KeySpan Gas East Corporation
d/b/a National Grid

Financial Statements

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

KEYSPAN GAS EAST CORPORATION

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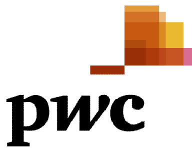

Independent Auditor's Report

To the Shareholders and Board of Directors of KeySpan Gas East Corporation:

We have audited the accompanying financial statements of KeySpan Gas East Corporation, 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 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 KeySpan Gas East Corporation 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.

PricewaterhouseCoopers LLP

August 17, 2013

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KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2013	2012
		(Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 3,157**	$ 5,623
Accounts receivable	**264,423**	191,976
Allowance for doubtful accounts	**(17,062)**	(22,007)
Other receivable	**42,192**	-
Accounts receivable from affiliates	**47,299**	1,157
Unbilled revenue	**69,104**	52,334
Materials, supplies, and gas in storage	**45,956**	79,215
Regulatory assets	**64,323**	46,766
Derivative contracts	**14,261**	11,356
Prepaid and other current assets	**12,344**	15,515
Total current assets	**545,997**	381,935
Property, plant, and equipment, net	**2,358,756**	2,262,803
Deferred charges and other assets:		
Goodwill	**1,018,407**	1,018,407
Regulatory assets	**594,591**	782,471
Derivative contracts	**3,165**	12,817
Other deferred charges	**5,476**	4,925
Total deferred charges and other assets	**1,621,639**	1,818,620
Total assets	**$ 4,526,392**	$ 4,463,358

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

KEYSPAN GAS EAST CORPORATION
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2013	2012 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 62,433**	$ 37,918
Accounts payable affiliates	**107,437**	95,973
Intercompany moneypool	**398,042**	79,566
Customer deposits	**8,613**	10,148
Interest accrued	**21,084**	20,168
Taxes accrued	**19,404**	14,955
Regulatory liabilities	**24,742**	23,656
Current portion of deferred income tax liabilities	**26,707**	14,877
Derivative contracts	**349**	13,589
Other current liabilities	**8,495**	14,814
Total current liabilities	**677,306**	325,664
Deferred credits and other liabilities:		
Regulatory liabilities	**260,437**	369,389
Asset retirement obligations	**13,281**	12,529
Deferred income tax liabilities	**609,310**	577,131
Postretirement benefits and other reserves	**261,364**	242,900
Environmental remediation costs	**109,408**	142,516
Derivative contracts	**1,003**	8,042
Other deferred liabilities	**42,338**	31,355
Total deferred credits and other liabilities	**1,297,141**	1,383,862
Capitalization:		
Shareholders' equity	**1,951,945**	2,153,832
Long-term debt	**600,000**	600,000
Total capitalization	**2,551,945**	2,753,832
Total liabilities and capitalization	**$ 4,526,392**	$ 4,463,358

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF INCOME
(in thousands of dollars)

	Year Ended March 31,	
	2013	2012 (Revised)
Operating revenues	**$ 957,563**	$ 997,146
Operating expenses:		
Purchased gas	**353,150**	399,105
Operations and maintenance	**235,435**	210,797
Depreciation, amortization, and accretion	**57,690**	55,979
Amortization of regulatory assets and rate plan	**40,455**	22,655
Other taxes	**132,470**	126,797
Total operating expenses	**819,200**	815,333
Operating income	**138,363**	181,813
Other income and (deductions):		
Interest on long-term debt	**(34,858)**	(34,943)
Other interest, including affiliate interest	**(6,742)**	(22,984)
Other (deductions) income, net	**(14,662)**	23,603
Total other deductions, net	**(56,262)**	(34,324)
Income before income taxes	**82,101**	147,489
Income taxes expense:		
Current taxes	**(6,734)**	(21,880)
Deferred taxes	**40,960**	82,006
Total income tax expense	**34,226**	60,126
Net income	**$ 47,875**	$ 87,363

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Year Ended March 31,	
	2013	2012
		(Revised)
Operating activities:		
Net income	**$ 47,875**	$ 87,363
Adjustments to reconcile net income to net cash provided by operating activiies:		
Depreciation, amortization, and accretion	**57,690**	55,979
Amortization of regulatory assets and rate plan deferrals	**40,455**	22,655
Provision for deferred income taxes	**40,960**	82,006
Bad debt expense	**185**	10,758
Regulatory deferrals	**35,591**	(8,638)
Pension and other postretirement expenses	**20,525**	30,019
Pension and other postretirement contributions	**(29,251)**	(19,079)
Environmental remediation payments	**(36,514)**	(42,441)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(134,961)**	113,297
Materials, supplies, and gas in storage	**33,259**	(29,451)
Accounts payable and accrued expenses	**23,952**	16,102
Prepaid and accrued taxes	**4,449**	21,965
Regulatory assets and liabilities, net	**13,125**	(8,201)
Other liabilities	**7,100**	7,027
Derivative contracts	**(13,532)**	8,539
Other, net	**(15)**	13,294
Net cash provided by operating activities	**110,893**	361,194
Investing activities:		
Capital expenditures	**(144,263)**	(127,157)
Cost of removal	**(17,555)**	(13,724)
Issurance proceeds applied to capital expenditures	**14,423**	-
Net cash used in investing activities	**(147,395)**	(140,881)
Financing activities:		
Dividends to KeySpan Corporation	**(250,000)**	-
Affiliated money pool and intercompany borrowing	**283,798**	(214,715)
Share based compensation	**238**	-
Net cash provided by (used in) financing activities	**34,036**	(214,715)
Net (decrease) increase in cash and cash equivalents	**(2,466)**	5,598
Cash and cash equivalents, beginning of year	**5,623**	25
Cash and cash equivalents, end of year	**$ 3,157**	$ 5,623
Supplemental disclosures:		
Interest paid	**$ 37,321**	$ 20,230
Income taxes refunded from Parent	**21,221**	15,047
State income taxes paid	**2,005**	1,730
Significant non-cash items:		
Capital-related accruals included in accounts payable	**12,542**	601

