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

Consolidated Financial Statements
For the years ended March 31, 2013 and March 31, 2012

BROOKLYN UNION GAS COMPANY

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Brooklyn Union Gas Company, which comprise the consolidated balance sheets as of March 31, 2013 and March 31, 2012, and the related consolidated statements of income, comprehensive income, cash flows, capitalization and changes in shareholders' equity for the years then ended.

Management's Responsibility for the Consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Union Gas Company at March 31, 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 22, 2013

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

	March 31,	
	2013	2012 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 17,215**	$ 98,962
Accounts receivable	**373,380**	248,065
Allowance for doubtful accounts	**(41,518)**	(49,260)
Accounts receivable from affiliates	**45,674**	13,928
Other receivable	**25,122**	-
Intercompany money pool	**77,021**	60,618
Unbilled revenues	**104,525**	85,112
Materials, supplies and gas in storage	**66,192**	90,195
Derivative contracts	**4,674**	21,389
Regulatory assets	**64,492**	51,126
Current portion of deferred income tax assets	**1,665**	12,199
Prepaid taxes	**36,449**	34,383
Prepaid and other current assets	**20,585**	22,025
Total current assets	**795,476**	688,742
Equity investments	**75,480**	73,396
Property, plant and equipment, net	**2,717,226**	2,571,807
Deferred charges and other assets:		
Regulatory assets	**1,123,049**	1,129,331
Goodwill	**1,451,141**	1,451,141
Derivative contracts	**466**	1,064
Other deferred charges	**17,218**	20,802
Total deferred charges and other assets	**2,591,874**	2,602,338
Total assets	**$ 6,180,056**	$ 5,936,283

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

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

	March 31,	
	2013	2012 (Revised)
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 94,861**	$ 54,691
Accounts payable to affiliates	**267,273**	229,435
Taxes accrued	**11,130**	9,552
Customer deposits	**34,716**	41,074
Interest accrued	**20,054**	18,476
Regulatory liabilities	**29,466**	43,325
Intercompany money pool	**106,639**	20,974
Derivative contracts	**6,429**	14,668
Other tax liabilities	**19,163**	17,628
Other current liabilities	**18,698**	26,500
Total current liabilities	**608,429**	476,323
Deferred credits and other liabilities:		
Regulatory liabilities	**398,410**	389,663
Asset retirement obligations	**11,514**	10,862
Deferred income tax liabilities	**749,941**	682,150
Postretirement benefits	**141,919**	142,279
Environmental remediation costs	**506,513**	482,165
Derivative contracts	**4,785**	6,762
Other deferred liabilities	**56,595**	54,567
Total deferred credits and other liabilities	**1,869,677**	1,768,448
Capitalization:		
Shareholders' equity	**2,661,450**	2,651,012
Long-term debt	**1,040,500**	1,040,500
Total capitalization	**3,701,950**	3,691,512
Total liabilities and capitalization	**$ 6,180,056**	$ 5,936,283

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

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

	Years Ended March 31,	
	2013	2012 (Revised)
Operating revenues	**$ 1,432,308**	$ 1,510,676
Operating expenses:		
Purchased gas	**535,220**	620,081
Operations and maintenance	**351,460**	359,369
Depreciation and amortization	**84,058**	84,788
Amortization of regulatory assets and rate plan deferrals	**18,126**	9,473
Other taxes	**195,147**	190,034
Total operating expenses	**1,184,011**	1,263,745
Operating income	**248,297**	246,931
Other income and (deductions):		
Interest on long-term debt	**(50,215)**	(50,190)
Other interest, including affiliate interest	**3,261**	(15,522)
Equity income in unconsolidated subsidiaries	**19,416**	17,852
Other income, net	**(20,928)**	12,280
Total other deductions, net	**(48,466)**	(35,580)
Income before income taxes	**199,831**	211,351
Income taxes:		
Current	**2,705**	30,111
Deferred	**80,769**	61,635
Total income tax expense	**83,474**	91,746
Net income	**$ 116,357**	$ 119,605

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

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

	Years Ended March 31,	
	2013	2012 (Revised)
Net income	**$ 116,357**	$ 119,605
Other comprehensive income:		
Unrealized gains (losses) on marketable securities from equity investment, net of $52 and ($157) tax expense (benefit)	**76**	(227)
Other comprehensive income	**76**	(227)
Comprehensive income	**$ 116,433**	$ 119,378

