower the Company's ROE to 9.25% including the NYISO participation adder. The MEUA also challenges certain aspects of the Company's transmission formula rate. On February 6, 2014, the NYAPP filed a further complaint against the Company seeking an order effective February 6, 2014 to reduce the ROE used in calculating rates for transmission service under the NYISO Open Access Transmission Tariff ("OATT") to 9.36%, inclusive of the 50 basis point adder for participation in the

NYISO, with a corresponding overall weighted cost of capital of 6.60%. At this time, the Company cannot predict the outcome of the complaint. Any change in the ROE would not have an impact on net income because the retail rate plan fully reconciles any increase or decrease in wholesale transmission revenue under the FERC Transmission Service Charge rate through a Transmission Revenue Adjustment Clause mechanism.

Wholesale Transmission Service Charge

On December 6, 2013, the Company submitted a filing for FERC approval of revisions to its Wholesale Transmission Service Charge ("TSC Rate") under the NYSIO OATT to recover its RSS costs under two agreements with NRG to support the reliability of the Company's transmission system while transmission reinforcements are constructed. On February 4, 2014 the FERC allowed the RSS charges to become effective in TSC Rates as of July 1, 2013, subject to refund and further consideration of the matter by the FERC.

Management Audit

In February 2011, the NYPSC selected Overland Consulting Inc., ("Overland") to perform a management audit of National Grid's affiliate cost allocations, policies and procedures. The Company disputed certain of Overland's final audit conclusions and the NYPSC ordered that further proceedings be conducted to address what, if any, ratemaking adjustments were necessary. On May 23, 2014, National Grid filed a Joint Proposal with the NYPSC that, if approved, resolves all outstanding issues relating to the audit and provides for no rate adjustments for the Company. Accordingly, the Company does not believe that the outcome of this matter will have a material impact on its financial position, results of operations, or cash flows.

Gas Management Audit

In February 2013, the NYPSC initiated a comprehensive management and operational audit of NGUSA's New York gas businesses, including the Company, pursuant to the Public Service Law requirement that major electric and gas utilities undergo an audit every five years. On June 13, 2013, the NYPSC selected NorthStar Consulting Group to conduct the audit, which commenced in July 2013. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this management and operational audit.

Operations Audit

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

Operations Staffing Audit

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

Recovery of Deferral Costs Relating to Emergency Order

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

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

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

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 thousands of dollars)	
Plant and machinery	**$ 9,558,727**	$ 9,129,294
Land and buildings	**545,537**	531,732
Assets in construction	**439,070**	334,633
Software and other intangibles	**6,361**	6,361
Total property, plant and equipment	**10,549,695**	10,002,020
Accumulated depreciation and amortization	**(3,079,787)**	(2,921,904)
Property, plant and equipment, net	**$ 7,469,908**	$ 7,080,116

6. DERIVATIVE CONTRACTS

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

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

Volumes

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

	Electric		Gas	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands)		*(in thousands)*	
Gas swap contracts (dths)	**-**	-	**1,360**	4,780
Gas option contracts (dths)	**-**	-	**6,250**	1,150
Gas purchase contracts (dths)	**-**	-	**14,758**	7,615
Electric swap contracts (Mwhs)	**6,637**	6,309	**-**	-
Electric options contracts (Mwhs)	**154**	-	**-**	-
Total:	**6,791**	6,309	**22,368**	13,545

Amounts Recognized in the Accompanying Balance Sheets

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2014	2013		**2014**	2013
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			**Current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas swap contracts	**$ 525**	$ 1,636	Gas swap contracts	**$ 27**	$ 10
Gas option contracts	**612**	328	Gas option contracts	**175**	38
Gas purchase contracts	**182**	-	Gas purchase contracts	**5,105**	-
Electric swap contracts	**36,360**	17,533	Electric swap contracts	**1,417**	444
Electric options contracts	**598**	-	Electric options contracts	**10**	-
	38,277	19,497		**6,734**	492
Other non-current assets:			**Other non-current liabilities:**		
Rate recoverable contracts:			Rate recoverable contracts:		
Electric swap contracts	**7,762**	6,202	Electric swap contracts	**8,254**	472
	7,762	6,202		**8,254**	472
Total	**$ 46,039**	$ 25,699	Total	**$ 14,988**	$ 964

The changes in fair value of the Company's rate recoverable contracts are offset by changes in regulatory assets and liabilities. As a result, the changes in fair value of those contracts had no impact in the accompanying statements of income. The Company had no derivative contracts not subject to rate recovery as of March 31, 2014 and 2013.