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

			March 31,	
			2013	2012
				(Revised)
Total shareholders' equity			**$ 1,951,945**	$ 2,153,832
Long-term debt:	Interest Rate	Maturity Date		
Senior unsecured note	5.60%	November 29, 2016	**100,000**	100,000
Senior unsecured note	5.82%	April 1, 2041	**500,000**	500,000
Total long-term debt			**600,000**	600,000
Total capitalization			**$ 2,551,945**	$ 2,753,832

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

KEYSPAN GAS EAST CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				
	Issued and Outstanding Shares	Amount	Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total
BALANCE AS OF MARCH 31, 2011 - revised	100	$ -	-	$ -	$ 2,014,878	$ 51,591	$ 2,066,469
Net income - revised						87,363	87,363
Issuance of preferred stock	-	-	1	-	-	-	-
BALANCE AS OF MARCH 31, 2012 - revised	100	$ -	1	$ -	$ 2,014,878	$ 138,954	$ 2,153,832
Net income	-	-	-	-	-	47,875	47,875
Share based compensation	-	-	-	-	238	-	238
Dividend issued to Keyspan Corporation	-	-	-	-	(111,046)	(138,954)	(250,000)
BALANCE AS OF MARCH 31, 2013	100	$ -	1	$ -	$ 1,904,070	$ 47,875	$ 1,951,945

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

KEYSPAN GAS EAST CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

KeySpan Gas East Corporation d/b/a National Grid (the "Company", "we", and "our") distributes natural gas to approximately 487,000 retail customers and transports natural gas to approximately 72,000 customers in Nassau and Suffolk Counties in Long Island, New York and the Rockaway Peninsula in Queens, New York.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan"). KeySpan is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is 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 August 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. Financial Statement Revisions

During 2013, management determined that the Company's previously issued financial statements for the year ended March 31, 2012 included errors related to the recording of certain accounting transactions. The Company corrected these errors by revising the prior period financial statements, the impacts of which are described below. Management has concluded that the errors did not have a material impact on any previously issued financial statements but would have been material if the corrections were recorded in the current year statement of income. Therefore, the previously reported amounts were revised within the financial statements for the year ended March 31, 2012.

The first error related to an understatement of the allocation from the Company's parent of claims incurred but not yet reported for injuries and damages. A cumulative adjustment of $4.9 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $3.5 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011), and $1.4 million was recorded as a reduction of net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The second error related to the incorrect calculation and therefore insufficient amounts of amortization of certain regulatory assets and liabilities in previous years. A cumulative adjustment of $2.1 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $1.3 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011) and $0.8 million was recorded as a reduction of net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The third error related to the incorrect accounting for a gas management contract as a derivative in its entirety. Only a portion of the contract related to a peaking gas option embedded within the contract should have been accounted for as a derivative. The contract is subject to regulatory recovery and as such, the resulting adjustment in the year ended March 31, 2012 had no impact on the statement of income. An overall adjustment to reduce the reported amount of Derivative Contracts and resulting Regulatory Liability by $24.2 million was recorded.

The fourth correction reclassifies $27.2 million of regulatory liabilities previously classified within long term regulatory assets, to long term regulatory liabilities. These reclassifications had no effect on the Company's results of operations or cash flows.

In addition, certain misclassifications related to the presentation of current and deferred income taxes and uncertain tax positions have been reflected in the revisions below. The Company misclassified the current portion of deferred tax liabilities by $3.9 million, accrued taxes by $20.1 million, accounts payable to affiliates by $11.7 million, and accrued interest related to uncertain tax positions by $5.3 million. These misclassifications in current liabilities were

offset by misclassifications in non-current deferred tax liabilities by $19.9 million, other deferred liabilities by $14.8 million and regulatory assets by $6.4 million. The adjustments for this balance sheet presentation error in the prior fiscal year had an immaterial impact on the statement of income.

The following table shows the amounts previously reported as revised:

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Balance Sheet			
Current assets			
Regulatory assets	$ 50,161	$ (3,395)	$ 46,766
Derivative contracts	15,769	(4,413)	11,356
Total Current assets	**65,930**	**(7,808)**	**58,122**
Deferred charges and other assets			
Regulatory assets	765,683	16,788	782,471
Derivative contracts	39,010	(26,193)	12,817
Total Deferred charges and other assets	**804,693**	**(9,405)**	**795,288**
Current liabilities			
Accounts payable to affiliates	107,646	(11,673)	95,973
Interest accrued	25,452	(5,284)	20,168
Taxes accrued	35,099	(20,144)	14,955
Regulatory liabilities	28,069	(4,413)	23,656
Current portion of deferred income tax liabilities	18,819	(3,942)	14,877
Derivative contracts	16,984	(3,395)	13,589
Total Current liabilities	**232,069**	**(48,851)**	**183,218**
Deferred credits and other liabilities			
Regulatory liabilities	365,910	3,479	369,389
Deferred income tax liabilities	562,003	15,128	577,131
Derivative contracts	11,057	(3,015)	8,042
Other deferred liabilities	8,221	23,134	31,355
Total Deferred credits and other liabilities	**947,191**	**38,726**	**985,917**
Capitalization:			
Retained Earnings			
March 31, 2012	146,042	(7,088)	138,954
March 31, 2011	56,478	(4,887)	51,591

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Statement of Income			
Operating revenues	$ 997,214	$ (68)	$ 997,146
Operating expense:			
Operations and maintenance	208,424	2,373	210,797
Amortization of regulatory assets and rate plan deferrals	21,415	1,240	22,655
Income before income taxes	151,170	(3,681)	147,489
Income taxes			
Current taxes	(15,147)	(6,733)	(21,880)
Deferred taxes	76,753	5,253	82,006
Net income	89,564	(2,201)	87,363
Statement of Cash Flows			
Net income	$ 89,564	$ (2,201)	$ 87,363
Amortization of regulatory assets and rate plan deferrals	21,415	1,240	22,655
Provision for deferred income taxes	76,753	5,253	82,006
Accounts payable and accrued expenses	15,315	787	16,102
Prepaid and accrued taxes	17,238	4,727	21,965
Regulatory assets and liabilities, net	270	(8,471)	(8,201)
Derivatives, net	-	8,539	8,539
Other liabilities	10,914	(3,887)	7,027
Net cash provided by operating activities	355,207	5,987	361,194
Affiliated money pool and intercompany borrowing	(208,728)	(5,987)	(214,715)
Net cash used in financing activities	(208,728)	(5,987)	(214,715)

C. 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 10, "Related Party Transactions") are treated as constructive cash receipts and payments, and therefore are presented as such.