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

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

	Years Ended March 31,	
	2013	2012 (Revised)
Operating activities:		
Net income	**$ 116,357**	$ 119,605
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**84,058**	84,788
Amortization of regulatory assets and rate plan deferrals	**18,126**	9,473
Provision for deferred income taxes	**80,769**	61,635
Bad debt expense	**12,645**	14,108
Equity (income) loss in unconsolidated subsidiaries, net	**(1,956)**	7,368
Regulatory deferrals	**5,437**	40,304
Amortization of debt issuance cost	**2,492**	1,811
Pension and other postretirement expense	**20,871**	27,350
Pension and other postretirement contributions	**(50,783)**	(47,735)
Environmental remediation payments	**(45,273)**	(19,899)
Changes in operating assets and liabilities:		
Accounts receivable and other receivable, net, and unbilled revenues	**(180,188)**	196,179
Materials, supplies and gas in storage	**24,821**	(42,309)
Accounts payable and accrued expenses	**32,199**	(264)
Other liabilities	**(3,780)**	5,843
Prepaid and accrued taxes	**1,047**	39,400
Regulatory assets and liabilities, net	**39,322**	(41,345)
Derivative contracts	**7,097**	(8,333)
Other, net	**(5,702)**	(7,578)
Net cash provided by operating activities	**157,559**	440,401
Investing activities:		
Capital expenditures	**(189,740)**	(170,572)
Cost of removal	**(22,560)**	(17,057)
Affiliated money pool borrowing and other	**(8,756)**	(14,720)
Issurance proceeds applied to capital expenditures	**3,635**	-
Net cash used in investing activities	**(217,421)**	(202,349)
Financing activities:		
Dividends to Keyspan Corporation	**(110,000)**	(220,000)
Affiliated money pool borrowing and other	**84,110**	(51,929)
Parent loss tax allocation	**3,356**	3,929
Share based compensation allocation	**649**	-
Net cash used in financing activities	**(21,885)**	(268,000)
Net decrease in cash and cash equivalents	**(81,747)**	(29,948)
Cash and cash equivalents, beginning of year	**98,962**	128,910
Cash and cash equivalents, end of year	**$ 17,215**	$ 98,962
Supplemental disclosures:		
Interest paid	**$ 48,387**	$ 47,856
Income taxes paid to Parent	**8,690**	15,823
State income taxes paid	**3,040**	4,553
Significant non-cash items:		
Capital-related accruals included in accounts payable	**548**	1,048

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

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

			March 31,	
			2013	2012 (Revised)
Total shareholders' equity			**$ 2,661,450**	$ 2,651,012
Long-term debt:	Interest Rate	Maturity Date		
Senior Unsecured Note	5.60%	November 29, 2016	**400,000**	400,000
Gas facilities revenue bonds:				
1993A and 1993B	6.37%	April 1, 2020	**75,000**	75,000
1997	Variable	December 1, 2020	**125,000**	125,000
1996	5.50%	January 1, 2021	**153,500**	153,500
2005A	4.70%	February 1, 2024	**82,000**	82,000
2005B	Variable	June 1, 2025	**55,000**	55,000
1991A and 1991B	6.95%	July 1, 2026	**100,000**	100,000
1991D	Variable	July 1, 2026	**50,000**	50,000
Total gas facilities revenue bonds			**640,500**	640,500
Total long-term debt			**1,040,500**	1,040,500
Total capitalization			**$ 3,701,950**	$ 3,691,512

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

BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars, except per share and number of shares data)

	Common Stock, par value $0.01 per share		Preferred Stock, par value $1 per share				Accumulated Other Comprehensive Income		
	Authorized, Issued and Outstanding Shares	Amount	Authorized, Issued and Outstanding Shares	Amount	Additional Paid-in Capital	Retained Earnings	Equity Investment in Iroquois	Total Accumulated Other Comprehensive Income	Total
Balance as of March 31, 2011 - revised	100	$ -	-	$ -	$ 2,605,830	$ 142,134	$ (259)	$ (259)	$ 2,747,705
Net income						119,605			119,605
Issuance of preferred stock			1	-					-
Comprehensive income:									
Unrealized gains on marketable securities as equity investment, net of $157 tax benefit							(227)	(227)	(227)
Parent loss tax allocation					3,929				3,929
Dividends to Parent	-	-	-	-		(220,000)			(220,000)
Balance as of March 31, 2012 - revised	100	$ -	1	$ -	$ 2,609,759	$ 41,739	$ (486)	$ (486)	$ 2,651,012
Net income						116,357			116,357
Comprehensive income:									-
Unrealized gains on marketable securities as equity investment, net of $52 tax expense							76	76	76
Parent loss tax allocation					3,356				3,356
Share based compensation allocation					649				649
Dividends to Parent	-	-	-	-		(110,000)			(110,000)
Balance as of March 31, 2013	100	$ -	1	$ -	$ 2,613,764	$ 48,096	$ (410)	$ (410)	$ 2,661,450

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

BROOKLYN UNION GAS COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

Brooklyn Union Gas Company d/b/a National Grid New York (the "Company," "we," and "our") distributes natural gas to approximately 955,000 retail customers and transports natural gas to approximately 260,000 customers in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City.

