Annual Report 2008
Granite State Electric Company
A National Grid Company

nationalgrid

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Stockholder and Board of Directors of
Granite State Electric Company:

In our opinion, the accompanying balance sheets and the related statements of income, of comprehensive income, of retained earnings and cash flows present fairly, in all material respects, the financial position of Granite State Electric Company (the "Company") at March 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note E to the financial statements, the Company changed the manner in which it accounts for pension and postretirement benefit plans effective March 31, 2007 in accordance with Financial Accounting and Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

PricewaterhouseCoopers LLP

June 25, 2008

Granite State Electric Company

Statements of Income

Year ended March 31 (In thousands)	**2008**	2007
Operating revenue	**$ 94,192**	$ 94,704
Operating expenses:		
Purchased electric energy:		
Non-affiliates	**61,110**	62,192
Contract termination charges from New England Power Company, an affiliate	**1,293**	1,449
Other operation and maintenance	**22,465**	17,125
Depreciation	**4,076**	3,703
Taxes, other than income taxes	**2,186**	1,936
Income taxes	**1,224**	1,937
Total operating expenses	**92,354**	88,342
Operating income	**1,838**	6,362
Other income:		
Other income, net	**207**	441
Operating and other income	**2,045**	6,803
Interest:		
Interest on long-term debt	**1,133**	1,133
Other interest	**125**	75
Total interest	**1,258**	1,208
Net income	**$ 787**	$ 5,595

Statements of Comprehensive Income

Year ended March 31 (In thousands)	**2008**	2007
Net income	**$ 787**	$ 5,595
Other comprehensive income/(loss), net of taxes:		
Unrealized gains on securities net of taxes of $6 and $(25), respectively	**(9)**	38
Change in additional minimum pension liability, net of taxes of $0 and $(88), respectively	**-**	132
Amortization of postretirement benefit costs, net of taxes of $131 and $0, respectively	**(197)**	-
Reclassification adjustment for gain/(loss) included in net income, net of taxes of $13 and $15, respectively	**(19)**	(23)
Total other comprehensive (loss)/income	**(225)**	147
Comprehensive income	**$ 562**	$ 5,742
Adjustment to initially apply SFAS No. 158	**-**	(5,423)
Change in accumulated other comprehensive (loss)	**$ (225)**	$ (5,276)

Statements of Retained Earnings

Year ended March 31 (In thousands)	**2008**	2007
Retained earnings at beginning of year	**$ 29,796**	$ 24,201
Net income	**787**	5,595
Retained earnings at end of year	**$ 30,583**	$ 29,796

The accompanying notes are an integral part of these financial statements

Granite State Electric Company

Balance Sheets

At March 31 (In thousands)	2008	2007
Assets		
Utility plant, at original cost	**$ 116,123**	$ 108,551
Less accumulated depreciation	**(40,647)**	(38,982)
Net utility plant	**75,476**	69,569
Goodwill	**19,352**	19,352
Other property and investments	**1,522**	1,536
Current assets:		
Cash and cash equivalents (including $7,275 and $17,050 from affiliates)	**7,712**	17,491
Accounts receivable, net (after reserves of $360 and $327, respectively, and including $1,107 and $468 from affiliates, respectively)	**11,274**	12,877
Materials and supplies, at average cost	**433**	309
Prepaid and other current assets	**732**	173
Deferred federal and state income taxes	**1,460**	1,457
Total current assets	**21,611**	32,307
Prepaid pension	**244**	70
Deferred charges and other assets	**1,325**	536
Total assets	**$ 119,530**	$ 123,370
Capitalization and Liabilities		
Capitalization:		
Common stock, par value $100 per share, authorized and outstanding 60,400 shares	**$ 6,040**	$ 6,040
Other paid-in capital	**40,054**	40,054
Retained earnings	**30,583**	29,796
Accumulated other comprehensive income/(loss)	**(5,705)**	(5,480)
Total common equity	**70,972**	70,410
Long-term debt	**15,000**	15,000
Total capitalization	**85,972**	85,410
Current liabilities:		
Accounts payable (including $2,389 and $809 to affiliates)	**10,404**	13,924
Accrued taxes	**207**	737
Accrued interest	**502**	420
Other accrued expenses	**2,282**	4,583
Customer deposits	**270**	248
Total current liabilities	**13,665**	19,912
Deferred federal and state income taxes	**7,696**	5,542
Unamortized investment tax credits	**302**	354
Accrued pension and other post-retirement benefits	**5,217**	5,444
Other reserves and deferred credits	**6,678**	6,708
Total capitalization and liabilities	**$ 119,530**	$ 123,370