D. Regulatory Accounting

The New York State Public Service Commission ("NYPSC") provides the final determination of the rates the Company charges its retail customers. In certain cases, the actions of the NYPSC to determine the rates the Company charges its customers 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 or refunded through the rate-making process, which would result in a corresponding increase or decrease in future rates.

E. Revenue Recognition

The Company bills its customers on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

The cost of gas used is recovered when billed to firm customers through the operation of a cost of gas adjustment factor ("CGAF") included in the utility tariff. The CGAF provision requires an annual reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending subsequent recovery from or refund to firm customers.

Revenues are subject to a Revenue Decoupling Adjustment Factor ("RDAF") which requires the Company to adjust semi-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 gas usage.

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

The Company's revenue from the sale and delivery of gas for the years ended March 31, 2013 and March 31, 2012 is as follows:

	March 31,	
	2013	2012
Residential	**66%**	64%
Commercial	**19%**	19%
Gas transportation and other services	**15%**	17%

F. Property, Plant and Equipment

Property, plant and equipment is 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 asset, 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 NYPSC. Whenever 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 average composite rates and average service lives for the years ended March 31, 2013 and March 31, 2013 are as follows:

	March 31,	
	2013	2012
Composite rates - depreciation	**2.7%**	2.7%
Composite rates - cost of removal	**0.2%**	0.2%
Total composite rates	**2.9%**	2.9%
Average service life	**35 years**	35 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through the rates charged to our customers. At March 31, 2013 and March 31, 2012, the Company had cumulative costs recovered in excess of costs incurred totaling $42.3 million and $36.8 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. Both the debt and equity components of AFUDC are non-cash amounts 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 and deductions 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 the rate base and the 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	**$ 408**	$ 142
Equity	**1,100**	1,121
	$ 1,508	$ 1,263
Composite AFUDC rate	**5.7%**	8.2%

G. 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.

- 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 we believe is appropriate based on comparison of our business with the benchmark companies.

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. 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.

H. Cash and Cash Equivalents

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

I. 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.

J. Materials, Supplies, and Gas in Storage

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. At March 31, 2013 and March 31, 2012, the balance of materials and supplies was $15.8 million and $5.8 million, 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.

Gas in storage is stated at weighted average cost, and is expensed when delivered to customers. Existing rate orders allow the Company to pass through the cost of gas purchased directly to customers along with any applicable authorized delivery surcharge adjustments. Accordingly, the value of gas in storage does not fall below the cost to the Company. Gas costs passed through to customers are subject to periodic regulatory approvals and are reported periodically to the NYPSC. At March 31, 2013 and March 31, 2012, gas in storage was $30.2 million and $73.4 million, respectively.

K. Incomes and Other Taxes

Federal 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.

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 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 state tax based on income, the Company reports such excess in other taxes and taxes accrued in the accompanying financial statements.

The Company collects from customers various taxes that are levied by state and local governments on the sale or distribution of gas. 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.

Gas distribution revenues include the collection of excise taxes and the related expense is included in other taxes in the accompanying statements of income. Excise taxes collected and paid for the years ended March 31, 2013 and March 31, 2012 were $12.8 million and $12 million, respectively.

L. Employee Benefits

The Company follows the accounting guidance related to the accounting 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 and requires an offsetting adjustment to accumulated other comprehensive income in shareholders' equity. In the case of regulated entities, this offsetting entry 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 assets at the year-end date. Pension and PBOP assets are measured at fair value, using the year-end market value of those assets.

M. Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities, equity or other indices. Derivatives enable their users to manage their exposure to these markets or credit risks. The Company uses derivative instruments to manage our operational market risks from commodities and economically hedge a portion of the Company's exposure to commodity price risk. When economic hedge positions are in effect, the Company is exposed to credit risks in the event of non-performance by counterparties to derivative contracts (hedging transactions), as well as non-performance by the counterparties of the underlying transactions.

Commodity Derivative Instruments – Regulated Accounting

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. The Company's strategy is to minimize fluctuations in firm gas sales costs to the Company's customers. The accounting for these derivative instruments is subject to the current accounting guidance for rate-regulated enterprises. Therefore the fair value of these derivatives is recorded as current or deferred assets or liabilities, with offsetting positions recorded as regulatory assets and regulatory liabilities in the accompanying balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from the Company's customers consistent with regulatory requirements.

Certain non-trading contracts for the physical purchase of natural gas qualify for the normal purchase normal sales exception and are accounted for upon settlement. If the Company were to determine that a contract 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.

Balance Sheet Offsetting

Accounting guidance relating to derivatives permits the offsetting of fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. 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 instrument on a gross basis, with related cash collateral recorded as special deposits in the accompanying balance sheets. There were no special deposits as of March 31, 2013 or March 31, 2012.

N. Fair Value Measurements

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

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

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

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

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

O. Recent Accounting Pronouncements

Accounting Guidance Adopted in Fiscal Year 2013

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 our 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.

Accounting Guidance Not Yet Adopted

Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance requiring enhanced disclosure related to offsetting assets and liabilities. Under the new guidance, reporting entities will be 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. In January 2013, the FASB issued additional guidance to clarify that the specific instruments and activities that should be considered in these disclosures will be limited to recognized derivatives, repurchase and reverse repurchase agreements, and securities lending transactions. This guidance is effective for fiscal years, and interim periods within those years, beginning after January 1, 2013, and is to be applied retrospectively. The Company will begin including the new required disclosures in its fiscal year 2014 quarterly financial statements as applicable and does not expect any impact on its financial position, results of operations, or cash flows.

