Nantucket Electric Company

Financial Statements

For the years ended March 31, 2013 and March 31, 2012

NANTUCKET ELECTRIC COMPANY

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Independent Auditor's Report

To the Shareholder and Board of Directors of Nantucket Electric Company:

We have audited the accompanying financial statements of Nantucket Electric Company, which comprise the balance sheets as of March 31, 2013 and March 31, 2012, and the related statements of income, comprehensive income, cash flows, capitalization and changes in shareholder's 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 Nantucket Electric Company at March 31, 2013 and March 31, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Nantucket Electric Company engages in significant transactions with Massachusetts Electric Company.

PricewaterhouseCoopers LLP

December 17, 2013

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NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 354**	$ 141
Special deposits	**46**	46
Intercompany money pool	**25,810**	21,925
Accounts receivable	**1,379**	1,218
Allowance for doubtful accounts	**(80)**	(88)
Accounts receivable from affiliates	**1,774**	1,293
Unbilled revenues	**1,037**	797
Materials and supplies	**177**	159
Regulatory assets	**5,522**	6,202
Current portion of deferred income tax assets	**3,949**	3,046
Prepaid and other current assets	**6**	14
Total current assets	**39,974**	34,753
Property, plant, and equipment, net	**70,006**	69,893
Deferred charges and other assets:		
Regulatory assets	**4,115**	4,066
Goodwill	**15,706**	15,706
Financial investments	**758**	701
Other deferred charges	**1,083**	1,047
Total deferred charges and other assets	**21,662**	21,520
Total assets	**$ 131,642**	$ 126,166

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

NANTUCKET ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31, 2013	March 31, 2012
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 933**	$ 770
Accounts payable to affiliates	**1,647**	1,107
Current portion of long-term debt	**305**	275
Taxes and interest accrued	**2,011**	1,331
Regulatory liabilities	**15,341**	13,908
Other current liabilities	**419**	398
Total current liabilities	**20,656**	17,789
Deferred credits and other liabilities:		
Regulatory liabilities	**1,555**	2,022
Deferred income tax liabilities	**13,843**	11,657
Postretirement benefits	**4,449**	4,346
Other deferred liabilities	**384**	1,424
Total deferred credits and other liabilities	**20,231**	19,449
Capitalization:		
Shareholder's equity	**38,760**	36,628
Long-term debt	**51,995**	52,300
Total capitalization	**90,755**	88,928
Total liabilities and capitalization	**$ 131,642**	$ 126,166

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

NANTUCKET ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31, 2013	2012
Operating revenues	**$ 22,648**	$ 22,771
Operating expenses:		
Purchased electricity	**7,837**	8,666
Operations and maintenance	**7,212**	5,699
Depreciation	**3,648**	3,614
Other expenses	**672**	662
Total operating expenses	**19,369**	18,641
Operating income	**3,279**	4,130
Other income and (deductions):		
Interest on long-term debt	**(500)**	(773)
Other interest, including affiliate interest	**(81)**	(45)
Other income, net	**131**	34
Total other deductions, net	**(450)**	(784)
Income before income taxes	**2,829**	3,346
Income taxes:		
Current	**(2)**	1,006
Deferred	**551**	348
Income tax expense	**549**	1,354
Net income	**$ 2,280**	$ 1,992

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

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

	Years Ended March 31,	
	2013	2012
Net income	**$ 2,280**	$ 1,992
Other comprehensive income (loss):		
Unrealized gains on securities, net of $23 and $29 tax expense	**34**	44
Changes in pension and other postretirement obligations, net of $72 tax expense and $8 tax benefit, respectively	**113**	(12)
Reclassification of gains into net income, net of $11 and $13 tax benefit	**(17)**	(20)
Other comprehensive income	**130**	12
Comprehensive income	**$ 2,410**	$ 2,004

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

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

	Years Ended March 31,	
	2013	2012
Operating activities:		
Net income	**$ 2,280**	$ 1,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**3,648**	3,614
Provision for deferred income taxes	**551**	348
Amoritzation of debt discount and other	**445**	1,286
Pension and other postretirement expenses	**507**	403
Pension and other postretirement contributions	**(467)**	(356)
Bad debt expense	**65**	71
Changes in operating assets and liabilities:		
Accounts receivable, net, and unbilled revenues	**(474)**	152
Materials and supplies	**(18)**	99
Accounts payable and accrued expenses	**169**	(815)
Prepaid taxes and accruals	**674**	1,110
Accounts receivable from/payable to affiliates, net	**(746)**	1,699
Other liabilities	**(1,019)**	(1,339)
Regulatory assets and liabilities, net	**2,079**	728
Other, net	**(215)**	(200)
Net cash provided by operating activities	**7,479**	8,792
Investing activities:		
Capital expenditures	**(3,392)**	(2,081)
Affiliated money pool and intercompany lending	**(3,080)**	(6,950)
Cost of removal	**(212)**	(224)
Other	**(29)**	50
Net cash used in investing activities	**(6,713)**	(9,205)
Financing activities:		
Payments on long-term debt obligation	**(275)**	(250)
Parent loss (gain) tax allocation	**(278)**	642
Net cash (used in) provided by financing activities	**(553)**	392
Net increase (decrease) in cash and cash equivalents	**213**	(21)
Cash and cash equivalents, beginning of period	**141**	162
Cash and cash equivalents, end of period	**$ 354**	$ 141
Supplemental disclosures:		
Interest paid	**$ (353)**	$ (432)
Income taxes paid to Parent	**(615)**	(876)