Credit and Collateral

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

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

The EPRMC monitors counterparty credit exposure and appropriate measures are taken to bring such exposures below the limits, including, without limitation, netting agreements, and limitations on the type and tenor of trades. The Company

enters into enabling agreements that allow for payment netting with its counterparties, which reduce its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The Company's credit exposure for all derivative instruments and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements, was $28.2 million and $24.7 million as of March 31, 2014 and 2013, respectively.

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

In instances where a counterparty's credit quality has declined, or credit exposure exceeds certain levels, the Company may limit its credit exposure by restricting new transactions with the counterparty, requiring additional collateral or credit support and negotiating the early termination of certain agreements. Similarly, the Company may be required to post collateral to its counterparties. The aggregate fair value of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2014 and 2013 was $9.7 million and zero, respectively. The Company had no collateral posted for these instruments at March 31, 2014. If the Company's credit rating were to be downgraded by one or two levels, it would not be required to post any additional collateral. If the Company's credit rating were to be downgraded by three levels, it would be required to post $9.9 million and zero additional collateral to its counterparties at March 31, 2014 and 2013, respectively.

Offsetting Information for Derivatives Subject to Master Netting Arrangements

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

ASSETS:	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 contracts	$ 525	$ -	$ 525	$ -	$ -	$ 525
Gas option contracts	612	-	612	-	-	612
Gas purchase contracts	182	-	182	-	-	182
Electric swap contracts	44,122	-	44,122	-	2,800	41,322
Electric option contracts	598	-	598	-	-	598
Total	$ 46,039	$ -	$ 46,039	$ -	$ 2,800	$ 43,239

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 27	$ -	$ 27	$ -	$ -	$ 27
Gas option contracts	175	-	175	-	-	175
Gas purchase contracts	5,105	-	5,105	-	-	5,105
Electric swap contracts	9,671	-	9,671	-	-	9,671
Electric option contracts	10	-	10	-	-	10
Total	$ 14,988	$ -	$ 14,988	$ -	$ -	$ 14,988

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

ASSETS:	Gross amounts of recognized assets *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of assets presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral received *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 1,636	$ -	$ 1,636	$ -	$ -	$ 1,636
Gas option contracts	328	-	328	-	-	328
Electric swap contracts	23,735	-	23,735	-	-	23,735
Total	$ 25,699	$ -	$ 25,699	$ -	$ -	$ 25,699

LIABILITIES:	Gross amounts of recognized liabilities *A*	Gross amounts offset in the Balance Sheets *B*	Net amounts of liabilities presented in the Balance Sheets *C=A+B*	Financial instruments *Da*	Cash collateral paid *Db*	Net amount *E=C-D*
Commodity Derivatives						
Gas swap contracts	$ 10	$ -	$ 10	$ -	$ -	$ 10
Gas option contracts	38	-	38	-	-	38
Electric swap contracts	916	-	916	-	-	916
Total	$ 964	$ -	$ 964	$ -	$ -	$ 964

7. FAIR VALUE MEASUREMENTS

The following table presents 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 thousands of dollars)		
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 525	$ -	$ 525
Gas option contracts	-	-	612	612
Gas purchase contracts	-	182	-	182
Electric swap contracts	-	43,982	140	44,122
Electric option contracts	-	-	598	598
Available-for-sale securities	18,818	9,174	-	27,992
Total	18,818	53,863	1,350	74,031
Liabilities:				
Derivative contracts				
Gas swap contracts	-	27	-	27
Gas option contracts	-	-	175	175
Gas purchase contracts	-	5,105	-	5,105
Electric swap contracts	-	9,671	-	9,671
Electric option contracts	-	-	10	10
Total	-	14,803	185	14,988
Net assets	$ 18,818	$ 39,060	$ 1,165	$ 59,043

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Gas swap contracts	$ -	$ 1,636	$ -	$ 1,636
Gas option contracts	-	-	328	328
Electric swap contracts	-	23,668	67	23,735
Available-for-sale securities	16,612	8,423	-	25,035
Total	16,612	33,727	395	50,734
Liabilities:				
Derivative contracts				
Gas swap contracts	-	10	-	10
Gas option contracts	-	-	38	38
Electric swap contracts	-	916	-	916
Total	-	926	38	964
Net assets	$ 16,612	$ 32,801	$ 357	$ 49,770

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

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

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

Changes in Level 3 Derivatives

	Years Ended March 31,	
	2014	**2013**
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 357**	$ (252)
Transfers out of Level 3	**818**	(4,086)
Total gains or losses included in regulatory assets and liabilities	**(260)**	5,215
Settlements	**250**	(520)
Balance as of the end of the year	**$ 1,165**	$ 357

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable during the year. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into Level 3, during the years ended March 31, 2014 or 2013.