Note 2. Rates and Regulation

Regulatory Assets and Liabilities

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

	March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Environmental response costs	**$ 43,101**	$ 3,101
Postretirement benefits	**16,906**	17,515
Derivative contracts	**349**	13,589
Cost to achieve	**3,879**	3,879
PSC assessment	**-**	3,280
Gas costs adjustment	**-**	2,067
Other	**88**	3,335
Total	**64,323**	46,766
Non-current:		
Regulatory deferred tax assets	**3,838**	3,225
Property taxes	**18,405**	30,611
Environmental response costs	**291,149**	462,298
Postretirement benefits	**165,339**	145,188
Derivative contracts	**1,003**	8,042
Asset retirement obligation	**12,818**	11,799
Rate Mitigation	**24,608**	22,581
Carrying Charges	**51,178**	89,767
Other	**26,253**	8,960
Total	**594,591**	782,471
Regulatory liabilities:		
Current:		
Property taxes	**-**	9,300
Derivative contracts	**14,261**	11,356
PSC assessment	**1,596**	-
Gas costs adjustment	**5,665**	-
Transition balancing accounts	**-**	3,000
Other	**3,220**	-
Total	**24,742**	23,656
Non-current:		
Environmental response costs	**9,806**	62,513
Postretirement benefits	**44,866**	40,101
Property taxes	**3,171**	30,086
Delivery rate surcharge	**85,295**	72,964
Derivative contracts	**3,165**	12,817
Costs of removal	**42,312**	36,799
Excess earnings	**6,813**	24,309
Carrying Charges	**13,943**	27,266
Capital Tracker	**27,016**	33,467
Other	**24,050**	29,067
Total	**260,437**	369,389
Net regulatory assets	**$ 373,735**	$ 436,192

Postretirement benefits: The amount in regulatory assets primarily represents the excess costs of the Company's pension and postretirement benefits plans over amounts received in rates that are deferred to a regulatory asset to be recovered in future periods and the non-cash accrual of net actuarial gains and losses. The amount in regulatory liabilities primarily represents accrued carrying charges as calculated in accordance with the Company's Pension and OPEB reserve mechanism.

Delivery rate surcharge and Environmental response costs: A $10 million annual surcharge for the recovery of regulatory assets ("Delivery Rate Surcharge") was implemented in January 2009. The Delivery Rate Surcharge increased by $10 million per year in rate years 2010 through 2012 of the Company's rate plan, resulting in an aggregate recovery of approximately $100 million. Revenues collected from the Delivery Rate Surcharge were deferred and used to offset future increases in rates for costs such as site investigation and remediation ("SIR") or other cost deferrals. The Delivery Rate Surcharge expired on December 31, 2012. In January 2010, the Company submitted a filing on the status of its regulatory deferrals so that the NYPSC could determine if the Company should adjust its revenue levels under the existing rate plan so as to minimize outstanding deferral balances. On November 28, 2012, the NYPSC issued an order authorizing the recovery of $93.1 million through the implementation of an SIR surcharge which supersedes the Delivery Rate Surcharge that expired on December 31, 2012. The SIR surcharge is designed to collect $40.0 million per year beginning January 1, 2013, to amortize the SIR balance approved for recovery by the NYPSC. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. Because the SIR surcharge supersedes the Delivery Rate Surcharge, amounts previously relating to the Delivery Rate Surcharge, all related have been presented within the Environmental response costs captions as of March 31, 2013 in the above table.

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

Capital tracker: The Company has a capital tracker mechanism that reconciles the Company's Capital Expenditures to the amounts permitted in rates. The mechanism provides for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The company defers the full revenue requirement equivalent of CSC expenditures above or below the CSC rate allowance and defers the revenue requirement equivalent of any other unspent Capex below the rate allowance for all other capital expenditures.

Excess earnings: The base rates in the Company's rate plan (2008-12) provides for a 9.8% return on common equity capital ("ROE"). At the end of each rate year (calendar year), the Company is required to provide the NYPSC with a computation of its ROE. If the level of earned common equity in the applicable rate year exceeds 10.5%, the company is required to defer a portion of the revenue equivalent associated with any over earnings for the benefit of customers.

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

Carrying Charges: The Company includes in rate base or records carrying charges on most regulatory balances related to rate adjustment mechanisms, postretirement benefits, and environmental 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. The total amount of accumulated accrued carrying charges recorded as regulatory assets at March 31, 2013 and March 31, 2012 was $51.2 million and $89.8 million, respectively. The total amount of accumulated accrued carrying charges recorded as regulatory liabilities at March 31, 2013 and March 31, 2012 was $13.9 million and $27.3 million, respectively. If recovery is not concurrent with the cash expenditures, the Company will record the appropriate level of carrying charges.

During fiscal year 2013, the Company received an order from the NYPSC relating to SIR as described above, requiring that carrying charges on SIR related balances be calculated net of deferred taxes. As a result, management concluded that all of its carrying charges should be calculated in the same manner and recognized an impairment on existing carrying charges deferred within regulatory assets of $31.5 million and derecognized existing carrying charges accrued within regulatory liabilities of $14.0 million.

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

	Years Ended March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest, including affiliate interest	**$ (294)**	$ (15,203)
Other income, net	**(9,518)**	24,118
	$ (9,812)	$ 8,915

Rate Matters

The Company has been subject to a rate plan with a primary term of five years (through December 31, 2012) that remains in effect until modified by the NYPSC. Under this rate plan, base delivery rates included an allowed return on equity of 9.8%. An earnings sharing mechanism in the rate plan is triggered if cumulative annual earnings result in a return on equity that exceeds 10.5%. Earnings above this threshold are shared with customers. For the rate years ended December 31, 2012 and December 31, 2011, the Company did not have any excess earnings.