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan"). 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.

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

The Company has evaluated subsequent events and transactions through August 22, 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 consolidated 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 $13.7 million (net of income taxes) was recorded in the financial statements for the year ended March 31, 2012, of which $9.8 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011), and $3.9 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 recording 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 $0.4 million was recorded as an adjustment to beginning retained earnings (as of March 31, 2011) and $1.7 million was recorded as an increase in net income for the year ended March 31, 2012 to reflect the fiscal 2012 activity related to this error.

The third correction reclassifies $47.2 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.

The fourth correction reclassifies $20.9 million of regulated intercompany moneypool liability balances from current

assets to current liabilities in order to separately present regulated and unregulated intercompany moneypool balances. These reclassifications had no effect on the Company's results of operations but did result in a reclassification of the $20.9 million between financing activities and investing activities on the statement of 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 assets by $7.0 million and regulatory assets by $13.6 million. These misclassifications in assets were offset by misclassifications in accrued taxes of $14.8 million, accounts payable to affiliates of $3.7 million, accrued interest related to uncertain tax positions of $3.2 million, non-current deferred tax liabilities of $31.7 million, and other deferred liabilities of $9.2 million. The adjustments for these balance sheet presentation errors 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			
Intercompany money pool receivable	$ 39,644	$ 20,974	$ 60,618
Regulatory assets	50,173	953	51,126
Current portion of deferred income tax assets	5,575	6,624	12,199
Total Current assets	**95,392**	**28,551**	**123,943**
Deferred charges and other assets			
Regulatory assets	1,066,975	62,356	1,129,331
Total Deferred charges and other assets	**1,066,975**	**62,356**	**1,129,331**
Current liabilities			
Accounts payable to affiliates	233,137	(3,702)	229,435
Taxes accrued	24,391	(14,839)	9,552
Interest accrued	21,724	(3,248)	18,476
Intercompany money pool	-	20,974	20,974
Total Current liabilities	**279,252**	**(815)**	**278,437**
Deferred credits and other liabilities			
Regulatory liabilities	343,512	46,151	389,663
Deferred income tax liabilities	658,843	23,307	682,150
Other deferred liabilities	22,199	32,368	54,567
Total Deferred credits and other liabilities	**1,024,554**	**101,826**	**1,126,380**
Capitalization:			
Retained Earnings			
March 31, 2012	51,843	(10,104)	41,739
March 31, 2011	150,242	(8,108)	142,134

	As Previously Reported	Adjustments	As Revised
	(in thousands of dollars)		
	March 2012		March 2012
Statement of Income			
Operating revenues	$ 1,508,627	$ 2,049	$ 1,510,676
Operating expense:			
Operations and maintenance	353,458	5,911	359,369
Operating income	250,793	(3,862)	246,931
Other income and (deductions):			
Other income, net	12,191	89	12,280
Income before income taxes	215,124	(3,773)	211,351
Income taxes			
Current	33,074	(2,963)	30,111
Deferred	60,449	1,186	61,635
Net income	121,601	(1,996)	119,605
Statement of Cash Flows			
Net income	$ 121,601	$ (1,996)	$ 119,605
Provision for deferred income taxes	60,449	1,186	61,635
Accounts payable and accrued expenses	(3,075)	2,811	(264)
Prepaid and accrued taxes	27,896	11,504	39,400
Other liabilities	14,115	(8,272)	5,843
Regulatory assets and liabilities, net	(46,831)	5,486	(41,345)
Derivative contracts	-	(8,333)	(8,333)
Net cash provided by operating activities	438,015	2,386	440,401
Affiliated money pool and intercompany borrowing	-	(14,720)	(14,720)
Net cash used in investing activities	(187,629)	(14,720)	(202,349)
Affiliated money pool and intercompany borrowing	(64,263)	12,334	(51,929)
Net cash used in financing activities	(280,334)	12,334	(268,000)

C. Basis of Presentation

The consolidated 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. All material intercompany balances and transactions have been eliminated in consolidation.

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.

The Company uses the equity method of accounting for its investments in affiliates which are 50% or less owned, because the Company has the ability to exercise significant influence over, but does not control, the operating and financial policies of these affiliates. The Company's share of the earnings or losses of these affiliates is included as equity income in unconsolidated subsidiaries in the consolidated statements of income.

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 recorded 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 an 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. Iroquois's transmission assets are regulated by the Federal Energy Regulatory Commission and its rates are filed with the Commission.