Quantitative Information About Level 3 Derivatives

Commodity	Level 3 Position	Fair Value as of March 31, 2014			Valuation Technique(s)	Significant Unobservable Input	Range
		Assets	(Liabilities)	Total			
		(in thousands of dollars)					
Financial							
Gas	Gas option contracts	$ 612	$ (175)	$ 437	Discounted Cash Flow	Forward Curve Implied Volatility	$0.120-$0.720 29% - 31%
Electric	Electric swap contracts	$ 140	$ -	$ 140	Discounted Cash Flow	Implied Volatility	29% - 65%
Electric	Electric option contracts	$ 598	$ (10)	$ 588	Discounted Cash Flow	Implied Volatility	29% - 65%
	Total	$ 1,350	$ (185)	$ 1,165			

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

Other Fair Value Measurements

The Company’s balance sheets reflect long-term debt at amortized cost. The fair value of the Company’s long-term debt was based on quoted market prices, where available or estimated using quoted market prices for similar debt. The fair value of this debt at March 31, 2014 and 2013 was $2.6 billion and $2.8 billion, respectively.

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

8. EMPLOYEE BENEFITS

The Company sponsors several qualified and non-qualified non-contributory defined benefit pension plans (the “Pension Plans”) and several PBOP plans (the “PBOP Plans,” together with the Pension Plans, the “Plans”). 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, the Company 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 plan provides substantially all union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. The qualified pension plan is a cash balance pension plan design in which pay-based credits are applied based on service time and interest credits are applied at rates set forth in the plan. For non-union employees, effective January 1, 2011, pay-based credits are based on a combination of service time and age. The non-qualified pension plans provide additional defined pension benefits to certain eligible executives. The funding policy is determined largely by the Company’s rate agreements with the NYPSC. However, the contribution to the qualified pension plan for any year will not be less than the minimum amount required under Internal Revenue Service (“IRS”) regulations. The Company expects to make no contributions to the qualified pension plan during the year ended March 31, 2015 due to the overfunded status of the plan.

PBOP Plans

The Company's PBOP Plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. The PBOP Plans are funded based on rate agreements with the NYPSC. The Company expects to contribute approximately $78.3 million to the PBOP Plans during the year ended March 31, 2015.

Defined Contribution Plan

NGUSA has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. For the years ended March 31, 2014 and 2013, the Company recognized an expense in the accompanying statements of income of $7.7 million and $7.2 million, respectively, for matching contributions.

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

Components of Net Periodic Benefit Costs

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Service cost, benefits earned during the year	**$ 24,888**	$ 24,772	**$ 20,618**	$ 16,676
Interest cost	**60,507**	63,590	**70,219**	68,827
Expected return on plan assets	**(93,849)**	(92,618)	**(73,904)**	(63,329)
Amortization of unrecognized prior service cost	**4,805**	4,805	**12,681**	12,681
Amortization of unrecognized net loss	**61,957**	77,397	**26,371**	37,366
Settlement loss	**13,815**	967	**-**	-
Total cost	**$ 72,123**	$ 78,913	**$ 55,985**	$ 72,221

Amounts Recognized in AOCI and Regulatory Assets

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Net actuarial (loss) gains	**$ (12,327)**	$ 4,084	**$ 54,283**	$ 60,618
Amortization of loss	**(61,957)**	(77,396)	**(26,371)**	(37,366)
Amortization of prior service cost	**(4,805)**	(4,805)	**(12,681)**	(12,681)
Total	**$ (79,089)**	$ (78,117)	**$ 15,231**	$ 10,571
Included in regulatory assets	**$ (77,880)**	$ (78,619)	**$ 15,231**	$ 10,571
Included in AOCI	**(1,209)**	502	**-**	-
Total	**$ (79,089)**	$ (78,117)	**$ 15,231**	$ 10,571