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

NANTUCKET ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2013	2012
Total shareholder's equity			**$ 38,760**	$ 36,628
Long-term debt:	Interest Rate	Maturity Date		
State authority financing bonds				
2016 Series 1996 MIFA Tax exempt	Variable	March 1, 2016	**1,000**	1,275
2004 $10 Million MIFA Tax exempt	Variable	March 1, 2039	**10,000**	10,000
2005 $28 Million MIFA Tax exempt	Variable	December 1, 2040	**28,000**	28,000
2007 $13.3 Million 1996 MDFA Tax exempt	Variable	August 1, 2042	**13,300**	13,300
Total long-term debt			**52,300**	52,575
Long-term debt due within one year			**305**	275
Total long-term debt, excluding current portion			**51,995**	52,300
Total capitalization			**$ 90,755**	$ 88,928

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

NANTUCKET ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
(in thousands of dollars, except per share and number of shares data)

	Common Stock - par value $1 per share					Accumulated Other Comprehensive Income (Loss)			
	Authorized Shares	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Available for Sale Securities	Pension and Postretirement Benefits	Total Accumulated Other Comprehensive Income (Loss)	Total
Balance at March 31, 2011	1,200	1	$ -	$ 22,475	$ 11,583	$ 25	$ (101)	(76)	$ 33,982
Net income	-	-	-	-	1,992	-	-	-	1,992
Comprehensive income:									
Unrealized gains on securities, net of $29 tax expense	-	-	-	-	-	44	-	44	44
Changes in pension and other postretirement obligations, net of $8 tax benefit	-	-	-	-	-	-	(12)	(12)	(12)
Reclassification adjustment for losses included in net income, net of $13 tax benefit	-	-	-	-	-	(20)	-	(20)	(20)
Total comprehensive income								12	2,004
Parent loss tax allocation				642					642
Balance at March 31, 2012	1,200	1	$ -	$ 23,117	$ 13,575	$ 49	$ (113)	(64)	36,628
Net income	-	-	-	-	2,280	-	-	-	2,280
Comprehensive income:									
Unrealized gains on securities, net of $23 tax expense	-	-	-	-	-	34	-	34	34
Changes in pension and other postretirement obligations, net of $72 tax expense							113	113	113
Reclassification adjustment for losses included in net income, net of $11 tax benefit	-	-	-	-	-	(17)	-	(17)	(17)
Total comprehensive income								130	2,410
Parent loss tax allocation	-	-	-	(278)	-	-	-	-	(278)
Balance at March 31, 2013	1,200	1	$ -	$ 22,839	$ 15,855	$ 66	$ -	$ 66	$ 38,760

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

NANTUCKET ELECTRIC COMPANY

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Nantucket Electric Company (the "Company") is an electric retail distribution company providing electric service to approximately 13,000 customers on the Island of Nantucket.

The Company is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company has evaluated subsequent events and transactions through December 17, 2013 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, 2013.

B. Basis of Presentation

The financial statements for the years ended March 31, 2013 and March 31, 2012 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including the accounting principles for rate-regulated entities. The financial statements reflect the rate-making practices of the applicable regulatory authorities.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Within the statements of cash flows, all amounts that are settled through the Regulated Money Pool (refer to Note 9, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are recorded as such.

C. Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC") and the Massachusetts Department of Public Utilities ("DPU") provide the final determination of the rates the Company charges its customers. In certain cases, the actions of the DPU determines the rates the Company charges its customers result in an accounting treatment different from that used by 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

D. Revenue Recognition

The Company bills its customers on a monthly cycle basis at approved tariffs based on energy delivered, a minimum customer service charge, and, in some instances, their demand. Revenues are determined based on these bills plus an estimate for unbilled energy delivered between the cycle meter read date and the end of the accounting period. These amounts are billed to customers in the next billing cycle following the month-end. Revenues are subject to a Decoupling Adjustment Factor which requires the Company to adjust annually its base rates to reflect the over or under recovery of the Company’s targeted base distribution revenues from the prior season. Revenue decoupling is a rate-making mechanism that breaks the link between the Company's base revenue requirement and sales. This mechanism allows the Company to offer various energy efficiency measures to its customers without financial detriment to the Company resulting from reductions in electricity.

The Revenue Decoupling Mechansim (“RDM”) requires the Company to adjust its base rates semi-annually its base rates to reflect the over or under recovery of the Company’s targeted base distribution revenues from the prior season.

The Company’s revenue from the sale and delivery of electricity for the years ended March 31, 2013 and March 31, 2012 was as follows:

	March 31,	
	2013	2012
Residential	**79%**	77%
Commercial and industrial	**21%**	23%

E. Property, Plant and Equipment

Property, plant and equipment are stated at original cost. The cost of additions to property, plant and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead, and allowance for funds used during construction (“AFUDC”). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements, and major maintenance projects, which do not extend the useful life or increase the expected output of the assets, are expensed as incurred. Depreciation is generally 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 DPU. Whenever property, plant and equipment are 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 average composite rates and weighted-average life for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
Composite rates - depreciation	**4.0%**	4.2%
Composite rates - cost of removal	**0.4%**	0.4%
Total composite rates	**4.4%**	4.6%
Average Service Life	**44 years**	44 years

The Company’s depreciation expense includes estimated costs to remove property, plant and equipment which are recovered through the rates charged to its customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $1.5 million and $1.4 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying balance sheets.