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

Granite State Electric Company

Statements of Cash Flows

Year ended March 31 (In thousands)	2008	2007
Operating activities:		
Net income	**$ 787**	$ 5,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**4,076**	3,703
Deferred income taxes and investment tax credits - net	**1,812**	86
Allowance for funds used during construction	**(69)**	(76)
Changes in assets and liabilities:		
Accounts receivable, net	**2,374**	(5,655)
Materials and supplies	**(124)**	7
Prepaid and other current assets	**(559)**	3,439
Prepaid pension	**(583)**	-
Accounts payable	**(4,093)**	8,126
Accrued pension and other post-retirement benefits	**(567)**	(1,056)
Other current liabilities	**(2,727)**	(206)
Other, net	**(246)**	(499)
Net cash provided by operating activities	**81**	13,464
Investing activities:		
Plant expenditures, excluding allowance for funds used during construction	**(9,569)**	(9,355)
Other investing activities	**(291)**	40
Net cash used in investing activities	**(9,860)**	(9,315)
Net increase in cash and cash equivalents	**(9,779)**	4,149
Cash and cash equivalents at beginning of year	**17,491**	13,342
Cash and cash equivalents at end of year	**$ 7,712**	$17,491
Supplementary information:		
Interest paid, less amounts capitalized	**$ 1,123**	$ 1,197
Federal and state income taxes paid	**$ 747**	$ 2,138

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

Granite State Electric Company

Notes to Financial Statements

Note A – Significant Accounting Policies

1. Nature of Operations:
Granite State Electric Company (the Company) is a wholly owned subsidiary of National Grid USA operating in New Hampshire. The Company is affiliated with certain other US subsidiaries of National Grid including Niagara Mohawk Power Corporation, an upstate New York gas and electricity distribution provider. The Company's New England affiliates are as follows: New England Power Company, The Narragansett Electric Company, Massachusetts Electric Company, Nantucket Electric Company, New England Hydro-Transmission Electric Company, Inc., New England Hydro-Transmission Corporation, New England Hydro Finance Company, Inc. and National Grid USA Service Company (Service Company). Due to the recent acquisition discussed below, the Company is also affiliated with certain subsidiaries of KeySpan Corporation (KeySpan) including its service companies. National Grid USA is a wholly owned subsidiary of National Grid plc. The Company's business is the retail distribution of electricity. Electric service is provided to approximately 41,000 customers in 21 communities having a population of approximately 142,000 (2006 Population Estimate, US Census Bureau). The properties of the Company consist principally of substations and distribution lines interconnected with transmission and other facilities of New England Power Company (NEP), the Company's transmission affiliate.

The Company's accounting policies conform to generally accepted accounting principles in the United States of America (GAAP), including the accounting principles for rate regulated entities (see Note C), and are in accordance with the accounting requirements and ratemaking practices of the applicable regulatory authorities.

2. System of Accounts:
The accounts of the Company are maintained in accordance with the Uniform System of Accounts prescribed by regulatory bodies having jurisdiction.

3. Use of Estimates:
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 liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Revenue:
Revenues are based on billing rates authorized by the New Hampshire Public Utilities Commission (NHPUC). The Company does not record revenue for electricity delivered but not yet billed (unbilled revenues). During fiscal years 2008 and 2007, the Company recorded revenues in an amount management believes to be recoverable pursuant to provisions of approved settlement agreements and state legislation. The Company normalizes the difference between revenue and expenses from energy conservation programs, transition/default service, transmission service, and the contract termination charges (CTC).

5. Allowance for Funds Used During Construction (AFUDC):
The Company capitalizes AFUDC as part of construction costs. AFUDC represents an allowance for the cost of equity and debt funds used to finance construction. AFUDC is capitalized in "Utility plant" with offsetting non-cash credits to "Other interest" and non-cash credits to "Other income/(deductions), net." This method is in accordance with an established rate-making practice under which a utility is permitted to earn a return on, and the recovery of, prudently incurred capital costs through their ultimate inclusion in rate base and in the provision for depreciation. The composite AFUDC rates were 9.5 percent and 9.4 percent for the fiscal years ended March 31, 2008 and 2007, respectively.

6. Depreciation:
Depreciation is calculated annually on a straight-line basis. The provision for depreciation as a percentage of weighted average depreciable property was 3.7 percent for the fiscal years ended March 31, 2008 and 2007. The weighted average service life, in years, for the fiscal years ended March 31, 2008 and 2007, was 27 for each fiscal year.

7. Service Company Charges:
The affiliated service companies, have furnished services to the Company at the cost of such services since the merger with National Grid. These costs including operating costs and capital expenditures approximated \$6,201,000 and \$6,241,000 for the fiscal years ended March 31, 2008 and 2007, respectively.

8. Cash and Cash Equivalents:
The Company classifies short-term investments with a maturity of 90 days or less at time of purchase as cash equivalent.

9. Derivatives:
The Company accounts for derivative financial instruments under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivatives and Hedging Activities," and SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities," as amended (collectively, SFAS No. 133). Under the provisions of SFAS No. 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at their fair value. Fair value is determined using current quoted market prices. The Company has purchase power agreements with non-affiliates for the purchase of power and capacity for resale to its retail customers. These agreements generally have no notional amounts and do not meet the definition of a derivative under SFAS No. 133.