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	**73%**	71%
Commercial	**13%**	14%
Gas transportation and other services	**14%**	15%

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 assets 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, 2012 are as follows:

	March 31,	
	2013	2012
Composite rates - depreciation	**1.8%**	1.8%
Composite rates - cost of removal	**0.8%**	0.8%
Total composite rates	**2.6%**	2.6%
Average service life	**54 years**	54 years

The Company's depreciation expense includes estimated costs to remove property, plant and equipment, which is recovered through 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 $178.9 million and $158.5 million, respectively. These amounts are reflected as regulatory liabilities in the accompanying consolidated 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 consolidated 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 for the debt component in the accompanying consolidated 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	**$ 613**	$ 618
Equity	**1,334**	1,161
	$ 1,947	$ 1,779
Composite AFUDC rate	**6.4%**	7.4%

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 the Company believes is appropriate based on comparison of its 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 $16.9 million and $10.1 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 and March 31, 2012.

Gas in storage is stated at weighted average cost, and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass 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 $49.3 and $80.1 million, respectively.

K. 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.

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 consolidated 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 consolidated statements of income. Excise taxes collected and paid for the years ended March 31, 2013 and March 31, 2012 were $45.5 million and $65.2 million, respectively.

L. 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 and requires. 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 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 market 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 associated with our regulated gas distribution operations. The Company's strategy is to minimize fluctuations in firm gas sales costs to the Company's customers. The accounting for these derivative financial 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 consolidated 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 for which it elected the normal purchase normal sale exception no longer qualifies, the Company would recognize the fair value of the contract in accordance with the regulatory accounting described above.

Balance Sheet Offsetting

Accounting guidance related 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 instruments 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 consolidated 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. New and Recent Accounting Guidance

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 the Company's approach to measuring fair value as a result of adopting this 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

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.

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.

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:		
Property taxes	**$ 3,700**	$ 3,700
Environmental response costs	**30,973**	5,973
Postretirement benefits	**11,832**	11,832
Derivative contracts	**6,429**	14,668
Revenue decoupling mechanism	**3,803**	5,869
Other	**7,755**	9,084
Total	**64,492**	51,126
Non-current:		
Regulatory tax asset	**14,248**	17,957
Property taxes	**7,047**	10,389
Environmental response costs	**676,575**	658,627
Postretirement benefits	**297,171**	279,451
Derivative contracts	**4,785**	6,762
Capital tracker	**58,762**	46,162
Revenue decoupling mechanism	**2,417**	-
Carrying charges	**17,204**	61,668
Other	**44,840**	48,315
Total	**1,123,049**	1,129,331
Regulatory liabilities		
Current:		
PSC assessment	**4,380**	-
Statement of policy buyback	**-**	19,960
Gas cost adjustment	**20,057**	1,976
Derivative contracts	**4,674**	21,389
Other	**355**	-
Total	**29,466**	43,325
Non-current:		
Environmental response costs	**59**	14,859
PSC assessment	**4,952**	-
Property taxes	**24**	22,617
Delivery rate surcharge	**44,974**	32,289
Excess earnings	**88,082**	88,082
Cost of removal	**178,926**	158,496
Derivative contracts	**466**	1,064
Energy efficiency	**37,262**	31,381
Carrying charges	**23,680**	34,859
Other	**19,985**	6,016
Total	**398,410**	389,663
Net regulatory assets	**759,665**	747,469

Postretirement benefits: This amount 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.

Delivery rate surcharge and environmental response costs: A $5 million annual surcharge for the recovery of regulatory assets ("Delivery Rate Surcharge") was implemented in January 2008. The Delivery Rate Surcharge increased by $5 million for each of the first five years of the Company's rate plan, resulting in the aggregate recovery of approximately $75 million. The first $25.2 million collected from the Delivery Rate Surcharge was used to offset deferred special franchise taxes with the remainder deferred and used to offset future increases in rates for the costs such as Site Investigation and Remediation ("SIR") or other costs 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 its rate plan so as to minimize outstanding deferral balances. Environmental response costs represent deferred costs associated with the estimated costs to investigate and perform certain remediation activities at former Manufactured Gas Plant ("MGP") sites and related facilities. By rate orders, the NYPSC has provided for the recovery of site investigation and remediation costs in delivery rates at a level of $6.0 million per year. In addition, on November 28, 2012, the NYPSC issued an order authorizing the Company to recover $122.5 million of SIR deferral balances through the implementation of an SIR surcharge that supersedes the expired Delivery Rate Surcharge. The SIR surcharge is designed to collect $25.0 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.