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

	Pension Plans		PBOP Plans	
	Years Ended March 31,		Years Ended March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Net actuarial loss	**$ 195,914**	$ 270,198	**$ 192,037**	$ 164,125
Prior service cost	**23,738**	28,543	**5,240**	17,921
Total	**$ 219,652**	$ 298,741	**$ 197,277**	$ 182,046
Included in regulatory assets	**$ 218,289**	$ 296,168	**$ 197,277**	$ 182,046
Included in AOCI	**1,363**	2,573	**-**	-
Total	**$ 219,652**	$ 298,741	**$ 197,277**	$ 182,046

The NYPSC's statement of policy requires that prior service costs and gains and losses be amortized over a 10-year period calculated on a vintage year basis. The amount of net actuarial loss and prior service cost to be amortized from regulatory assets during the year ended March 31, 2015 for Pension Plans and PBOB Plans is $62.4 million and $46.1 million, respectively.

Reconciliation of Funded Status to Amount Recognized

The benefit obligation, assets and funded status of the Plans cannot be presented separately for the Company because it participates in the Plans sponsored by NGUSA.

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)			
Change in benefit obligation:				
Benefit obligation as of the beginning of the year	**$ (1,479,164)**	$ (1,435,365)	**$ (1,605,949)**	$ (1,484,665)
Service cost	**(29,883)**	(29,531)	**(23,999)**	(18,928)
Interest cost on projected benefit obligation	**(67,033)**	(69,815)	**(74,154)**	(71,890)
Net actuarial loss	**(41,993)**	(62,516)	**(109,971)**	(86,955)
Benefits paid	**54,108**	114,853	**71,626**	70,985
Actual Medicare Part D Subsidy received	**-**	-	**(282)**	(14,603)
Settlements	**114,657**	3,210	**-**	107
Actual EGWP subsidy received	**-**	-	**(10,199)**	-
Benefit obligation as of the end of the year	**(1,449,308)**	(1,479,164)	**(1,752,928)**	(1,605,949)
Change in plan assets:				
Fair value of plan assets as of the beginning of the year	**1,772,538**	1,677,800	**1,026,854**	831,192
Actual return on plan assets	**132,212**	159,803	**124,086**	87,847
Company contributions	**412**	52,998	**125,320**	178,907
Benefits paid	**(54,108)**	(114,853)	**(71,626)**	(70,985)
Settlements	**(114,657)**	(3,210)	**-**	(107)
Fair value of plan assets as of the end of the year	**1,736,397**	1,772,538	**1,204,634**	1,026,854
Funded status	**$ 287,089**	$ 293,374	**$ (548,294)**	$ (579,095)

The accumulated benefit obligation for all defined benefit pension plans in which the Company participates was approximately $1.4 billion and $1.3 billion at 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 thousands of dollars)			
Current liabilities	**$ (411)**	$ (453)	**$ (4,600)**	$ (2,000)
Non-current assets	**310,382**	302,911	**-**	-
Non-current liabilities	**-**	-	**(506,034)**	(531,580)
Total	**$ 309,971**	$ 302,458	**$ (510,634)**	$ (533,580)

Expected Benefit Payments

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

(in thousands of dollars) Years Ended March 31,	Pension Plans	PBOB Plans
2015	$ 154,352	$ 74,482
2016	151,007	77,158
2017	149,517	80,009
2018	143,990	82,290
2019	134,417	84,803
Thereafter	550,600	457,566
Total	$ 1,283,883	$ 856,308

As a result of the Medicare Act of 2003, the Company receives a federal subsidy for sponsoring a retiree healthcare plan that provides a benefit that is actuarially equivalent to Medicare Part D.

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%	**n/a**	n/a
Expected return on plan assets	**7.00%**	6.75%	**7.00%-7.25%**	7.00%-7.50%
Net Periodic Benefit Costs				
Discount rate	**4.70%**	5.10%	**4.70%**	5.10%
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a
Expected return on plan assets	**6.75%**	6.75%	**7.00%-7.50%**	7.50%

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

The expected rate of return for various passive asset classes is based on 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 target 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 thousands of dollars)	**March 31, 2014**
1% point increase	
Total of service cost plus interest cost	$ 18,365
Postretirement benefit obligation	257,475
1% point decrease	
Total of service cost plus interest cost	(15,185)
Postretirement benefit obligation	(224,354)

Plan Assets

The Company 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. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by NGUSA's investment committee on a quarterly basis.