10. Utility Plant:
The cost of additions to utility plant and replacements of retirement units of property are capitalized. Costs include direct material, labor, overhead and AFUDC. Replacement of minor items of utility plant and the cost of current repairs and maintenance are charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

11. Goodwill:
In accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," the Company reviews its goodwill annually for impairment and when events or circumstances indicate that the asset may be impaired. The Company utilized a discounted cash flow approach incorporating its most recent business plan forecasts in the performance of the annual goodwill impairment test. The result of the annual analysis determined that no adjustment to the goodwill carrying value was required.

12. Federal and State Income Taxes:
Federal and state income taxes are recorded under the provisions of Financial Accounting Standards Board (FASB) SFAS No. 109 "Accounting for Income Taxes." Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred investment tax credits are amortized over the useful life of the underlying property.

Effective on April 1, 2007, the Company implemented FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which applies to all income tax positions reflected on the Company's balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. FIN 48 addresses the methodology to be used prospectively in recognizing, measuring and classifying the amounts associated with tax positions that are deemed to be uncertain, including related interest and penalties. See Note F – Income Taxes for the impact of the adoption of FIN 48.

13. New Accounting Standards:
In July 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure for uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of applying the provision of this interpretation is required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 on April 1, 2007. See Note F for the impact of the adoption of the new standard on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value measurements in financial reporting. While the standard does not expand the use of fair value in any new circumstance, it has applicability to several current accounting standards that require or permit entities to measure assets and liabilities at fair value. This standard defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued two staff positions which amend SFAS No. 157. FASB Staff Position (FSP) SFAS No. 157-1 excludes the application of SFAS No. 157 for the purposes of lease classification under SFAS No. 13 "Accounting for Leases." FSP SFAS No. 157-2 delays the adoption of SFAS No. 157 to fiscal years beginning after November 15, 2008, except for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a recurring basis. The Company is currently evaluating the impact of this enhanced guidance and at this time cannot determine the full impact that the new standard may have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115." This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the impact that the adoption of SFAS No. 159 will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51, Consolidated Financial Statements." The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS No. 160 is not expected to have any impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141(R), SFAS No. 141 (revised 2007), "Business Combinations," which replaces SFAS No. 141, "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. The impact to the Company of applying SFAS No. 141(R) for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141(R).

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which is an amendment of SFAS No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 will not have an impact on the Company's financial statements.

14. Comprehensive Income:
Comprehensive income/(loss) is the change in the equity of a company, not including those changes that result from shareholder transactions. While the primary component of comprehensive income/(loss) is reported net income/(loss), the other components of comprehensive income/(loss) relate to certain changes in pension and other postretirement plans obligations and unrealized gains/(losses) associated with certain investments held as available for sale.

15. Reclassifications:
Certain amounts from prior years have been reclassified in the accompanying financial statements to conform to the current year presentation.

In the fiscal year 2007 financial statements, the adoption of SFAS No. 158 was presented as activity during the fiscal year and therefore was included in comprehensive income/(loss). However, it should have been reported as a direct reduction of accumulated other comprehensive income/(loss) in the changes in equity accounts disclosed as an adjustment in the reporting period and excluded from comprehensive income/(loss). The amount incorrectly recorded to comprehensive income/(loss) was $5,423,000. The March 31, 2007, accumulated other comprehensive income/(loss) balance reported in the fiscal year 2007 financial statements was properly stated. See Note K – Accumulated Other Comprehensive Income/(Loss).

Note B – Acquisition

Following an extensive approval process, National Grid plc, the ultimate parent of the Company, completed the acquisition of KeySpan on August 24, 2007 for consideration of $7.5 billion together with the assumption of approximately $4.5 billion of debt.

The acquisition of KeySpan has significantly expanded National Grid plc's operations in the northeastern US as KeySpan was the fifth largest distributor of natural gas in the US and the largest in the northeast US, serving 2.6 million customers in New York, Massachusetts and New Hampshire. KeySpan also operated an electricity transmission and distribution network serving 1.1 million customers in New York under a long-term contract with the Long Island Power Authority.

Note C – Rate and Regulatory

The Company's financial statements conform to GAAP, including the accounting principles for rate regulated entities with respect to its regulated operations. Rates for services rendered by the Company for the most part are subject to approval by the NHPUC. Because electric utility rates have historically been based on a utility's costs, electric utilities are subject to certain accounting standards that are not generally applicable to other business enterprises. The Company applies the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," which requires regulated entities, in appropriate circumstances, to establish regulatory assets or liabilities, and thereby defer the income statement impact of certain charges or revenues because they are expected to be collected or refunded through future customer billings.