Cost of removal: The Company's rate plans allow for the collection through rates an implied cost of removal for its plant assets. This regulatory liability represents costs collected from customers for costs associated with removing and disposing of replaced or retired assets. 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: During the primary term of the rate plan (2008–2012), the Company had a capital tracker mechanism that reconciled the Company's Capital Expenditures to the amounts permitted in rates. The mechanism provided for a two way (upward and downward) tracker for City and State Construction ("CSC") related expenditures and a one way (downward only) tracker for all other capital expenditures. The company deferred the full revenue requirement equivalent of CSC expenditures above or below the CSC rate allowance and deferred the revenue requirement equivalent of any other unspent Capex below the rate allowance for all other capital expenditures. Beginning January 1, 2013, the Capital Tracker was replaced by a Net Utility Plant and Depreciation Expense Reconciliation Mechanism ("NUP Tracker"). The NUP mechanism requires the Company to reconcile its annual actual combined net utility plant and depreciation expense revenue requirement to targeted amounts defined in the rate extension agreement. The differences in rate year 2013 are carried forward to rate year 2014 and netted against the 2014 result. If the cumulative two year actual net utility plant and depreciation expense revenue requirement is below the target, the amount will be deferred for the benefit of customers. There will be no deferral if the Company exceeds the target.

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 its regulator 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. Beginning January 1, 2013, the threshold for earnings sharing has been reduced from 10.5% to 9.4% and the sharing mechanism will be calculated based upon a cumulative average ROE over rate years 2013 and 2014 with 80% of any excess earnings applied as a credit against the SIR deferral balance.

Gas cost adjustment: The Company 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.

Revenue decoupling mechanism: In December 2009, the NYSPSC adopted the terms of a Joint Proposal between Staff 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 revenue decoupling mechanism is designed to eliminate the disincentive for the Company to implement energy efficiency programs by breaking the linkage between sales volumes and revenues. The company had deferred receivable balances related to RDM in the amount of $3.8 million at March 31, 2013 presented as a component of current regulatory assets. The balances are fully recoverable from the affected customer classes.

Carrying Charges

The Company includes in rate base or records carrying charges on most regulatory balances with the exception of derivative contracts and regulatory tax balances 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 $17.2 million and $61.7 million, respectively. The total amount of accumulated accrued carrying charges recorded as regulatory liabilities at March 31, 2013 and March 31, 2012 was $23.7 million and $34.9 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 $31.2 million and derecognized existing carrying charges accrued within regulatory liabilities of $18.2 million.

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Other interest (deductions), including affiliate interest	**$ 9,898**	$ (4,852)
Other (deductions) income, net	**(15,885)**	17,051
	$ (5,987)	$ 12,199

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 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 recorded excess earnings sharing of $0 and $35 million, respectively.

On February 25, 2013, a joint proposal was filed with the NYPSC that memorialized an agreement between Department of Public Service Staff ("Staff") and the Company for a two year rate settlement covering the Company's rate years ending December 31, 2013 and December 31, 2014. On June 13, 2013, the NYPSC issued an order adopting the settlement. As a result, the Company's revenue requirements for calendar years 2013 and 2014 have changed as follows: (i) there is no change in base delivery rates, other than those previously approved by the Commission in the rate plan, (ii) the allowed return on equity has decreased from 9.8% to 9.4%, and (iii) the common equity ratio in the capital structure has increased from 45% to 48%. Additionally, the joint proposal provides that 80% of any earnings above the 9.4% allowed return will be applied as a credit to the Company's SIR

balance for the benefit of customers.

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, and then updated on August 7, 2013, the Company submitted a compliance filing in which it estimated a Temporary State Assessment of $23.9 million for the 2013/2014 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 $9.3 million at March 31, 2013 and deferred receivable balances of $1.3 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 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 $22.2 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.

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 (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: The KeySpan Retirement Plan, National Grid USA Companies' Executive SERP, Excess Benefit Plan of KeySpan Corp., Supplemental Retirement of KeySpan Corp., KeySpan Benefit Plan for Retired (West) Union Employees, KeySpan Benefit Plan for Retired (West) Management Employees.

During the years ended March 31, 2013 and March 31, 2012, the Company made contributions of approximately $50.2 million and $47.7 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. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas operations. Any variances between actual 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 consolidated statements of income.

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	**$ 15,407**	$ 15,969
PBOP	**19,207**	19,290
	$ 34,614	$ 35,259

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 $1.2 million and $1.0 million of expense, respectively, for matching contributions, in the accompanying consolidated statements of income for matching contributions.