In accordance with applicable regulatory accounting guidance, the Company records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. The equity component of AFUDC is a non-cash amount within the statements of income. AFUDC is capitalized as a component of the cost of property, plant and equipment, with an offsetting credit to other income (deductions), net for the equity component and other interest expense for the debt component in the accompanying statements of income. After construction is completed, the Company is permitted to recover these costs through inclusion in its rate base and corresponding depreciation expense.

The components of AFUDC capitalized and composite AFUDC rates for the years ended March 31, 2013 and March 31, 2012 are as follows:

	March 31,			
	2013		2012	
	(in thousands of dollars)			
Debt	**$**	**2**	$	1
Equity		**11**		5
	$	**13**	$	6
Composite AFUDC		**3.4%**		3.4%

F. Goodwill

Goodwill represents the excess of the purchase price of a business over the fair value of the tangible and intangible assets acquired, net of the fair value of liabilities assumed and the fair value of any non-controlling interest in the acquisition. The Company tests goodwill for impairment annually on January 31, and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The goodwill impairment analysis is comprised of two steps. In the first step, the estimated fair value of the reporting unit is compared with its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired and no further analysis is required. If the carrying value exceeds the 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 Company calculated the fair value of the reporting unit in the performance of its annual goodwill impairment test for the fiscal year ended March 31, 2013 utilizing both income and market approaches, as described below. The Company ultimately determined the fair value of the business using 50% weighting for each valuation methodology, as it believes that each methodology provides equally valuable information.

- 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, 2013 to March 31, 2018; (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 US 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 the Company's business with the benchmark companies.

The resulting fair value of the annual analyses determined that no adjustment of the goodwill carrying value was required at March 31, 2013 or March 31, 2012.

G. Cash and Cash Equivalents

The Company classifies short-term investments that are highly liquid and have original maturities of three months or less as cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

H. Special Deposits

Special deposits consist of health insurance deposits.

I. Materials and Supplies

Materials and supplies are stated at the lower of weighted average cost or market and are expensed or capitalized into specific capital additions as used. Materials and supplies was $0.2 million at both March 31, 2013 and March 31, 2012, respectively. 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, 2013 or March 31, 2012.

J. Available-For-Sale Securities

The Company holds available-for-sale securities which primarily include equities, municipal bonds and corporate bonds. These investments are recorded at fair value and are included in financial investments in the accompanying balance sheets.

K. Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is calculated by applying a reserve factor to outstanding receivables. The reserve factor is based upon historical write-off experience and assessment of customer collectability.

L. Income and Other 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. National Grid North America Inc. ("NGNA"), (formerly National Grid Holdings Inc.), an indirectly-owned subsidiary of National Grid plc and the intermediate holding company of NGUSA, files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary company is included in the consolidated group and 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 included subsidiaries. Benefits allocated by NGNA are treated as capital contributions. The Company has joint and several liability for any potential assessments against the consolidated group.

Deferred income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. 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. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected in the accompanying balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

The Company collects from customers various taxes that are levied by state and local governments on the sale or distribution of electricity. The Company presents taxes that are imposed on customers (such as sales taxes) on a net basis (i.e., excluded from revenues) and presents excise taxes on a gross basis.

M. Employee Benefits

The Company follows the accounting guidance for defined benefit pension and postretirement benefit ("PBOP") plans for recording pension expenses and resulting plan asset and liability balances. The guidance requires employers to fully recognize all pension and postretirement plans' funded status on the balance sheets as a net liability or asset. In the case of regulated entities, the offset to such net liability or asset is recorded as a regulatory asset or liability when the balance will be recovered from or refunded to customers in future rates. The Company has determined that such amounts will be included in future rates and follows the regulatory format for recording the balances. The Company measures and records its pension and PBOP obligations at the year-end date. Pensions and PBOP assets are measured at fair value, using the year-end market value of those assets.

N. Fair Value Measurements

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

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;

Level 2 — inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data; and

Level 3 — unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs.

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

O. New and Recent Accounting Guidance

<u>*Accounting Guidance Adopted in Fiscal Year 2013*</u>

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued accounting guidance that amended existing fair value measurement guidance. The amendment was issued with a goal of achieving common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value, requires new disclosures about fair value measurements, and changes specific applications of the fair value measurement guidance. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to: fair value measurement of a portfolio of financial instruments; fair value measurement of premiums and discounts; and additional disclosures about fair value measurements. This guidance became effective for financial statements issued for annual periods (for non-public entities such as the Company) beginning after December 15, 2011. The Company adopted this guidance for the fiscal year ended March 31, 2013, which only impacted its fair value disclosures. There were no changes to the Company's approach to measuring fair value as a result of adopting the new guidance.

Goodwill Impairment

In September 2011, the FASB issued accounting guidance related to goodwill impairment testing, whereby an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. Otherwise, the entity is required to perform the two-step impairment test. This guidance became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance in its fiscal year ended March 31, 2013 and did not elect the option to perform a qualitative analysis.