The components of regulatory assets (liabilities) are as follows:

At March 31 (In thousands)		2008		2007
Regulatory assets included in accounts receivable:				
Rate adjustment mechanisms	**$**	**2,441**	$	2,989
Regulatory (liabilities) included in other accrued expenses:				
Rate adjustment mechanisms		**(1,535)**		(4,002)
Total net regulatory liabilities current		**906**		(1,013)
Regulatory assets included in deferred charges and other assets:				
Other		**869**		488
Regulatory (liabilities) included in other reserves and deferred credits:				
Regulatory tax liability		**408**		(86)
Post retirement benefits		**(2,159)**		(2,331)
Deferred storm costs		**(82)**		-
Cost of removal		**(3,980)**		(3,742)
Total net regulatory liabilities long-term		**(4,944)**		(5,671)
Net regulatory liabilities	**$**	**(4,038)**	$	(6,684)

On July 12, 2007, the NHPUC approved a settlement agreement between the Company, the Staff of the NHPUC and the New Hampshire Office of Consumer Advocate related to issues surrounding the merger of National Grid USA and KeySpan Corporation (the 2007 Settlement). Among other things, the 2007 Settlement provides for a $2,200,000 reduction in the Company's base distribution rates in two steps, the first $1,100,000 reduction became effective August 11, 2007 and the second $1,100,000 reduction became effective January 1, 2008. The 2007 Settlement also contains a distribution rate plan spanning 10 years effective January 1, 2008 (Rate Plan). In the first five years of the Rate Plan distribution rates are frozen except for rate adjustments in the event of certain uncontrollable exogenous events and moderate annual rate adjustments related to specific Reliability Enhancement and Vegetation Management Plans (REP/VMP). The Rate Plan also includes an earnings sharing mechanism based on an imputed capital structure of 50 percent debt and 50 percent equity and a return on equity (ROE) sharing threshold of 11 percent, equal to an allowed ROE of 9.67 percent plus an allowance for merger synergy savings of 1.33 percent. Earnings above 11 percent ROE are shared equally between customers and the Company. The Rate Plan also establishes a storm contingency fund and customer service commitments by the Company. Nevertheless, management believes its rates are based on the Company’s costs and investments and it should continue to apply the provisions of SFAS No. 71. The Company is earning a return on most of its regulatory assets under its rate agreement. If the Company could no longer apply SFAS No. 71, the resulting charge would be material to the Company’s reported financial condition and results of operations.

Note D – Commitments and Contingencies

1. Plant Expenditures:
The Company’s utility plant expenditures are estimated to be approximately $8,981,000 in the fiscal year 2009. At March 31, 2008, substantial commitments had been made relative to future planned expenditures. Generally, construction expenditure levels are consistent from year to year. However, the company has undertaken a Reliability Enhancement Program to improve performance and reliability. Capital expenditures are expected to increase as a result of the program.

2. Hazardous Waste:
The normal ongoing operations and historic activities of the Company are subject to various federal, state and local environmental laws and regulations. Like most other industrial companies, the Company's business uses or generates some hazardous and potentially hazardous wastes and by-products. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency and the Massachusetts Department of Environmental Protection have named the Company as a potentially responsible party for remediation of two sites at which hazardous waste is alleged to have been disposed. The combined expected amount for both sites is $101,000.

The Company believes that obligations imposed are not likely to have a material adverse impact on its financial condition, results of operations or cash flows.

Note E - Employee Benefits

Summary
The Company participates in a non-contributory defined benefit pension plan and Postretirement Benefits Other than Pension Benefits (PBOPs) (the Plans) covering substantially all employees. The Plans cover the Company and certain other National Grid USA subsidiaries.

The pension plan is a non-contributory, tax-qualified defined benefit plan which provides all employees with a minimum retirement benefit. Under the pension plan, a participant's retirement benefit is computed using formulas based on percentages of highest average compensation computed over five consecutive years. The compensation covered by the pension plan includes salary, bonus and incentive share awards. Non-union employees hired after July 15, 2002 participate under a non-contributory defined benefit cash balance design.

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

PBOPs provide health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and, in some cases, retirees must contribute to the cost of their coverage.

Funding Policy
The Company's funding policy is to contribute amounts collected in rates to the pension plans until 100% to 110% of the PPA (Pension Protection Act of 2006) funding target is reached. In addition, the contribution for any one year will not be less than the minimum amount required under PPA. For PBOP plans, funding is made in accordance with the requirements of the various regulatory jurisdictions within which the Company operates.