Other Benefits

The Company has accrued $16.9 million and $23.6 million at 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 and amortization are as follows:

	March 31,	
	2013	2012
	(in thousands of dollars)	
Plant and machinery	**$ 3,369,349**	$ 3,271,571
Land and buildings	**163,511**	158,675
Assets in construction	**125,211**	44,237
Software and other intangibles	**124,387**	124,382
Total	**3,782,458**	3,598,865
Accumulated depreciation and amortization	**(1,065,232)**	(1,027,058)
Property, plant and equipment, net	**$ 2,717,226**	$ 2,571,807

Note 5. Derivatives

In the normal course of business, the Company enters into commodity derivative instruments, such as 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 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	**8,721**	50,229
Financial Contracts:	Gas swaps	**19,174**	37,946
	Gas options	**1,750**	2,800
	Total	**29,645**	90,975

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

	Asset Derivatives			Liability Derivatives	
	March 31,			March 31,	
	2013	2012		**2013**	2012
	(in thousands of dollars)			*(in thousands of dollars)*	
Current assets:			Current liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**$ 1,992**	$ 3,526	Gas purchase contracts	**$ 1,988**	$ 1,904
Gas swap contracts	**2,213**	17,857	Gas swap contracts	**4,436**	11,661
Gas option contracts	**469**	6	Gas option contracts	**5**	1,103
	4,674	21,389		**6,429**	14,668
Deferred charges and other assets:			Deferred credits and other liabilities:		
Rate recoverable contracts:			Rate recoverable contracts:		
Gas purchase contracts	**466**	1,064	Gas purchase contracts	**4,785**	6,762
	466	1,064		**4,785**	6,762
Total	**$ 5,140**	$ 22,453	Total	**$ 11,214**	$ 21,430

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 consolidated statements of income.

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

	March 31,	
	2013	2012
	(in thousands of dollars)	
Regulatory assets:		
Gas purchase contracts	**$ (1,893)**	$ 4,253
Gas swap contracts	**(7,225)**	6,305
Gas option contracts	**(1,098)**	934
	(10,216)	11,492
Regulatory liabilities:		
Gas purchase contracts	**(2,132)**	2,334
Gas swap contracts	**(15,644)**	17,593
Gas option contracts	**463**	(102)
	(17,313)	19,825
Total increase in net regulatory (liabilities) assets	**$ 7,097**	$ (8,333)

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 $6.1 million as of March 31, 2013.

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 $4.0 million and $12.5 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 $4.1 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 consolidated 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				
Financials	$ -	$ 2,213	$ 469	$ 2,682
Physicals		127	2,331	2,458
Total assets	-	2,340	2,800	5,140
Liabilities:				
Derivative contracts				
Financials	$ -	$ 4,436	$ 5	$ 4,441
Physicals	-	76	6,697	6,773
Total assets	-	4,512	6,702	11,214
Net assets (liabilities)	$ -	$ (2,172)	$ (3,902)	$ (6,074)

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands of dollars)			
Assets:				
Derivative contracts				
Financials	$ -	$ 17,857	$ 6	$ 17,863
Physicals		13	4,577	4,590
Total assets	-	17,870	4,583	22,453
Liabilities:				
Derivative contracts				
Financials	$ -	$ 11,661	$ 1,103	$ 12,764
Physicals			8,666	8,666
Total liabilities	-	11,661	9,769	21,430
Net asset (liabilities)	$ -	$ 6,209	$ (5,186)	$ 1,023

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

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 New York Mercantile Exchange ("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 that 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.

Level 3 fair value derivative instruments consist of the Company's complex and structured OTC physical gas transactions 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 simulations, and Financial Engineering Associates libraries are used for valuing such instruments. A derivative instrument is designated as Level 3 when it is valued based on a forward curve that is internally developed, extrapolated or derived from a 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 derivative 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
	(in thousands of dollars)	
Balance at beginning of year	$ (5,186)	$ (2,219)
Transfers out of Level 3	-	457
Total gains or losses:		
included in regulatory assets and liabilities	(2,065)	(4,866)
Purchases	1,344	(66)
Settlements	2,005	1,508
Balance at end of year	$ (3,902)	$ (5,186)

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 of Level 3 during the years ended March 31, 2013 and March 31, 2012, respectively.

The following table provides information about our significant Level 3 valuations, of which the most significant positions are gas forward 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**			**Valuation Technique(s)**	**Significant Unobservable Input**	**Range**
		Assets	**(Liabilities)**	**Total**			
Physical							
Gas	Gas Purchase Contract (A)	$ 2,331	$ (6,697)	$ (4,366)	Discounted Cash Flow	Forward Curve	(A)
Financial							
Gas	Gas Option Contract (B)	$ 469	$ (5)	$ 464	Discounted Cash Flow	Forward Curve	(B)
	Total	$ 2,800	$ (6,702)	$ (3,902)			

(A) Includes long-term gas supply contracts (greater than one year) that have valuation assumptions and unobservable forward gas curves. . Valuation assumptions are made while estimating fair value of Physical Gas Options. Natural gas prices range between $4.13/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. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Other Fair Value Measurements

The 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 of the same remaining maturity. The fair value of our long-term debt at March 31, 2013 and March 31, 2012 was 1.2 billion.