Other Comprehensive Income

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This new guidance seeks to improve financial statement users' ability to understand the causes of an entity's change in financial position and results of operations. As a result of this guidance entities are required to either present the statement of income and statement of comprehensive income in a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. This guidance does not change the items that are reported in other comprehensive income or any reclassification of items to net income. In addition, the new guidance does not change an entity's option to present components of other comprehensive income net of or before related tax effects. This guidance became effective for non-public companies for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter, and it is to be applied retrospectively. The Company adopted this guidance for the fiscal year ended March 31, 2013, with no 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 accounting guidance that requires an entity to report information about significant reclassifications out of accumulated other comprehensive income. The new guidance requires presentation either in a single footnote or parenthetically on the financial statements, of the effect of significant amounts reclassified out of accumulated other comprehensive income based on the corresponding line items in the statement of net income. For amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity would cross-reference other disclosures that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in the financial statements. For non-public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company is evaluating the impact, if any, on its financial position, results of operations, and cash flows.

P. Reclassifications

Certain reclassifications have been made to the financial statements to conform prior year's data to the current year's presentation. These reclassifications had no effect on the Company's results of operations and cash flows.

Note 2. Rates and Regulation

The following table presents the Company's regulatory assets and regulatory liabilities at March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets		
Current:		
Rate adjustment mechanisms	**$ 5,440**	$ 6,202
Loss on reacquired debt	**82**	-
Total	**5,522**	6,202
Non-current:		
Postretirement benefits	**3,829**	3,421
Loss on reacquired debt	**231**	396
Regulatory deferred tax asset	**28**	-
Second cable deferral	**-**	230
Other	**27**	19
Total	**4,115**	4,066
Regulatory liabilities		
Current:		
Rate adjustment mechanisms	**9,351**	8,728
Energy efficiency	**5,967**	5,180
Second cable deferral	**23**	-
Total	**15,341**	13,908
Non-current:		
Cost of removal	**1,555**	1,393
Regulatory deferred tax liabilities	**-**	621
Postretirement benefits	**-**	8
Total	**1,555**	2,022
Net regulatory liabilities	**$ 7,259**	$ 5,662

Cost of removal: The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through rates charged to customers. This regulatory liability represents cumulative costs recovered in excess of costs incurred. For a vast majority of its electric distribution assets, the Company uses these funds to remove the asset so a new one can be installed in its place.

Energy efficiency: This amount primarily represents the difference between the revenue billed to customers through its Energy Efficiency Charge and the costs of the Company's energy efficiency programs as approved by the DPU.

Postretirement benefits: The Company is allowed to recover non-capitalized pension and PBOP costs outside of base rates through a separate factor. As a result, the Company is authorized to recover all pension and PBOP expenses from its customers. The amounts recorded primarily represents the excess costs of the Company's pension and postretirement benefits plans over amounts received in rates that will be recovered or refunded over the following three years, and the non-cash accrual of net actuarial gains and losses.

Rate adjustment mechanisms: The Company has a number of rate adjustment mechanisms such as for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, or differences between actual revenues and targeted amounts as approved by the DPU.

Carrying Charges

The Company records carrying charges on regulatory balances related to postretirement benefits for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund. Carrying charges are not recorded on items for which expenditures have not yet been made. The Company anticipates recovering these costs in rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges. Carrying charges are not earned on rate adjustment mechanisms, regulatory deferred tax assets or losses on reacquired debt. Losses on reacquired debt have a recovery period averaging ten years.

The following table presents the carrying charges that were recognized in the accompanying statements of income during the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest income (expense), including affiliate interest	**$ (24)**	$ (34)
Other income (deductions), net	**25**	43
	$ 1	$ 9

Rate Matters

Pursuant to a settlement agreement associated with NGUSA's purchase of the Company in 1996 approved by the DPU, the Company is considered, along with its affiliate Massachusetts Electric Company ("Massachusetts Electric") as one regulated entity for the purpose of recovering its costs and establishing its rates assessed to its customers, with the exception of the recovery of the Company's investment in two undersea electric cables. Pursuant to the settlement agreement, the recovery of this investment is from all of the Company's customers on the Island of Nantucket. Except for the Company's Cable Facilities Surcharge, all rates and charges of the Company and Massachusetts Electric are identical. In the recovery of certain regulatory assets, funding of the recovery is from the customers of both companies. However, the mechanism by which recovery is ultimately achieved is through a single regulatory asset recorded on the balance sheet of Massachusetts Electric. Costs deferred and recovered in this manner are incremental storm costs of qualifying storm events, site investigation and remediation costs, solar generation costs, and any other costs incurred by the companies when taken as a single entity. The Company's share of these costs and recoveries are reflected through the DPU approved return on equity mechanism between the Company and Massachusetts Electric, as discussed in Note 9.

The Company records its own regulatory assets and liabilities associated with rate adjustment mechanisms, loss on reacquired debt, income taxes, postretirement benefits, and energy efficiency as they are specific to the Company. These regulatory assets and liabilities are shown in the table above.