Other Regulatory Matters

In June 2009, the Company made a 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 revenues required for payment of the Temporary State Assessment subject to reconciliation over five years, July 1, 2009 through June 30, 2014. On June 14, 2013, the Company submitted a compliance filing in which it estimated a Temporary State Assessment of $15 million for the 2013/14 State Fiscal Year and indicated that it would maintain its currently effective surcharges for the July 1, 2013 through June 30, 2014 collection period to recover revenues sufficient to pay the Temporary State Assessment. The Company had deferred payable balances related to the Temporary State Assessment in the amount of $3.4 million at March 31, 2013 and deferred receivable balances of $3.3 million at March 31, 2012.

In February 2011, the NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of National Grid's affiliate cost allocation, policies and procedures. The audit of these service company charges sought to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery service. A final audit report was provided to the Company by the NYPSC in October 2012. In its January 16, 2013 Order Directing Submission of Implementation Plan and Establishing Further Findings, the NYPSC disclosed the findings of the Overland Audit of the affiliate cost allocations, policies and procedures of National Grid's service companies as applicable to its New York utilities. The final audit report concluded that the Company was overcharged $13.3 million in service company related costs. The Company disputes the audit conclusions as the Company believes that sampling amounts found by Overland to be in error should not have been extrapolated to the larger population. The NYPSC has ordered that further proceedings be conducted to address the Company's disagreement with the testing results and statistical extrapolation. 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.

On December 22, 2009, the NYS PSC adopted the terms of a Joint Proposal between Staff of the Department of Public Service and the Company that provided for a revenue decoupling mechanism ("RDM") to take effect as of January 1, 2010. The RDM applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The RDM is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the link between sales volumes and revenues. The company had deferred payable balances related to the RDM in the amount of $146 thousand at March 31, 2013. These payable balances are fully refundable to the affected customer class.

In February 2013, the NYPSC initiated a comprehensive management and operational audit of National Grid's New York gas businesses, including those of the Company, pursuant to the Public Service Law requirement that requires

major electric and gas utilities to undergo an audit every five years. The audit commenced in June 2013. At the time of the issuance of these financial statements, the Company cannot predict the outcome of this management and operational audit.

Note 3. Employee Benefits

The Company participates with certain other KeySpan subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the "Pension Plans") and a PBOP Plan (together with the Pension Plans (the "Plans")), covering substantially all employees. The Pension Plans provide union employees, as well as all non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. The Company participates in the following plans: Retirement Income Plan of KeySpan Corporation, National Grid USA Companies' Executive SERP (Verion III-KeySpan) (ESRP), Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., Retirement Income Restoration Plan (former Lilco Plan), Supplemental Death and Retirement Plan (former Lilco Plan), KeySpan Benefit Plan for Retired (East) Union Employees and KeySpan Benefit Plan for Retired (East) Management Employees.

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $29.1 million and $19.1 million to the Plans.

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.

The Plans' assets are commingled and cannot be specifically allocated to an individual company. The Plans' costs are first directly charged to the Company based on the Company's employees that participate in the Plans. Costs associated with affiliated service companies' employees are then allocated as part of the labor burden for work performed on the Company's behalf. In addition, certain changes in the funded status of the Plans are also allocated based on the employees associated with the Company through an intercompany payable account and are presented as postretirement benefits in the accompanying balance sheets. Pension and PBOP expense is included in operations and maintenance expenses in the accompanying statements of operations. The Company is subject to certain deferral accounting requirements mandated by the NYPSC for pension and PBOP costs. Any variation between actual costs and amounts used to establish rates is deferred as a regulatory asset or a regulatory liability and collected from or refunded to customers in subsequent periods.

KeySpan's unfunded obligations at March 31, 2013 and March 31, 2012 are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Pension	**$ 892,701**	$ 929,794
PBOP	**1,339,788**	1,267,919
	$ 2,232,489	$ 2,197,713

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	**$ 11,284**	$ 11,329
PBOP	**13,877**	15,297
	$ 25,161	$ 26,626

Defined Contribution Plan

The Company has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2013 and March 31, 2012, the Company recognized $0.3 million and $0.3 million of expense for matching contributions, respectively, in the accompanying statements of income.

Note 4. Property, Plant and Equipment

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**2,813,595**	$ 2,737,187
Land and buildings	**55,880**	55,824
Assets in construction	**88,808**	23,561
Software and other intangibles	**24,149**	24,149
Total	**2,982,432**	2,840,721
Accumulated depreciation and amortization	**(623,676)**	(577,918)
Property, plant and equipment, net	**$ 2,358,756**	$ 2,262,803

Note 5. Derivative Contracts

In the normal course of business, the Company enters into commodity derivative instruments, such as options, swaps, and physical contracts that are principally used to manage commodity prices associated with natural gas distribution operations. These financial exposures are monitored and managed as an integral part of the Company's overall financial risk management policy. The Company generally engages in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business.

The Company utilizes derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. The Company's strategy is to minimize fluctuations in firm gas sales prices to the Company's customers. The Company also employs a small number of derivative instruments related to storage optimization and a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers.

The following are commodity volumes in dekatherms ("dths") associated with derivative contracts as of March 31, 2013 and March 31, 2012:

		March 31,	
		2013	2012
		(in thousands)	
Physical Contracts:	Gas purchase	**24,397**	44,428
Financial Contracts:	Gas swaps	**5,540**	7,273
	Gas options	**1,450**	2,450
Total		**31,387**	**54,151**

The following table presents the Company's derivative assets and liabilities at March 31, 2013 and March 31, 2012 that are included in the accompanying balance sheets for the above contracts:

	Asset Derivatives			**Liability Derivatives**	
	March 31,			**March 31,**	
	2013	2012 (Revised)		**2013**	2012 (Revised)
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts			Rate recoverable contracts		
Gas purchase contracts	**$ 12,026**	$ 9,914	Gas purchase contracts	**$ 335**	$ 6,574
Gas swap contracts	**1,813**	1,437	Gas swap contracts	**10**	6,063
Gas option contracts	**422**	5	Gas option contracts	**4**	952
	14,261	11,356		**349**	13,589
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts			Rate recoverable contracts		
Gas purchase contracts	**3,165**	12,817	Gas purchase contracts	**1,003**	8,042
	3,165	12,817		**1,003**	8,042
Total	**$ 17,426**	$ 24,173	Total	**$ 1,352**	$ 21,631

The changes in fair value of our 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 on the accompanying statements of income. The changes in fair value of our contracts not subject to rate recovery are recorded within purchased gas in the accompanying statements of income.