The target asset allocations by asset class were as follows:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2014	2013	**2014**	2013
U.S. equities	**17%**	17%	**40%**	40%
Global equities (including U.S.)	**7%**	7%	**6%**	6%
Global tactical asset allocation	**10%**	10%	**9%**	9%
Non-U.S. equities	**6%**	6%	**20%**	20%
Fixed income	**50%**	50%	**25%**	25%
Private equity	**4%**	4%	**0%**	0%
Real estate	**4%**	4%	**0%**	0%
Infrastructure	**2%**	2%	**0%**	0%
	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 thousands of dollars)		
Pension Assets:				
Cash and cash equivalents	$ 1,974	$ 20,449	$ -	$ 22,423
Accounts receivable	11,275	-	-	11,275
Accounts payable	(13,239)	-	-	(13,239)
Equity	145,859	393,053	72,145	611,057
Global tactical asset allocation	-	51,846	13,297	65,143
Fixed income securities	-	851,236	15,972	867,208
Preferred securities	2,423	-	-	2,423
Private equity	-	-	88,345	88,345
Futures contracts	531	-	-	531
Real estate	-	-	81,231	81,231
Total	**$ 148,823**	**$ 1,316,584**	**$ 270,990**	**$ 1,736,397**
PBOP Assets:				
Cash and cash equivalents	$ 27,033	$ 423	$ -	$ 27,456
Accounts receivable	2,460	-	-	2,460
Accounts payable	(3,910)	-	-	(3,910)
Equity	164,046	617,845	59,643	841,534
Global tactical asset allocation	34,156	47,238	11,602	92,996
Fixed income securities	425	243,617	-	244,042
Futures contracts	56	-	-	56
Total	**$ 224,266**	**$ 909,123**	**$ 71,245**	**$ 1,204,634**

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Pension Assets:				
Cash and cash equivalents	$ 3,088	$ 10,424	$ -	$ 13,512
Accounts receivable	32,232	-	-	32,232
Accounts payable	(28,135)	-	-	(28,135)
Equity	200,436	421,726	19,103	641,265
Global tactical asset allocation	-	67,654	14,208	81,862
Fixed income securities	-	861,180	21,533	882,713
Preferred securities	2,435	-	-	2,435
Private equity	-	-	79,036	79,036
Real estate	-	-	67,618	67,618
Total	**$ 210,056**	**$ 1,360,984**	**$ 201,498**	**$ 1,772,538**
PBOP Assets:				
Cash and cash equivalents	$ 56,747	$ 3,318	$ -	$ 60,065
Accounts receivable	4,058	-	-	4,058
Accounts payable	(3,876)	-	-	(3,876)
Equity	149,740	543,262	8,862	701,864
Global tactical asset allocation	30,999	35,075	8,307	74,381
Fixed income securities	-	190,356	6	190,362
Total	**$ 237,668**	**$ 772,011**	**$ 17,175**	**$ 1,026,854**

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

Future Contracts: Corporate debt securities, foreign debt securities, U.S. Government and Government agency securities (comprised of government agency securities, municipal bonds, government mortgage-backed securities, and index linked government bonds), derivatives (comprised of interest rate swaps, credit default swaps, financial futures, and other derivatives), and investment of securities lending collateral (comprised of repurchase agreements, asset-backed securities, floating rate notes and time deposits) are valued with an institutional bid evaluation or an institutional mid evaluation. A bid valuation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security (typically in an institutional round lot). Often times, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

While management believes its valuation methodologies are appropriate and consistent with other market participants, 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 thousands of dollars)			
Balance as of the beginning of the year	**$ 201,498**	$ 229,200	**$ 17,175**	$ 29,910
Transfers out of Level 3	**(15,974)**	(1,903)	**-**	(16,270)
Transfers in to Level 3	**64,179**	410	**47,026**	25,684
Actual gain or loss on plan assets				
Realized gain	**9,096**	11,972	**591**	-
Unrealized gain	**7,977**	3,932	**(1,160)**	318
Purchases	**191,721**	143,053	**8,204**	172,139
Sales	**(187,507)**	(185,166)	**(591)**	(194,606)
Balance as of the end of the year	**$ 270,990**	$ 201,498	**$ 71,245**	$ 17,175

Other Benefits

During the year ended March 31, 2014, NGUSA improved its methodology for allocating to its subsidiaries the expense and liability for workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR"). In prior years, such costs and liabilities were allocated to NGUSA's subsidiaries based on each subsidiary's pro-rata share of known outstanding case reserves. As of and for the year ended March 31, 2014, such IBNR amounts are allocated proportionally based on various factors including revenue, payroll, and number of fleet vehicles, as applicable to the related exposure source. Management believes this improved methodology provides a more accurate and appropriate allocation to each of its subsidiaries. The change in allocation methodology resulted in a decrease in income before taxes of approximately $1.8 million in the current fiscal year. At March 31, 2014 and 2013, the Company had accrued IBNR of $10.7 million and $10.1 million respectively.