Rates for services jointly rendered by the Company and Massachusetts Electric are subject to approval by the DPU. The DPU approved an RDM arising from the 2009 distribution rate case filed by the Company Massachusetts Electric. In connection with the Company's first RDM filing made in November 2010 and supplemented in February 2011, the DPU opened a proceeding in March 2011, as requested by the Massachusetts Attorney General's Office ("Attorney General"), for an independent audit of the Company's 2009 capital investments which, in part, formed the basis for the Company's RDM rate adjustment. The selection of an auditor, following a competitive solicitation process that has been completed, is at the discretion of the DPU. The Company cannot currently predict the outcome of this proceeding.

As part of their last general rate case, the Company and Massachusetts Electric received approval from the DPU to recover approximately $65.7 million of incremental costs associated with a December 2008 winter storm ("December 2008 Storm") subject to further DPU review, reconciliation and demonstration by the Company and Massachusetts Electric that they reasonably and prudently incurred the costs. On April 1, 2011, the Company and Massachusetts Electric filed an audit report of costs incurred to restore electric service following the December 2008 Storm. On December 7, 2011 the DPU issued an interlocutory order requiring the companies to file testimony in support of the reasonableness and prudency of the costs. On March 1, 2012 the companies filed testimony consistent with the requirements of the interlocutory order and reduced their request for recovery to $64.9 million. On July 3, 2012, the Attorney General issued rebuttal testimony challenging certain of the Company's costs. Hearings were held at the DPU in August 2012. Following the hearings, the Company and Massachusetts Electric reduced their request for recovery to $64.8 million. The net impact related to these incremental costs has been recorded by Massachusetts Electric.

The Company and Massachusetts Electric have deferred net costs of approximately $214 million as of March 31, 2013, net of customer contributions to the Company's and Massachusetts Electric's joint Storm Contingency Fund, to restore power associated with several major weather events occurring since January 2010, pending ultimate approval by the DPU to charge its deferred costs to the Company's Storm Contingency Fund. This amount represents approximately $228 million of deferred storm costs of both companies, excluding net carrying costs of $16 million. The Company's share of the storm costs incurred totaled approximately $0.5 million. As the Storm Contingency Fund is recorded exclusively on the balance sheet of Massachusetts Electric, all deferred incremental storm costs are also recorded by Massachusetts Electric until approval is received from the DPU for Massachusetts Electric to charge them against the Storm Contingency Fund. On March 5, 2013, the Company and Massachusetts Electric filed with the DPU a request for accelerated funding for the Company's Storm Contingency Fund of $40 million per year over a period of up to five years, or $200 million. On May 3, 2013, the DPU approved $40 million annually for up to three years, or $120 million. In its ruling, the DPU also directed the Company and Massachusetts Electric to submit two filings of all documentation supporting its storm costs for DPU approval. The Company and Massachusetts Electric submitted the first filing for $128 million of costs on May 31, 2013 for qualifying storms occurring during calendar years 2010 and 2011. The Company and Massachusetts Electric must submit documentation of storm costs incurred during calendar year 2012 and January and February 2013 by December 31, 2013. The Company and Massachusetts Electric cannot currently predict the outcome of any proceedings related to storm recovery.

Other Regulatory Matters

In the general rate case involving the Company's Massachusetts gas distribution affiliates, the DPU opened an investigation to address the allocation and assignment of costs to the gas affiliates by the National Grid service companies. In June 2011, the Attorney General's Office requested that the DPU expand the scope of the audit to address the allocation and assignment of costs to the Company by the NGUSA service companies and to review NGUSA's cost allocation practices. NGUSA agreed to expand the scope of the audit to its Massachusetts electric distribution companies. On March 12, 2012 the DPU issued an order confirming that the scope of the audit would include the Massachusetts electric distribution companies. The Company issued the Request for Proposal ("RFP") in April 2012 and on May 21, 2012 informed the DPU that no bids were received. The Company revised the RFP and it is now pending before the DPU for approval. The Company cannot currently predict the outcome of this proceeding.

In January 2011, the DPU opened an investigation into the Company and Massachusetts Electric's preparation and response to a December 2010 winter storm. The DPU has the authority to issue fines not to exceed approximately $0.3 million for each violation for each day that the violation persists. On September 22, 2011, the DPU approved a settlement between the Company and the Attorney General that included a $1.2 million refund to customers. The DPU also investigated the Company and Massachusetts Electric's response to Tropical Storm Irene and the October 2011 winter storm in a consolidated proceeding. On December 11, 2012, the DPU issued an order in which it assessed the Company and Massachusetts Electric a penalty of $18.7 million associated with the Company and Massachusetts Electric's performance in responding to these two weather events, consisting of $8.1 million for

Tropical Storm Irene and $10.6 million for the October 2011 winter storm. The Company and Massachusetts Electric have appealed this ruling, however Massachusetts Electric recorded the penalty and customers were credited during March 2013 subject to recoupment of the amount of penalty, if any, vacated by the court pursuant to the Company's appeal. In addition, in its order, the DPU ordered a management audit of the Company and Massachusetts Electric's emergency planning, outage management, and restoration. The Company cannot predict the outcome of the appeal or of the management audit.

Energy Efficiency

Pursuant to the 2008 Green Communities Act, the Massachusetts Legislature mandated large scale and innovative ideas for implementing renewable and alternative energy sources, as well as increased energy efficiency spending. On January 28, 2013, the DPU approved the Company's second three-year energy efficiency plan which covers calendar years 2013 through 2015 and which significantly expands energy efficiency spending. The Company's energy efficiency plan is operated as a single combined plan with Massachusetts Electric. The approved energy efficiency plan budget for calendar years 2013 through 2015 is approximately $680 million. In addition to cost recovery, the Company has the opportunity to earn performance incentives over the 3-year period of the plan.