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 7. Income Taxes

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

	Year Ended March 31,	
	2013	2012
		(Revised)
	(in thousands of dollars)	
Current tax expense:		
Federal	**$ (183)**	$ 13,169
State	**2,888**	16,942
Total	**2,705**	30,111
Deferred tax expense:		
Federal	**67,045**	59,938
State	**14,635**	2,608
Total	**81,680**	62,546
Amortization of investment tax credits [1]	**(911)**	(911)
Total deferred tax expense	**80,769**	61,635
Total income tax expense	**$ 83,474**	$ 91,746

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

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:

	Year Ended March 31,	
	2013	2012
		(Revised)
	(in thousands of dollars)	
Computed tax	**$ 69,941**	$ 73,972
Change in computed taxes resulting from:		
State income tax, net of federal benefit	**11,389**	12,709
Depreciation differences not normalized	**3,301**	3,301
Investment tax credit	**(911)**	(911)
Other items	**(246)**	2,675
Total	**13,533**	17,774
Federal and state income taxes	**$ 83,474**	$ 91,746

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 (Revised)
	(in thousands of dollars)	
Deferred tax assets:		
Reserve - environmental	**$ 219,415**	$ 210,368
Pensions, OPEB and other employee benefits	**67,869**	103,040
Future federal benefit on state taxes	**46,451**	40,638
Other items	**116,044**	111,685
Total deferred tax assets (1)	**449,779**	465,731
Deferred tax liabilities:		
Property related differences	**664,771**	631,746
Regulatory Assets - environmental	**318,092**	302,163
Regulatory Assets - pension and OPEB	**101,405**	116,798
Other items	**109,062**	79,340
Total deferred tax liabilities	**1,193,330**	1,130,047
Net deferred income tax liability	**743,551**	664,316
Deferred investment tax credits	**4,725**	5,635
Net deferred income tax liability and investment tax credits	**748,276**	669,951
Current portion of net deferred income tax asset	**1,665**	12,199
Non-current deferred income tax liability and investment tax credits	**$ 749,941**	$ 682,150

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

The following table presents the amounts and expiration dates of operating losses as of March 31, 2013:

Jurisdiction	**Expiration**	**Amount**
		(in thousands of dollars)
Federal	03/31/2033	$ 11,287
New York	03/31/2029	8,372
New York	03/31/2033	4,512

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.

As of March 31, 2013 and March 31, 2012, the Company's current federal income tax balances payable to its parent are $30.1 million and $42.3 million, respectively.

Unrecognized Tax Benefits

As of March 31, 2013 and March 31, 2012, the Company's unrecognized tax benefits totaled $113.0 million and $103.4 million, respectively, of which $16.8 million as of March 31, 2013 and March 31, 2012 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,	
	2013	2012
	(in thousands of dollars)	
Balance at the beginning of the year	**$ 103,367**	$ 103,584
Gross increases related to prior period	**3,065**	2,940
Gross decreases related to prior period	**(466)**	(4,080)
Gross increases related to current period	**7,998**	2,161
Gross decreases related to current period	**(934)**	(1,238)
Balance at the end of the year	**$ 113,030**	$ 103,367

As of March 31, 2013 and March 31, 2012, the Company has accrued for interest related to unrecognized tax benefits of $12.9 million and $9.5 million, respectively. During years ended March 31, 2013 and March 31, 2012, the Company recorded interest expense of $3.4 million and $3.5 million, 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.

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

In September 2011, the Internal Revenue Service ("IRS") commenced an audit of KeySpan Corporation and subsidiaries for the short year ended August 24, 2007 and NGNA 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 short years ended August 24, 2007 and 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, 2002 through March 31, 2010. New York State has disallowed the claims for December 31, 2002 through December 31, 2006 upon audit, and also denied them on appeal to the New York Tax Tribunal, which decision was further appealed to the Supreme Court, Appellate Division. On June 6, 2013, the Company received an adverse decision from the Supreme Court, Appellate Division, and 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 2000-2006 years are only open with respect to the impact of Federal amended returns and NY ITC claims.

Note 8. Debt

Notes Payable

The Company's $400 million of 5.60% Senior Unsecured Notes mature on November 29, 2016. Interest is payable on a semi-annual basis each May and November.

Gas Facilities Revenue Bonds

The Company has outstanding tax-exempt bonds (Gas Facilities Revenue Bonds, or "GFRB") issued through the New York State Energy Research and Development Authority. At March 31, 2013 and March 31, 2012, $640.5 million of GFRBs were outstanding; $230.0 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due starting December 1, 2020 through July 1, 2026 is reset weekly and ranged from 0.14% to 2.17% during the year ended March 31, 2013 and 0.21% to 2.17% during the year ended March 31, 2012. The GFRBs are currently in auction rate mode and are backed by bond insurance. These bonds cannot be put back to the Company and in the case of a failed auction, the resulting interest rate on the bonds revert to the maximum rate which depends on the current appropriate, short term benchmark rates and the senior unsecured rating of the Company's bonds. The effect of the failed auctions on interest expense has not been material at this time.