The following table presents the impact that the change in the fair value of the Company's derivative contracts had on the accompanying balance sheets and statements of income for the years ended March 31, 2013 and March 31, 2012:

	March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (13,278)**	$ 7,049
Gas swap contracts	**(6,053)**	1,679
Gas option contracts	**(948)**	875
	(20,279)	9,603
Regulatory liabilities:		
Gas purchase contracts	**(7,540)**	(49)
Gas swap contracts	**376**	1,215
Gas option contracts	**417**	(102)
	(6,747)	1,064
Total decrease in net regulatory assets (liabilities)	**$ (13,532)**	$ 8,539

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively minimized by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support.

The credit policy for commodity transactions is owned and monitored by the NGUSA Energy Procurement Risk Management Committee (EPRMC). The ERPMC approves risk management policies and objectives for risk assessment, control and valuation, counterparty credit approval, and the monitoring and reporting of risk exposures, as well transaction strategies, annual supply plans and all valuation and control procedures. The EPRMC is chaired by Global Tax and Treasury Director and includes NGUSA's Senior Vice President of Regulatory Affairs, Senior Vice President US General Counsel and Regulatory, and the Vice President US Treasury. The EPRMC reports to NGUSA's Finance Committee. Counterparty credit exposure is monitored, 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 reduces its exposure to counterparty risk by providing for the offset of amounts payable to the counterparty against amounts receivable from the counterparty. The Company's credit exposure for all derivative instruments, normal purchase normal sale contracts, and applicable payables and receivables, net of collateral and instruments that are subject to master netting agreements is $16 million as of March 31, 2013.

The Company enters into commodity transactions on the New York Mercantile Exchange ("NYMEX"). The NYMEX clearinghouses 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, we may limit our 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, 2013 and March 31, 2012 was $0.05 million and $7.0 million, respectively. The Company had no collateral posted for these instruments at March 31,

2013 and March 31, 2012, respectively. 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 $0.05 million additional collateral to its counterparties.

Note 6. Fair Value Measurements

The Company measures commodity derivatives at fair value. 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, 2013 and March 31, 2012:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Financial	$ -	$ 1,813	$ 422	$ 2,235
Physical		4	15,187	15,191
Total assets	-	1,817	15,609	17,426
Liabilities:				
Derivative contracts				
Financial		10	4	14
Physical		47	1,291	1,338
Total liabilities	-	57	1,295	1,352
Net (liabilities) assets	$ -	$ 1,760	$ 14,314	$ 16,074

	March 31, 2012 (Revised)			
	Level 1	Level 2	Level 3	Total
		(in thousands of dollars)		
Assets:				
Derivative contracts				
Financial	$ -	$ 1,437	$ 5	$ 1,442
Physical		6	22,725	22,731
Total assets	-	1,443	22,730	24,173
Liabilities:				
Derivative contracts				
Financial		6,063	952	7,015
Physical		-	14,616	14,616
Total liabilities	-	6,063	15,568	21,631
Net (liabilities) assets	$ -	$ (4,620)	$ 7,162	$ 2,542

The following is a description of the inputs to and valuation techniques used to measure the fair values above:

Derivatives

The Company's Level 2 fair value derivative instruments consist of over-the-counter ("OTC") gas swaps and forward physical gas deals with pricing inputs obtained from the NYMEX and Intercontinental Exchange ("ICE"), except in cases in which ICE publishes seasonal averages or there were no transactions within last seven days. We may utilize discounting based on quoted interest rate curves including consideration of nonperformance risk and may include liquidity reserves calculated based on bid/ask spread for our Level 2 derivative instruments. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining

contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher.

The Company's Level 3 fair value derivative instruments consist of the Company's complex and structured OTC physical gas transactions, which are valued based on internally-developed models. Our complex and structured OTC physical gas transactions are categorized in Level 3 as the model inputs generally are not observable. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about risks such as nonperformance risk, liquidity, volatility and contract duration. Industry-standard valuation techniques, such as a 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 curve with correlation coefficients less than 95%, 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. The forward curves used for financial reporting are developed and verified by the middle office.

Level 3 Fair Value Measurements

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the years ended March 31, 2013 and March 31, 2012:

	Years Ended March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Beginning balance	**$ 7,162**	$ 15,243
Transfers out of Level 3	**-**	38
Total gains or losses included in regulatory assets and liabilities	**1,517**	7,459
Purchases	**1,006**	(5,297)
Settlements	**4,629**	(10,281)
Ending balance	**$ 14,314**	$ 7,162

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 in or out of Level 3 during the year ended March 31, 2013. In addition, there were no transfers between Level 1 and Level 2 during the years ended March 31, 2013 or March 31, 2012.

The following table provides information about our significant Level 3 valuations, of which the most significant positions are gas forwards contracts. Long term gas supply contracts are measured at fair value using both actively traded pricing points as well as unobservable inputs such as gas prices beyond observable periods and long term basis quotes and accordingly, the fair value measurements are classified in Level 3.

Commodity	Level 3 Position	Fair Value as of March 31, 2013 Assets	(Liabilities)	Total	Valuation Technique(s)	Significant Unobservable Input
Physical						
Gas	Gas Purchase Contract (A)	$ 15,187	$ (1,291)	$13,896	Discounted Cash Flow	Forward Curve
Financial						
Gas	Gas Option Contract (B)	422	(4)	418	Discounted Cash Flow	Forward Curve
	Total	$ 15,609	$ (1,295)	$14,314		

(A) Includes long-term gas supply contracts (greater than one year) with various unobservable inputs and valuation assumptions. Unobservable inputs include long term basis prices, forward capacity costs, etc. In addition, valuation assumptions are made while estimating the fair value of Physical Gas Options. Natural gas prices range between $3.53/Dth to $6.41/Dth for the term of open positions.