Renewable Energy

In October 2009 the DPU approved the Company and Massachusetts Electric's proposal to construct, own, and operate approximately 5 MW of solar generation on five separate properties owned by the Company and/or its affiliates in Dorchester, Everett, Haverhill, Revere, and a location on the Sutton/Northbridge border. The actual capital cost of the projects amounted to $29 million. As each unit went into service, the Company and Massachusetts Electric requested and received approval to recover the costs of each site with a return equal to the weighted average cost of capital approved by the DPU in the Company's most recent rate proceeding. The Company and Massachusetts Electric requested rate adjustments under this mechanism for the Sutton/Northbridge facility in August 2010 for recovery of approximately $1.0 million, and for the Revere, Everett and Haverhill facilities in February 2011 for recovery of approximately $2.5 million. In February 2012, the Company and Massachusetts Electric filed for recovery of approximately $1.4 million associated with the Dorchester facility. In each instance, the DPU issued an order approving recovery subject to its ongoing review and further investigation and reconciliation of the Company's costs for the sites. The DPU has issued final orders approving recovery for each of the sites. As the sites are all located in Massachusetts Electric's service territory, the investment and any ongoing operation and maintenance expense, net of proceeds from the sale of energy and Renewable Energy Certificates generated by the sites, have been recorded by Massachusetts Electric. The Company's share of the proceeds recovered were $34 thousand and $21 thousand for the fiscal years ended March 31, 2013 and March 31, 2012, respectively.

In May 2010, the Company and Massachusetts Electric announced that they entered into a 15-year power purchase agreement ("PPA") with Cape Wind Associates, LLC to purchase half of the energy, capacity and renewable energy credits generated by a proposed offshore wind project with capacity of up to 468 MW. The base price is specified at 18.7 cents per kilowatt hour beginning in 2014 and is subject to escalation by 3.5% in each annual period thereafter. The base price can be adjusted based on several factors, including eligibility for tax credits, the size of the facility, financing and construction costs, and performance. In November 2010, the DPU approved the PPA including the Company's proposed cost recovery mechanism with 4% remuneration on the contract cost, as provided for by the Green Communities Act. The Supreme Judicial Court of Massachusetts affirmed the DPU Order approving the PPA on December 28, 2011.Cape Wind expects the project to achieve initial commercial operation in May 2016. Construction of the project has not yet begun.

Note 3. Employee Benefits

The Company participates with other NGUSA subsidiaries in a qualified and non-qualified non-contributory defined benefit plan (the "Pension Plan") and PBOP plan (together with the Pension Plan (the "Plan")), covering substantially all employees: The Final Average Pay Pension Plan, National Grid USA Companies' Executive SERP and National Grid Retirees Health and Life Plan I and II. The Pension Plan is a defined benefit plan which provides union employees, as well as non-union employees hired before January 1, 2011 with a retirement benefit.

Supplemental nonqualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives.

For each of the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $0.4 million to the Plan.

The PBOP Plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

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

NGUSA companies' pension and PBOP plans that the Company participates in have unfunded obligations at March 31, 2013 and March 31, 2012 as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 471,000**	$ 493,600
PBOP	**368,100**	384,800
	$ 839,100	$ 878,400

The Company's net Pension and PBOP expenses directly charged and allocated from affiliated service companies, net of capital, for the years ended March 31, 2013 and March 31, 2012 are as follows:

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 322**	$ 279
PBOP	**182**	176
	$ 504	$ 455

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. Employer matching contributions of approximately $0.1 million was expensed for each of the years ended March 31, 2013 and March 31, 2012.

Other Benefits

The Company accrued $0.2 million and $0.1 million for the years ended March 31, 2013 and March 31, 2012, respectively, regarding workers compensation, auto and general insurance claims which have been incurred but not yet reported.

Note 4. Property, Plant and Equipment

At March 31, 2013 and March 31, 2012, property, plant and equipment at cost along with accumulated depreciation are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**$ 105,920**	$ 103,227
Land and buildings	**4,416**	4,116
Assets in construction	**332**	321
Total	**110,668**	107,664
Accumulated depreciation and amortization	**(40,662)**	(37,771)
Property, plant and equipment, net	**$ 70,006**	$ 69,893

Note 5. Fair Value Measurements

The Company measures available for sale securities at fair value. Available for sale securities primarily include equities and are investments based on quoted market prices in active markets (Level 1) and municipal and corporate bonds based on quoted prices of similar traded assets in open markets (Level 2).

The following table presents available for sale securities measured and recorded at fair value in the accompanying balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Available for sale securities	$ 323	$ 435	$ -	$ 758

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Available for sale securities	$ 309	$ 392	$ -	$ 701

A transfer into Level 3 represents existing assets or liabilities that were previously categorized at a higher level for which the inputs became unobservable. A transfer out of Level 3 represents assets and liabilities that were previously classified as Level 3 for which the inputs became observable based on the criteria discussed previously for classification in Level 2. These transfers, which are recognized at the end of each period, result from changes in the observability of forward curves from the beginning to the end of each reporting period. There were no transfers between Level 1 and Level 2, and no transfers into or out from Level 3, during the years ended March 31, 2013 and March 31, 2012, respectively.