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

(in thousands of dollars) Years Ending March 31,	
2014	$ -
2015	-
2016	-
2017	400,000
2018	-
Thereafter	640,500
Total	$ 1,040,500

The Company is obligated to meet certain financial and 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 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 $53.3 million. The Company has recorded an "other receivable" on the consolidated balance sheet at March 31, 2013 in the amount of $25.1 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 Ending March 31,	Gas
2014	$ 211,988
2015	132,427
2016	120,383
2017	71,459
2018	47,017
Thereafter	66,971
Total	$ 650,245

Lease Obligations

The Company has an operating lease for office space which is utilized by both the Company and its affiliates. A portion of the lease expense is allocated from the service company to the affiliated entities that benefit from its use. The gross rental expense for the leasehold was approximately $11.2 million for both the years ended March 31, 2013 and March 31, 2012. The rental expense, net of amounts allocated to affiliated entities, recognized by the Company in the accompanying consolidated statement of income was approximately $6.5 million and $4.3 million for the years ended March 31, 2013 and March 31, 2012, respectively.

The future minimum lease payments for the years subsequent to March 31, 2013 are as follows:

(in thousands of dollars) Years Ending March 31,	
2014	11,464
2015	11,502
2016	11,815
2017	11,903
2018	11,993
Thereafter	85,518
Total	$ 144,195

Legal Matters

The collective and class action lawsuit filed on behalf of Local 101 and its members alleging violations of the Fair Labor Standards Act and the New York Labor Law as a result of the payroll irregularities that occurred after the Company's implementation in November 2012 of its back office financial system has been discontinued and is now subject to a settlement agreement. Accordingly, there are no material employment-related actions currently pending involving the Company.

In addition to the payroll matter, the Company is subject to various legal proceedings, primarily injury claims, arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial 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 Department of Environmental Conservation ("DEC") for inclusion on appropriate site inventories. Administrative Orders on Consent 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 $45.3 million and $19.9 million, respectively.

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 $506.5 million and $482.2 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 $632.4 million and $590.3 million, respectively. These costs are expected to be incurred over the next 44 years, and the discounted amounts have been recorded as reserves in the accompanying consolidated balance sheets. However, remediation costs for each site may be materially higher than estimated, depending 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 $707.5 million and $649.7 million, respectively.

During the year ended March 31, 2012, the Company received new information concerning the proposed remediation plans for a site in downstate New York which resulted in the Company increasing its environmental reserve by approximately $107 million. During the year ended March 31, 2013, the company increased its environmental reserve by approximately $17 million. After recording an offsetting increase in regulatory assets relating to environmental remediation, there was no impact to the net assets of the Company.

Several plaintiffs in a single lawsuit alleged damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Staten Island, New York. The litigation was settled in July 2011. KeySpan continues to conduct remediation activities at this location pursuant to an Order on Consent with the DEC.

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.

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 biphenyls 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 at beginning of year	**$**	**10,862**	$	10,247
Accretion expense		**652**		615
Balance at end of year	**$**	**11,514**	$	10,862

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 the companies and charged to each company.

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

	March 31,				March 31,			
	2013		2012		**2013**		2012 (Revised)	
	(in thousands of dollars)				*(in thousands of dollars)*			
KeySpan Corporation	**$**	**-**	$	-	**$**	**125,320**	$	118,867
NGUSA Service Co		**-**		-		**134,687**		109,092
KeySpan Gas East Corp		**45,238**		12,671		**-**		-
Other affiliates, net		**436**		1,257		**7,266**		1,476
Total	**$**	**45,674**	$	13,928	**$**	**267,273**	$	229,435

Money Pool

The settlement of the Company's various transactions with KeySpan, 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 and gas inventory needs are obtained through participation in the Regulated Money Pool, except for that of NETCO, which participates in the Unregulated Money Pool. The Company, as a participant in the 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 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 a short-term money pool payable of $106.6 million and $21.0 million at March 31, 2013 and March 31, 2012, respectively. NETCO had a short-term money pool receivable of $77.0 million and $60.6 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, 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 to the Company for the years ended March 31, 2013 and March 31, 2012 were $261.2 million and $204 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 consolidated financial statements. Were these amounts allocated to the Company, the estimated effect on net income would be approximately $5.1 million and $5.0 million before taxes, and $3.3 million and $3.2 million after taxes, for each of 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 56% 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 August 2012, the Company issued a dividend in the amount of $110 million to Keyspan which was settled via the money pool.