(B) Includes Gas Option contracts which are immaterial at March 31, 2013.

The significant unobservable inputs listed above would have a direct impact on the fair values of the above Level 3 instruments if they were adjusted. The significant unobservable inputs used in the fair value measurement commodity derivatives are forward commodity prices, forward capacity costs, variable charges to the pipeline, etc. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates. In addition, contracts that include release of a storage or pipeline capacity to the counterparty maybe impacted by changes in the capacity costs for such assets.

Other Fair Value Measurement

The Company's balance sheets reflect the long-term debt at amortized cost. The fair value of the Company's long-term debt was estimated based on quoted market prices for similar issues or on current rates offered to the Company for similar debt. The fair value of this debt at March 31, 2013 and March 31, 2012 was $744.1 million and $712.7 million, respectively.

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

Note 7. Income Taxes

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

	Years Ended March 31,	
	2013	2012 (Revised)
	(in thousands of dollars)	
Current tax benefit:		
Federal	**$ (10,208)**	$ (40,256)
State	**3,474**	18,376
Total current tax benefit	**(6,734)**	(21,880)
Deferred tax expense:		
Federal	**35,781**	86,676
State	**5,179**	(4,670)
Total deferred tax expense	**40,960**	82,006
Total income tax expense	**$ 34,226**	$ 60,126

A 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 (Revised)
	(in thousands of dollars)	
Computed tax	**$ 28,736**	$ 51,621
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**5,624**	8,909
Other items, net	**(134)**	(404)
Total	**5,490**	8,505
Federal and state income taxes	**$ 34,226**	$ 60,126

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	March 31, 2012 (Revised)
	(in thousands of dollars)	
Deferred tax assets:		
Pensions, OPEB and other employee benefits	**$ 121,219**	$ 130,746
Regulatory liabilities - other	**53,629**	53,347
Reserve - environmental	**47,735**	62,180
Future federal benefit on state taxes	**42,540**	40,099
Net operating losses	**14,144**	6,305
Other items	**21,376**	19,439
Total deferred tax assets [(1)]	**300,643**	312,116
Deferred tax liabilities:		
Property related differences	**665,828**	615,732
Regulatory Assets - environmental	**168,210**	226,569
Other items	**102,622**	61,823
Total deferred tax liabilities	**936,660**	904,124
Net deferred income tax liabilities	**636,017**	592,008
Net deferred income tax liability and investment tax credits	**636,017**	592,008
Current portion of net deferred income tax liability	**26,707**	14,877
Non-current deferred income tax liability and investment tax credits	**$ 609,310**	$ 577,131

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

Jurisdiction	Expiration	Amount
	(in thousands of dollars)	
Federal	03/31/2033	$ 16,948
New York	03/31/2029	126,259
New York	03/31/2030	30,845
New York	03/31/2032	22,450
New York	03/31/2033	50,325

The Company included in the National Grid North America Inc. ("NGNA") and subsidiaries consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

As of March 31, 2013 and March 31, 2012, the Company's current federal income tax balances receivable from its parent are $1 million and $12 million, respectively.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $102.9 million and $92.6 million, respectively, of which $10.3 million and $10.3 million, respectively, 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:

	2013	2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 92,618**	$ 118,334
Gross increases related to prior period	**2,364**	856
Gross decreases related to prior period	**(421)**	(28,232)
Gross increases related to current period	**10,769**	1,674
Gross decreases related to current period	**(407)**	(14)
Settlements with tax authorities	**(2,005)**	-
Ending balance	**$ 102,918**	92,618

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $10.7 million and $8.5 million, respectively. During the years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $4.7 million and $2.5 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in other deductions in the accompanying income statement. No tax penalties were recognized during the years ended March 31, 2013 and March 31, 2012.

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 September 2011, the IRS commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and 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 State of New York is in the process of examining the Company's NYS income tax returns for the years ended December 31, 2003 through March 31. 2008. The tax returns for the fiscal years ended March 31, 2009 through March 31, 2013 remain subject to examination by the State of New York. The Company has filed New York Investment Tax Credit claims for the tax years ended December 31, 2000 through March 31, 2010. New York State has disallowed the claims for December 31, 2000 through December 31, 2006 during audit, and also denied them on appeal to the New York Tax Tribunal, which decision was futher appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and therefore expects to make a payment with regard to tax and interest within the next 12 months.

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

Jurisdiction	**Tax Year**
Federal	August 24, 2007
New York	December 31, 2000*

*The 2000-2002 years are only open with respect to the NY ITC claims.

Note 8. Debt

Authorization to Issue Debt

The Company has previously been provided authority from the NYPSC to issue, prior to March 31, 2014, up to $1.0 billion in new long term debt securities. The Company has $500 million in Senior Unsecured Notes outstanding under this authority.

Senior Unsecured Notes
The Company's $100 million of 5.6% Senior Unsecured Notes mature on November 29, 2016. Interest is payable on a semi-annual basis each May and November. In addition, the Company has $500 million of Senior Unsecured Notes at 5.82% outstanding, and which are due April 1, 2041. Interest on those Notes are payable on a semi-annual basis each April and October.

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

(in thousands of dollars) Years Ended March 31,	
2014	$ -
2015	-
2016	-
2017	100,000
2018	-
Thereafter	500,000
Total	$ 600,000

Note 9. Commitments and Contingencies

SuperStorm Sandy

In October 2012, SuperStorm Sandy hit the northeastern United States affecting energy supply to customers in the Company's service territory. Total costs associated with gas customer restoration through March 31, 2013, from this storm were approximately $97.2 million. The Company has recorded an "other receivable" on the balance sheet at March 31, 2013 in the amount of $42.2 million, relating to claims filed against property damage and business interruption insurance policies, net of insurance deductibles.