Other Fair Value Measurement

The Company's balance sheets reflect long-term debt at amortized cost. The fair market value of the Company's long-term debt was estimated based on the quoted market prices for similar issues or on the current rates offered to the Company for similar debt. The fair value of this debt at March 31, 2013 and March 31, 2012 was $52.3 million and $52.6 million, respectively.

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

Note 6. Income Taxes

The components of federal and state income tax expense (benefit) are as follows:

	Years Ended March 31, 2013	2012
	(in thousands of dollars)	
Current tax expense (benefit):		
Federal	**$ (53)**	$ 547
State	**51**	459
Total current tax expense (benefit)	**(2)**	1,006
Deferred tax expense (benefit):		
Federal	**432**	359
State	**120**	(9)
	552	350
Amortized investment tax credits [1]	**(1)**	(2)
Total deferred tax expense	**551**	348
Total income tax expense	**$ 549**	$ 1,354

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

Reconciliation between the expected federal income tax expense, using the federal statutory rate of 35% to the Company's actual income tax expense for the years ended March 31, 2013 and March 31, 2012 is as follows:

	Years Ended March 31, 2013	2012
	(in thousands of dollars)	
Computed tax	**$ 990**	**$ 1,171**
Change in computed taxes resulting from:		
Recovery of deferred taxes	**(549)**	**-**
State income tax, net of federal benefit	**119**	**292**
Investment tax credit	**(1)**	**(2)**
Other items - net	**(10)**	**(107)**
Total	**(441)**	183
Federal and state income taxes	**$ 549**	$ 1,354

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Deferred tax assets:		
Regulatory liabilities - other	**$ 3,753**	$ 3,052
Pensions, OPEB and other employee benefits	**2,005**	1,688
Future federal benefit on state taxes	**481**	340
Other items	**68**	132
Total deferred tax assets [1]	**6,307**	5,212
Deferred tax liabilities:		
Property related differences	**14,711**	12,781
Regulatory Assets - pension and OPEB	**1,366**	1,015
Other items	**123**	25
Total deferred tax liabilities	**16,200**	13,821
Net deferred income tax liabilities	**9,893**	8,609
Deferred investment tax credits	**1**	2
Net deferred income tax liability and investment tax credits	**9,894**	8,611
Current portion of net deferred income tax asset	**3,949**	3,046
Non-current deferred income tax liability and investment tax credits	**$ 13,843**	$ 11,657

(1) There were no valuation allowances for deferred tax assets at March 31, 2013 and March 31, 2012.

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.

The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $1.2 million and $1.2 million, respectively, none of which would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2013 and March 31, 2012

	Years Ended March 31,	
Reconciliation of Unrecognized Tax Benefits	**2013**	2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 1,242**	2,658
Gross increases related to prior period	**7**	(1,722)
Gross decreases related to prior period	**(11)**	306
Gross increases related to current period	**20**	-
Gross decreases related to current period	**(29)**	-
Balance at the end of the year	**$ 1,229**	$ 1,242

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $7 thousand and $6 thousand, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $2 thousand and interest release of $43 thousand, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in other interest expense and related penalties, if applicable, in non-operating expenses. No tax penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

In fiscal year 2012, the Company adopted Revenue Procedure 2011-43, which provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under Section 263(a) of the Internal Revenue Code and therefore has reversed $1.4 million of tax reserves related to unrecognized tax benefits recorded in prior years.

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

In fiscal year 2012, the IRS commenced an audit of National Grid North America Inc. and subsidiaries for the fiscal years ending March 31, 2008 and March 31, 2009. Fiscal years ended March 31, 2010 through March 31, 2013 remain subject to examination by the IRS.

The Company is a member of the NGUSA Service Company Massachusetts unitary group since the fiscal year ended March 31, 2010. The tax returns for fiscal years ended March 31, 2010 through March 31, 2013 remain subject to examination in the State of Massachusetts.

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

Jurisdiction	**Tax Year**
Federal	March 31, 2005*
Massachusetts	March 31, 2010

*The Company is in the process of appealing certain disputed issues with the IRS Office of Appeals relating to its tax returns for March 31, 2005 through March 31, 2007. The Company does not anticipate a change in its unrecognized tax positions in the next twelve months as a result of filing the appeals. However, the Company's tax sharing agreement may result in a change to allocated tax as a result of current and future audits or appeals.

Note 7. Debt

Short-term

The Company had approval from the FERC to issue up to $15 million of short-term debt, which expired on November 30, 2013. The Company had no short-term debt outstanding to external third-parties at March 31, 2013 and March 31, 2012.

Long-term

At March 31, 2013, the Company had approximately $52.3 million of tax exempt Electric Revenue Bonds in commercial paper mode with variable maturity dates ranging from 2016 through 2042 and variable interest rates ranging from 0.38% to 0.55% and 0.35% to 0.90% during the years ended March 31, 2013 and March 31, 2012, respectively. The bonds were issued by the Massachusetts Development Finance Agency in connection with the Company’s financing of its first and second underground and submarine cable projects. A sinking fund payment of $0.3 million was made during the year ended March 31, 2013.