Granite State Electric Company

Notes to Financial Statements

Plan Assets
The target asset allocations for the Plans are:

	Pension		Non-Union-PBOP		Union-PBOP	
	2008	2007	**2008**	2007	**2008**	2007
U.S. equities	**37%**	37%	**35%**	35%	**53%**	53%
Global equities (including U.S.)	**5%**	5%	**-**	-	**-**	-
Global Tactical Asset Allocation	**13%**	13%	**-**	-	**-**	-
Non-U.S. equities	**10%**	10%	**15%**	15%	**27%**	27%
Fixed income	**31%**	31%	**50%**	50%	**20%**	20%
Private equity and other	**4%**	4%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

The percentage of the fair value of total plan assets at March 31 is:

	Pension		Non-Union-PBOP		Union-PBOP	
	2008	2007	**2008**	2007	**2008**	2007
U.S. equities	**35%**	38%	**33%**	37%	**50%**	53%
Global equities (including U.S.)	**5%**	6%	**-**	-	**-**	-
Global Tactical Asset Allocation	**14%**	12%	**-**	-	**-**	-
Non-U.S. equities	**10%**	11%	**15%**	15%	**29%**	28%
Fixed income	**32%**	30%	**52%**	48%	**21%**	19%
Private equity and other	**4%**	3%	**-**	-	**-**	-
	100%	100%	**100%**	100%	**100%**	100%

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

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

Assumptions Used for Benefits Accounting
The following weighted average assumptions were used to determine the benefit obligation and net periodic cost for the fiscal years ended March 31, 2008 and 2007.

	Pension Benefits			
	Benefit obligation		Net periodic benefit cost	
	2008	2007	**2008**	2007
Discount rate	**6.50%**	6.00%	**6.00%**	6.00%
Rate of compensation increase	**3.75%**	4.30%	**4.30%**	4.30%
Expected long-term rate of return	**8.00%**	8.00%	**8.00%**	8.00%

	PBOP			
	Benefit obligation		Net periodic benefit cost	
	2008	2007	**2008**	2007
Discount rate	**6.50%**	6.00%	**6.00%**	6.00%
Expected long-term rate of return				
Union	**8.25%**	8.25%	**8.25%**	8.25%
Nonunion	**6.75%**	7.00%	**7.00%**	7.00%
Health care cost trend rate				
Initial rate – Pre 65	**9.00%**	9.50%	**9.50%**	10.00%
Initial rate – Post 65	**10.00%**	10.50%	**10.50%**	11.00%
Ultimate rate	**5.00%**	5.00%	**5.00%**	5.00%
Year ultimate rate is reached – Pre 65	**2014**	2012	**2012**	2011
Year ultimate rate is reached – Post 65	**2015**	2013	**2013**	2012

Contributions to the National Grid companies' pension and PBOP plans during fiscal year 2009 are expected to be $58,770,000 and $37,000,000, respectively. The Company participates in the plans with certain other National Grid USA subsidiaries. A portion of these contributions will be allocated to the Company.

Adoption of SFAS No. 158
The Company adopted SFAS No. 158 on March 31, 2007. This standard amends SFAS Nos. 87, 88, 106 and 132(R). SFAS No. 158 requires an employer with a defined benefit pension plan or other postretirement plan to recognize an asset or liability on its balance sheet for the over funded or under funded status of the plan as defined by SFAS No. 158. The pension asset or liability is the difference between the fair value of the pension plan's assets and the projected benefit obligation as of the year end. For PBOPs, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation as of year end. The offset of this asset or liability is a charge to accumulated other comprehensive income/(loss) or regulatory assets.

Granite State Electric Company

Notes to Financial Statements

The following table illustrates the effect on individual financial statement line items of applying SFAS No. 158 to the National Grid USA companies' pension and PBOP plans in which the Company participates with certain other National Grid USA subsidiaries:

March 31, 2007 (In thousands)	**Before application of SFAS No. 158**	**Adjustment**	**After application of SFAS No. 158**
Regulatory asset	$ 693	$ 61,672	$ 62,365
Deferred tax asset/(liability)	(59,745)	256,715	196,970
Current liability	-	(8,567)	(8,567)
Non-current prepaid/(accrued) liability	175,100	(696,304)	(521,204)
Accumulated other comprehensive income/(loss), net of tax	11,361	386,484	397,845
Accumulated other comprehensive income/(loss), pre tax	17,516	642,352	659,868

The Company recorded increases in it pension and PBOP liabilities of $5,558,000 and $4,282,000, respectively, with an offsetting charge to accumulated other comprehensive loss.

Pension Benefits:
The Company's net pension cost for the fiscal years ended March 31, 2008 and 2007 included the following components:

(In thousands)	**2008**	2007
Service cost	**$ 268**	$ 256
Interest cost	**1,009**	1,046
Expected return on plan assets	**(1,269)**	(1,285)
Amortization of prior service cost	**23**	20
Amortization of net loss	**322**	356
Net periodic benefit cost	**$ 353**	$ 393

The assets, benefit obligations and funded status of the pension plans cannot be presented separately for the Company as the Company participates in the plans with certain other National Grid USA subsidiaries.