Purchase Commitments

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

The Company's commitments under these long-term contracts for years subsequent to March 31, 2013, are summarized in the table below:

(in thousands of dollars) Years Ended March 31,		Gas
2014	$	345,129
2015		263,689
2016		253,365
2017		218,347
2018		195,165
Thereafter		831,014
Total	$	2,106,709

Asset Retirement Obligations

The Company has various asset retirement obligations associated with its gas distribution facilities. Generally, our largest asset retirement obligations relate to: (i) legal requirements to cut (disconnect from the gas distribution system), purge (clean of natural gas and Polychlorinated Biphenyl contaminants) and cap gas mains within our gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table represents the changes in the asset retirement obligations for the years ended March 31, 2013 and March 31, 2012:

	March 31,			
	2013		2012	
	(in thousands of dollars)			
Balance as of beginning of year	**$**	**12,529**	$	11,820
Accretion expense		**752**		709
Balance as of end of year	**$**	**13,281**	$	12,529

Legal Matters

Several lawsuits have been filed that allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Bay Shore. KeySpan has been conducting a remediation at Bay Shore pursuant to an Administrative Order on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). KeySpan intends to contest each of the lawsuits vigorously.

The Company continues to pursue a number of refund claims with respect to garbage and other taxes levied on the Company by local authorities on Long Island, most significantly Nassau County.

In addition to the matters described above, 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.

Environmental Matters

The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even

if the activities were lawful when they occurred.

The Company has identified numerous Manufactured Gas Plant ("MGP") sites and related facilities, which were owned or operated by the Company or its predecessors. These former sites, some of which are no longer owned by the Company, have been identified to the NYPSC and the DEC for inclusion on appropriate site inventories. ACOs or Voluntary Cleanup Agreements ("VCA") have been executed with the DEC to address the investigation and remediation activities associated with certain sites. Expenditures incurred for the years ended March 31, 2013 and March 31, 2012 were $36.5 million and $42.4 million, respectively.

Upon acquisition by NGUSA, the Company recognized environmental liabilities at fair value. The fair values included discounting of the reserve at a rate of 6.5%, which is being accreted over the period for which remediation is expected to occur. Following the acquisition of KeySpan, these environmental liabilities are recognized in accordance with the accounting guidance on environmental obligations.

The Company estimated the remaining costs of environmental remediation activities were $109.4 million and $142.5 million at March 31, 2013 and March 31, 2012, respectively. The Company's environmental obligation arising at the date of acquisition of Keyspan is net of a discount rate of 6.5%; the undiscounted amount of environmental liabilities at March 31, 2013 and March 31, 2012 was $129.6 million and $163.8 million, respectively. These costs are expected to be incurred over the next 34 years, and the discounted amounts have been recorded as reserves 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 Company has recovered amounts from certain insurers, and, where appropriate, the Company may seek recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

By rate orders, the NYPSC has provided for the recovery of site investigation and remediation costs. Accordingly, as of March 31, 2013 and March 31, 2012, the Company has recorded net environmental regulatory assets of $324.4 million and $462.8 million, respectively.

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws, and that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position since, as noted above, environmental expenditures incurred by the Company are recoverable from customers.

Note 10. 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, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal and strategic planning that are charged between and to each company.

The Company records short-term payables to and receivables from certain of its affiliates in the ordinary course of business. The amounts payable to and receivable from its affiliates do not bear interest and are settled through the money pool. At March 31, 2013 and March 31, 2012, the Company had net outstanding accounts receivable from affiliates and accounts payable to affiliates balances as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2013	2012	**2013**	2012 (Revised)
	(in thousands of dollars)		*(in thousands of dollars)*	
KeySpan Corporation	**$ 45,450**	$ -	**$ -**	$ 9,917
Brooklyn Union Gas Company	**-**	-	**45,238**	12,671
NGUSA Service Company	**-**	-	**52,816**	71,352
Niagara Mohawk Power Corp	**-**	-	**910**	276
NG Energy Trading Services	**675**	824	**-**	-
NG Electric Services LLC	**-**	-	**6,914**	740
Other affiliates	**1,174**	333	**1,559**	1,017
Total	**$ 47,299**	$ 1,157	**$ 107,437**	$ 95,973

Money Pool

The settlement of the Company's various transactions with NGUSA and other 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 and gas inventory 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.

The Regulated and Unregulated Money Pools are funded by operating funds from participants in the applicable Pool. Collectively, NGUSA and KeySpan have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the Money Pools, if necessary. The Company had short-term money pool borrowings of $398.0 million and $79.6 million at March 31, 2013 and March 31, 2012, respectively. The average interest rate for the money pool was approximately 1.45% and 1.23% for the years ended March 31, 2013 and March 31, 2012, 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, and value of property owned, etc. Lastly, all other costs are allocated based on a general allocator.

Charges from the service companies of NGUSA to the Company for the years ended March 31, 2013 and March 31, 2012 were $204.1 million and $169.9 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 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 this subsidiary, the estimated effect on net income would be approximately $3.0 million and $2.8 million before taxes, and $2.0 million and $1.8 million after taxes, for the years ended March 31, 2013 and March 31, 2012, respectively.

Note 11. Preferred Stock

In connection with the acquisition of KeySpan by NGUSA, the Company became subject to a requirement to issue a class of preferred stock having one share (the "Golden Share"), subordinate to any existing preferred stock. The

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

Note 12. Dividends

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 58% of total utility capitalization. At March 31, 2013 and March 31, 2012, the Company was in compliance with the utility capital structure required by the NYPSC. In accordance with the NYPSC order approving the acquisition of Keyspan by NGUSA, the Company is permitted to declare dividends to the extent of retained earnings accumulated since the date of acquisition plus unappropriated retained earnings, unappropriated undistributed earnings and accumulated other comprehensive income existing immediately prior to the date of acquisition. At the date of acquisition, the balance of retained earnings of the Company existing immediately prior of $478.6 million was reclassified into Additional Paid in Capital. In August 2012, the Company issued a dividend in the amount of $250 million to Keyspan which was settled via the money pool. Of the total $250 million dividend, $139 million has been issued from retained earnings, with the remainder from Additional Paid in Capital.