9. CAPITALIZATION

Debt Authorizations

The Company had regulatory approval from the FERC to issue up to $1 billion of short-term debt, which expired on November 30, 2013. Effective April 2014, the Company entered into an Equity Contribution Agreement with the Parent which provides the Company with the ability to call upon the Parent for contributions to the Company's capital, in an aggregate amount equal to the short-term borrowing limit until such time as regulatory approval for short-term borrowing is regained. The Company has not made use of this facility since its effective date. The Company had no short-term debt outstanding to third parties as of March 31, 2014 or 2013.

In June 2012, the Company filed a petition with the NYPSC seeking multi-year authority to issue up to $1.6 billion in new long-term debt securities through the period ending March 31, 2016. In September 2012, the NYPSC granted this authority. In November 2012, the Company issued $400 million of unsecured long-term debt at 4.119% with a maturity date of November 28, 2042 and $300 million of unsecured long-term debt at 2.721% with a maturity date of November 28, 2022, under this authority.

State Authority Financing Bonds

The assets of the Company are subject to liens and other charges and are provided as collateral over borrowings of $604 million of State Authority Financing Bonds. These bonds were issued to secure a like amount of tax-exempt revenue bonds issued by the New York State Energy Research and Development Authority ("NYSERDA"). Approximately $529 million of such securities bear interest at short-term adjustable interest rates (with an option to convert to other rates, including a fixed interest rate) ranging from 0.38% to 0.53% for the year ended March 31, 2014. The bonds are currently in auction rate

mode and are backed by bond insurance. These bonds cannot be put back to the Company and, in the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current short-term benchmark rate and the senior secured rating of the Company or the bond insurer, whichever is greater. The effect on interest expense has not been material in either of the years ended March 31, 2014 or 2013.

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

Current Maturities of Long-term Debt

(in thousands of dollars)	
Years Ending March 31,	
2015	$ 500,000
2016	100,000
2017	-
2018	-
2019	-
Thereafter	1,954,465
Total	$ 2,554,465

Dividend Restrictions

The Company's debt and credit arrangements contain various financial and other covenants as described below. The Company was in compliance with all such covenants during the years ended March 31, 2014 and 2013.

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

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

Cumulative Preferred Stock

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

	Shares Outstanding		**Amount**		
	March 31,		**March 31,**		Call
Series	**2014**	2013	**2014**	2013	Price
	(in thousands of dollars, except per share and number of shares data)				
$100 par value -					
3.40% Series	**57,524**	57,524	**$ 5,753**	$ 5,753	$ 103.500
3.60% Series	**137,152**	137,152	**13,715**	13,715	104.850
3.90% Series	**95,171**	95,171	**9,517**	9,517	106.000
Total	**289,847**	289,847	**$ 28,985**	$ 28,985	

The Company did not redeem any preferred stock during the years ended March 31, 2014 or 2013. The annual dividend requirement for cumulative preferred stock was approximately $1.1 million for the years ended March 31, 2014 and 2013.

10. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ 22,946**	$ (8,381)
State	**7,187**	6,122
Total current tax expense (benefit)	**30,133**	(2,259)
Deferred tax expense:		
Federal	**95,307**	85,696
State	**21,600**	14,573
Total deferred tax expense	**116,907**	100,269
Amortized investment tax credits [(1)]	**(1,936)**	(1,976)
Total deferred tax expense	**114,971**	98,293
Total income tax expense	**$ 145,104**	$ 96,034

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

Statutory Rate Reconciliation

The Company's effective tax rate for the years ended March 31, 2014 and 2013 is 35.6% and 35.3%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 35% to the actual tax expense:

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Computed tax	**$ 142,816**	$ 95,268
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**18,712**	13,452
Temporary differences flowed through	**(4,342)**	(3,697)
Allowance for equity funds used during construction	**(4,247)**	(2,498)
Investment tax credits	**(1,936)**	(1,976)
Other items, net	**(5,899)**	(4,515)
Total	**2,288**	766
Federal and state income taxes	**$ 145,104**	$ 96,034

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

In September 2013, the 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, $12.8 million of deferred tax liabilities have been classified as current in the accompanying balance sheets, representing the cumulative adjustment expected to be reflected in income for tax purposes during the twelve months ending March 31, 2015.