Granite State Electric Company

Notes to Financial Statements

The following table sets forth the total funded status at March 31 of the pension plans in which the Company participates:

(In thousands)	**2008**	2007
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ (1,655,793)**	$ (1,407,105)
Service cost	**(29,677)**	(25,380)
Interest cost	**(96,555)**	(89,364)
Actuarial gain/(loss)	**87,470**	(65,207)
Benefits paid	**118,775**	97,169
Curtailments	**(659)**	-
Plan amendments	**(1,643)**	-
Special termination benefits (VERO)	**(27,920)**	-
Assumption of Rhode Island gas pension obligation*	-	(165,906)
Benefit obligation at end of period	**(1,606,002)**	(1,655,793)
Change in plan assets:		
Fair value of plan assets at beginning of period	**1,530,981**	1,244,035
Actual return on plan assets	**(12,931)**	139,218
Company contributions	**60,053**	91,294
Benefits paid	**(118,775)**	(97,169)
Assumption of Rhode Island gas pension assets*	-	153,603
Fair value of plan assets at end of period	**1,459,328**	1,530,981
Funded status at end of period	**$ (146,674)**	$ (124,812)

* On August 24, 2006, The Narragansett Electric Company, an affiliated company, acquired the Rhode Island gas distribution assets of New England Gas Company from Southern Union Company. In connection with this acquisition, four small pension plans merged with the existing pension plan, resulting in an increase in the assets and benefit obligation of the plan in the amounts of $153,603,000 and $165,906,000, respectively.

The accumulated benefit obligation for the defined benefit pension plans in which the Company participates was $1,429,527,000 and $1,475,296,000 at March 31, 2008 and 2007, respectively.

The following table details the amounts recognized in the Company's statements of financial position.

(In thousands)	**2008**	2007
Other accrued expenses – current	**$ (37)**	$ (37)
Prepaid pension / Accrued pension and other postretirement benefits	**(112)**	(290)
	$ (149)	$ (327)

(In thousands)	**2008**	2007
Net actuarial loss	**$ 5,581**	$ 5,475
Prior service cost	**125**	154
Amounts recognized in accumulated other comprehensive income/(loss)	**$ 5,706**	$ 5,629

Granite State Electric Company

Notes to Financial Statements

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income/(loss) and regulatory assets into net periodic benefit cost during fiscal year 2009 are $17,146,000 and $1,613,000, respectively. The Company participates in the plans with certain other National Grid USA subsidiaries. The Company will record a portion of these costs to expense with an offset to other comprehensive income/(loss).

The following pension benefit payments, which reflect expected future services, as appropriate, are expected to be paid from the National Grid USA companies' pension plans:

(In thousands)	**Pension Benefits**
2009	$ 108,770
2010	$ 108,643
2011	$ 99,561
2012	$ 102,394
2013	$ 103,152
2014-2018	$ 513,199

Defined Contribution Plan

The Company has a defined contribution pension plan (employee savings fund plan) that covers substantially all employees. Employer matching contributions of approximately $102,000 and $101,000 were expensed for the fiscal years ended March 31, 2008 and 2007.

Postretirement Benefits Other than Pension Benefits (PBOPs):

The Company's total net periodic benefit cost of PBOPs for the fiscal years ended March 31, 2008 and 2007 included the following components:

(In thousands)	**2008**	2007
Service cost	**$ 141**	$ 155
Interest cost	**689**	675
Expected return on plan assets	**(556)**	(505)
Amortization of prior service cost	**(22)**	(22)
Amortization of net loss	**218**	218
Net periodic benefit cost	**$ 470**	$ 521

Granite State Electric Company

Notes to Financial Statements

The following table sets forth the Company's portion of the funded status of the PBOP plans at March 31.

(In thousands)	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ (12,204)**	$ (11,828)
Service cost	**(141)**	(155)
Interest cost	**(689)**	(675)
Actuarial gain/(loss)	**455**	(107)
Benefits paid	**618**	590
Plan amendments	**(2)**	-
Medicare Act subsidy	**(3)**	(29)
Benefit obligation at end of period	**$ (11,966)**	$ (12,204)
Change in plan assets:		
Fair value of plan assets at beginning of period	**7,120**	6,265
Actual return on plan assets	**(224)**	676
Company contributions	**811**	760
Benefits paid	**(602)**	(581)
Fair value of plan assets at end of period	**$ 7,105**	$ 7,120
Funded status	**$ (4,861)**	$ (5,084)

Amounts recognized in the Company's statements of financial position consist of:

(In thousands)	2008	2007
Accrued pension and other postretirement benefits	**$ (4,861)**	$ (5,084)
Accumulated other comprehensive loss	**$ 4,414**	$ 4,282

Amounts recognized in accumulated other comprehensive loss consist of:

(In thousands)	2008	2007
Net actuarial loss	**$ 4,599**	$ 4,491
Prior service cost	**(185)**	(209)
Net amount recognized	**$ 4,414**	$ 4,282

The estimated net actuarial loss and prior service cost for the PBOP plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during the 2009 fiscal year are $200,000 and ($21,000), respectively.