On March 31, 2012, the Company had a Standby Bond Purchase Agreement (“SBPA”) of $54.7 million, which expired in November 2012. On November 22, 2012, the Company amended the SBPA to have a limit of $52.6 million and to expire on November 20, 2015. This agreement was available to provide liquidity support for $52.3 million of the Company’s long-term bonds in tax-exempt commercial paper mode. The Company has classified this debt as long-term due to its intent and ability to refinance the debt on a long-term basis if is not able to remarket them. In addition, NGUSA has provided a letter of support which, in the event the SBPA is not in place, provides a sufficient means of funding on a long-term basis. At March 31, 2013 and March 31, 2012, there were no bond purchases made by the banks participating in this agreement.

Massachusetts Electric, an affiliated entity, unconditionally guarantees the full and prompt payment of the principal, premium, if any, and interest on certain tax exempt bonds issued by the Massachusetts Development Finance Agency in connection with the Company's financing of its first and second underground and submarine cable projects. Massachusetts Electric would be required to make any principal, premium, or interest payments if the Company failed to pay.

The aggregate maturities of long-term debt subsequent to March 31, 2013 are as follows:

(in thousands of dollars)		
Years Ended March 31,		
2014		305
2015		330
2016		365
2017		-
2018		-
Thereafter		51,300
Total	$	52,300

The Company is obligated to meet its non-financial covenants. During the years ended March 31, 2013 and March 31, 2012, respectively, the Company was in compliance with all such covenants.

Note 8. Commitments and Contingencies

Capital Expenditures

The Company has various capital commitments related to the construction of property, plant and equipment. The Company's commitments under these contracts subsequent to March 31, 2013 are $1.2 million, which is due to be spent within one year.

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 condition, or cash flows.

Note 9. Related Party Transactions

Accounts Receivable from Affiliates and Accounts Payable to Affiliates

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

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. At March 31, 2013 and

March 31, 2012, the Company had net outstanding accounts receivable from affiliates/accounts payable to affiliates balances as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31, 2013	March 31, 2012	**March 31, 2013**	March 31, 2012
	(in thousands of dollars)		*(in thousands of dollars)*	
Massachusetts Electric Company	**$ 1,704**	$ 1,067	**$ -**	$ -
NG Engineering Srvcs, LLC	**43**	-	**-**	-
New England Power Company	**-**	-	**370**	-
Narragansett Electric Co	**-**	-	**249**	-
Niagara Mohawk Power Corp	**-**	-	**41**	-
Boston Gas Company	**-**	-	**43**	-
NGUSA Service Co.	**-**	132	**923**	904
Other	**27**	94	**21**	203
Total	**$ 1,774**	$ 1,293	**$ 1,647**	$ 1,107

Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the money pool. As of November 1, 2012, NGUSA and its affiliates established a new Regulated Money Pool and an Unregulated Money Pool. Financing for the Company's working capital needs are obtained through participation in the Regulated Money Pool. The Company, as a participant in the Regulated Money Pool, can both borrow and lend funds. Borrowings from the Regulated and Unregulated Money Pools bear interest in accordance with the terms of the applicable money pool agreement. Since November 1, 2012, and because the Company now fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany moneypool balances and affiliate receivables and affiliate payables are reflected as investing or financing activities in the statement of cash flows.

The Regulated Money Pools are funded by operating funds from participants in the applicable Pool. 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 Money Pools, if necessary. The Company had short-term money pool receivables of $25.8 million and $21.9 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 0.6% and 0.2% for the years ended March 31, 2013 and March 31, 2012, respectively.

Related Party Reimbursement

In accordance with the Credit and Operating Support Agreement dated March 26, 1996, Massachusetts Electric will reimburse the Company an amount equal to the difference between the Company's actual net income for the year and the net income necessary for the Company to earn a return on equity ("ROE") equivalent to the Company's DPU approved weighted average allowed ROE for the fiscal year, currently 10.35%. This reimbursement shall constitute additional revenue to the Company and expense to Massachusetts Electric. If the Company's actual ROE for the year exceeds the Company's allowed ROE, the Company reimburses to Massachusetts Electric the excess amount of the earnings. For the years ended March 31, 2013 and March 31, 2012, Massachusetts Electric reimbursed the Company $3.8 million and $3.2 million, 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 typically 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, etc. Lastly, all other costs are allocated based on a general allocator.

Charges from the service companies of NGUSA for the years ended March 31, 2013 and March 31, 2012 were $4.5 million and $2.9 million, respectively.

Holding Company Charges

NGUSA received charges from National Grid Commercial Holdings Limited, an affiliated company in the UK, for certain corporate and administrative services provided by the corporate functions of National Grid plc to its US subsidiaries. These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $45 thousand and $36 thousand before taxes, and $29 thousand and $24 thousand after taxes, for the years ended March 31, 2013 and March 31, 2012, respectively.

Note 10. Dividend Restrictions

The payment of dividends on common stock would not be permitted if, after giving effect to such payment of dividends, common equity becomes less than 30% of total capitalization. At March 31, 2013 and March 31, 2012 common equity was 43% and 41% of total capitalization, respectively. Under these provisions, none of the Company’s retained earnings at March 31, 2013 and March 31, 2012 were restricted as to common dividends.