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. 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 liability by $14.3 million with an offset to regulatory liabilities to reflect the decrease in tax rate.

Deferred Tax Components

	March 31,	
	2014	2013
	(in thousands of dollars)	
Deferred tax assets:		
Postretirement benefits	**$ 111,715**	$ 178,054
Environmental remediation costs	**180,185**	184,755
Allowance for doubtful accounts	**50,100**	53,134
Regulatory liabilities - other	**165,814**	123,594
Future federal benefit on state taxes	**43,071**	40,418
Other items	**18,251**	38,833
Total deferred tax assets (1)	**569,136**	618,788
Deferred tax liabilities:		
Property related differences	**1,839,011**	1,746,203
Regulatory assets - environmental response costs	**167,270**	164,710
Regulatory assets - postretirement benefits	**133,236**	224,837
Other items	**95,419**	31,229
Total deferred tax liabilities	**2,234,936**	2,166,979
Net deferred income tax liabilities	**1,665,800**	1,548,191
Deferred investment tax credits	**21,974**	23,911
Net deferred income tax liabilities and investment tax credits	**1,687,774**	1,572,102
Current portion of deferred income tax assets	**82,855**	100,784
Deferred income tax liabilities	**$ 1,770,629**	$ 1,672,886

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

Unrecognized Tax Benefits

As of March 31, 2014 and 2013, the Company's unrecognized tax benefits totaled $121.0 million and $120.2 million, respectively, of which $12.4 million and $13.8 million would affect the effective tax rate, if recognized. The unrecognized tax benefits are included in other non-current liabilities in the accompanying balance sheets.

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

	Years Ended March 31,	
	2014	2013
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 120,195**	$ 159,526
Gross increases - tax positions in prior periods	**9,028**	131
Gross decreases - tax positions in prior periods	**(335)**	(37,301)
Gross increases - current period tax positions	**3,917**	2,738
Gross decreases - current period tax positions	**(41)**	(4,899)
Settlements with tax authorities	**(11,781)**	-
Balance as of the end of the year	**$ 120,983**	$ 120,195

As of March 31, 2014 and 2013, the Company has accrued for interest related to unrecognized tax benefits of $10.4 million and $13.1 million, respectively. During the years ended March 31, 2014 and 2013, the Company recorded a reduction to interest expense of $1.3 million and $1.4 million, respectively. The Company recognizes interest related to unrecognized tax

benefits in other interest, including affiliate interest and related penalties, if applicable, in other income, net in the accompanying statements of income. No tax penalties were recognized during the years ended March 31, 2014 or 2013.

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

Federal income tax returns have been examined and all appeals and issues have been agreed with the IRS and the NGNA consolidated filing group through March 31, 2007. As a result of the agreement with the IRS, the Company anticipates to pay NGNA $8.3 million in the next twelve months.

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

The years ended March 31, 2010 through March 31, 2014 remain subject to examination by the IRS.

The State of New York is in the process of examining the Company's New York State income tax returns for the years ended March 31, 2006 through March 31, 2008. The years ended March 31, 2009 through March 31, 2014 remain subject to examination by the State of New York.

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

Jurisdiction	Tax Year
Federal	March 31, 2009
New York	March 31, 2006

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.

The United States Environmental Protection Agency ("EPA"), and the New York Department of Environmental Conservation ("DEC"), as well as private entities, have alleged that the Company is a potentially responsible party under state or federal law for the remediation of numerous sites. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned or operated by the Company. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA and the DEC. Expenditures incurred for the years ended March 31, 2014 and 2013 were $41.6 million and $31.4 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $432.9 million and $438.8 million at March 31, 2014 and 2013, respectively. These costs are expected to be incurred over the next 45 years, and these undiscounted amounts have been recorded as liabilities in the accompanying balance sheets. However, remediation costs for each site may be materially higher than estimated, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The high end of the range of potential liabilities at March 31, 2014, was estimated at $560.7 million. The Company has recovered amounts from certain insurers

and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders issued and effective March 15, 2013, the NYPSC has provided an annual rate allowance of $42.0 million ($35.7 million in electric base rates and $6.3 million in gas base rates). Any annual spend above the $42.0 million rate allowance is deferred for future recovery. Previous rate orders have provided for similar recovery mechanisms (with different rate allowances and thresholds). Accordingly, as of March 31, 2014 and 2013, the Company has recorded environmental regulatory assets of $432.9 million and $438.8 million, respectively, and environmental regulatory liabilities of $20.6 million and $26.9 million, respectively.