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

Notes to Financial Statements

The following PBOP benefit payments and the U.S. Federal Government subsidies, which reflect future services, as appropriate, are expected to be:

(In thousands)	Payments	Subsidies
2009	$ 684	$ 38
2010	$ 733	$ 42
2011	$ 772	$ 46
2012	$ 810	$ 48
2013	$ 838	$ 51
2014-2018	$ 4,559	$ 291

The assumptions used in the health care cost trends have a significant effect on the amounts reported. A one percentage point change in the assumed rates would increase the accumulated postretirement benefit obligation (APBO) as of March 31, 2008 by $1,728,000 or decrease the APBO by $1,510,000, and increase or decrease the net PBOP cost for 2008 by $137,000 or $117,000, respectively.

Special Termination Benefits(Voluntary Early Retirement Offer)
In connection with the acquisition of KeySpan and in an effort to achieve necessary reductions through voluntary means, National Grid plc and KeySpan offered certain non-union employees voluntary early retirement offer (VERO) packages in June 2007. Of the 560 enrolled in the VERO, none were employees of the company. Employees enrolled in the early retirement program will retire between October 1, 2007 and October 1, 2010. The Company's share of the cost of the VERO program is expected to be $617,000 which includes VERO costs allocated from affiliates. The Company recorded $205,000 of VERO costs for the twelve months ended March 31, 2008, for program participants that retired as of April 1, 2008. The majority of this amount was recorded in regulatory assets because the Company is able to recover certain prudently incurred costs related to the merger. The remaining $412,000 will be recorded through September 2010 as the program participants retire.

Note F – Income Taxes

The Company and other related subsidiaries of National Grid USA participate with National Grid Holdings, Inc. (NGHI), a wholly owned subsidiary of National Grid plc, in filing consolidated United States federal income tax returns. The Company's tax provisions and tax accounts are calculated on a separate company basis.

Total income taxes in the statements of income are as follows:

Fiscal Year ended March 31, (In thousands)	**2008**	2007
Income taxes charged to operations	**$ 1,224**	$ 1,937
Income taxes charged to "Other income"	**126**	337
Total income taxes	**$ 1,350**	$ 2,274

Total income taxes, as shown above, consist of the following components:

Fiscal Year ended March 31, (In thousands)	**2008**	2007
Current income taxes	**$ (462)**	$ 2,188
Deferred income taxes	**1,864**	140
Investment tax credits, net	**(52)**	(54)
Total income taxes	**$ 1,350**	$ 2,274

Notes to Financial Statements

Investment tax credits have been deferred and are being amortized over the estimated lives of the property giving rise to the credits.

Total income taxes, as shown above, consist of federal and state components as follows:

Fiscal Year ended March 31, (In thousands)	**2008**	2007
Federal income taxes	**$ 803**	$ 2,515
State income taxes	**547**	(241)
Total income taxes	**$ 1,350**	$ 2,274

The Company has adopted comprehensive inter-period tax allocation (normalization) for temporary book/tax differences consistent with rate-making policies of the NHPUC.

Total income taxes differ from the amounts computed by applying the federal statutory tax rates to income before taxes. The reasons for the differences are as follows:

Fiscal Year Ended March 31, (In thousands)	**2008**	2007
Computed tax at statutory rate	**$ 748**	$ 2,754
Increases (reductions) in tax resulting from:		
Amortization of investment tax credits	**(52)**	(54)
State income tax, net of federal income tax benefit	**244**	121
Book versus tax depreciation not normalized	**200**	(63)
Prior year tax adjustment	**240**	(450)
Medicare Act	**(43)**	(47)
All other differences	**13**	13
Total income taxes	**$ 1,350**	$ 2,274

The Company recognizes deferred income taxes for temporary differences that are reported in different years for financial reporting and tax purposes using the liability method. Under the liability method, deferred tax liabilities or assets are computed using the tax rates that will be in effect when temporary differences reverse. Generally, for regulated companies, the change in tax rates may not be immediately recognized in operating results because of rate-making treatment and provisions in the Tax Reform Act of 1986.

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Notes to Financial Statements

The following table identifies the major components of total deferred income taxes:

At March 31, (In thousands)	2008	2007
Deferred tax asset:		
Plant related	**$ 1,078**	$ 1,439
All other	**7,090**	7,102
Total deferred tax asset	**8,168**	8,541
Deferred tax liability:		
Plant related	**(12,136)**	(10,910)
All other	**(2,268)**	(1,716)
Total deferred tax liability	**(14,404)**	(12,626)
Net deferred tax liability	**(6,236)**	(4,085)
Less current portion (net deferred tax asset)	**1,460**	1,457
Net deferred tax liability (non-current)	**$ (7,696)**	$ (5,542)

There were no valuation allowances for deferred tax assets deemed necessary at March 31, 2008 and March 31, 2007, respectively.

In July 2006, the FASB issued FIN 48 which prescribes guidance to address inconsistencies among entities with the measurement and recognition in accounting for income tax positions for financial statement purposes. Specifically, FIN 48 establishes criteria for the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when a company determines that it is more-likely-than-not that the tax position will be ultimately sustained.