On April 26, 2013, General Electric ("GE") filed a lawsuit against the Company seeking contribution under the Comprehensive Environmental Response, Compensation, and Liability Act for an unspecified portion of GE's alleged response costs incurred in remediating polychlorinated biphenyl ("PCB") contamination in the Hudson River. GE alleges that the Company's removal of the Fort Edward Dam in 1973 resulted in the migration of sediments, contaminated with PCBs released into the environment by GE, downstream of the former dam's location. On June 25, 2013, the Company answered GE's complaint denying liability. The parties executed a confidential settlement agreement on December 13, 2013. By stipulation of the parties and Court order, GE's claims against the Company were dismissed with prejudice on January 13, 2014.

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

Nuclear Contingencies

As of March 31, 2014 and 2013, the Company had a liability of approximately $168 million, recorded in other non-current liabilities in the accompanying balance sheets, for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Policy Act of 1982 provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation Energy Group Inc., which purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility.

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

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

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

(in thousands of dollars) Years Ending March 31,	Energy Purchases	Capital Expenditures
2015	$ 201,385	$ 144,487
2016	153,185	1,132
2017	107,489	-
2018	97,236	-
2019	96,164	636
Thereafter	790,916	-
Total	$ 1,446,375	$ 146,255

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

Operating Lease Commitments

The Company has various operating leases relating to office space. Total rental expense for operating leases included in operations and maintenance expense in the accompanying statements of income was $4.6 million and $4.0 million for the years ended March 31, 2014 and 2013, respectively.

A summary of future minimum lease payments due each year subsequent to March 31, 2014 are as follows:

(in thousands of dollars) Years Ended March 31,	
2015	$ 4,858
2016	4,754
2017	4,735
2018	4,637
2019	4,640
Thereafter	33,093
Total	$ 56,717

Legal Matters

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

13. RELATED PARTY TRANSACTIONS

Advances from Affiliates

In June 2009, the Company entered into an agreement with NGUSA whereby the Company can borrow up to $500 million from time to time for working capital needs. The advance is non-interest bearing. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliate of $200 million and zero, respectively.

In June 2009, the Company entered into an agreement with Niagara Mohawk Holdings, Inc., whereby the Company can borrow up to $450 million from time to time for working capital needs. The average interest rates were 0.7% and 0.6% for the years ended March 31, 2014 and 2013, respectively. At March 31, 2014 and 2013, the Company had an outstanding advance from affiliates of $25 million and $20 million, respectively.

Accounts Receivable from and Accounts Payable to Affiliates

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

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

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2014	2013	**2014**	2013
	(in thousands of dollars)		*(in thousands of dollars)*	
NGUSA Service Company	**$ -**	$ -	**$ 57,212**	$ 40,094
Opinac North America, Inc.	**-**	-	**16,999**	16,999
NGUSA	**-**	-	**2,419**	70,732
The Narragansett Electric Company	**-**	-	**1,215**	456
Massachusetts Electric Company	**4,966**	4,077	**-**	-
Brooklyn Union Gas Company	**901**	1,780	**-**	-
National Grid Engineering Services, LLC	**4,836**	-	**-**	-
National Grid Electric Services	**-**	-	**680**	4,853
KeySpan Gas East Corporation	**1,085**	927	**-**	-
Other	**859**	543	**635**	1,553
Total	**$ 12,647**	$ 7,327	**$ 79,160**	$ 134,687

Intercompany Money Pool

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

The Regulated Money Pool is funded by operating funds from participants. Collectively, NGUSA and its subsidiary, KeySpan, have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the intercompany money pools, if necessary. The Company had short-term intercompany money pool investments of $131.7 million and $97.2 million at March 31, 2014 and 2013, respectively. The average interest rates for the intercompany money pool were 0.7% and 0.6% for the years ended March 31, 2014 and 2013, respectively.

Service Company Charges

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

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2014 and 2013 were $466 million and $498.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the U.K.) for certain corporate and administrative services provided by the corporate functions of National Grid plc to its U.S. subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be $15.0 million and $12.6 million before taxes, and $9.1 million and $8.2 million after taxes, for the years ended March 31, 2014 and 2013, respectively.