The total amount of gross unrecognized tax benefits at March 31, 2007 was $211,000. Upon adoption of FIN 48 on April 1, 2007, the Company did not record any adjusting entries for unrecognized tax benefits. The total gross unrecognized tax liability would impact the effective tax rate, if recognized. In addition, the Company has accrued for total interest of $82,000, gross. The Company recorded $500 of interest expense during the quarter ended March 31, 2008. The total amount of gross unrecognized tax benefits and accrued interest are expected to be paid in cash within the next twelve months. Therefore, upon adoption of FIN 48 there was no material effect on our operations, financial position or cash flows.

Effective as of April 1, 2007, the Company recognizes interest accrued related to uncertain tax positions in interest income or interest expense and related penalties if applicable in operating expenses. In prior reporting periods, the Company recognized such accrued interest and penalties in income tax expense. No penalties were recognized during the twelve months ended March 31, 2008.

Reconciliation of Unrecognized Tax Benefits (in thousands)	
Beginning balance, upon adoption as of April 1, 2007	$211
Gross increases (decreases) related to prior period	0.0
Gross increases (decreases) related to current period	0.0
Settlements with tax authorities	0.0
Reductions due to a lapse of statute of limitations	0.0
Ending balance at March 31, 2008	$211

Federal income tax returns have been examined and all appeals and issues have been agreed upon by the Internal Revenue Service (IRS) and the NGHI consolidated filing group through March 31, 2002. The IRS has completed its audit for the NGHI consolidated filing group for the fiscal years ending March 31, 2003 and March 31, 2004. Certain adjustments proposed by the IRS are being appealed to the IRS Office of Appeals, but resolution is not expected within the next twelve months. The IRS is currently reviewing the March 31, 2005, 2006, 2007 tax returns of the NGHI consolidated filing group.

The Company participates with certain other National Grid subsidiaries in filing a unitary New Hampshire business profits tax return. The NH unitary returns have been amended for all agreed IRS adjustments. As a result, and in accordance with the intercorporate tax allocation agreement, the Company expects to pay $200,500 of the total gross unrecognized tax benefits within the next twelve months. There is currently no ongoing audit by the State of New Hampshire although the tax returns for fiscal years ending March, 31, 2005, 2006, and 2007 are still open under the statute of limitations.

Note G – Short-term Borrowings and Other Accrued Expenses

At March 31, 2008, the Company had no short-term debt outstanding to affiliates. The Company has regulatory approval from the Federal Energy Regulatory Commission (FERC), to issue up to $10,000,000 of short-term debt. National Grid USA and certain subsidiaries, including the Company, with regulatory approval, operate a money pool to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowing companies pay interest at a rate designed to approximate the cost of outside short-term borrowings. Companies that invest in the pool share the interest earned on a basis proportionate to their average monthly investment in the money pool. Funds may be withdrawn from or repaid to the pool at any time without prior notice.

The components of other accrued expenses are as follows:

At March 31, (In thousands)	**2008**	2007
Rate adjustment mechanisms	**$ 1,535**	$ 4,002
Accrued wages and benefits	**609**	512
Other	**138**	69
Total	**$ 2,282**	$ 4,583

Note H – Long-term Notes

A summary of long-term unsecured notes is as follows:

At March 31, (In thousands)

Rate %	Maturity	**2008**	2007
7.37	November 1, 2023	**$ 5,000**	$ 5,000
7.94	July 1, 2025	**5,000**	5,000
7.30	June 15, 2028	**5,000**	5,000
Total long-term notes		**$15,000**	$15,000

There are no cash payments required to retire maturing notes until calendar year 2023.

At March 31, 2008 and 2007, the Company's long-term notes had a carrying value of approximately $15,000,000 and a fair value of approximately $16,385,000 and $17,526,000, respectively. The fair market value of the Company's long-term notes was estimated based on the quoted prices for similar issues or on the current rates offered to the Company for notes of the same remaining maturity.

The Company's long-term debt covenants provide for certain restrictive covenants and acceleration clauses. These covenants stipulate that note holders may declare the debt to be due and payable if total debt becomes greater than 70 percent of total capitalization. At March 31, 2008 and 2007, the total long-term debt was 17 and 18 percent, respectively, of total capitalization.

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Notes to Financial Statements

Note I – Restrictions on Payments of Dividends

Pursuant to the provisions of the long-term note agreement, payment of dividends on common stock would not be permitted if, after giving effect to such payment of dividends, common equity becomes less than 30 percent of total capitalization. At March 31, 2008 and 2007, common equity was 83 percent and 82 percent, respectively, of total capitalization. Under these provisions, none of the Company's retained earnings at March 31, 2008 and 2007 were restricted as to common dividends.

Note J – Supplementary Income Statement Information

Advertising expenses, expenditures for research and development, and rents were $316,000 and $328,000, respectively, in the fiscal years ended March 31, 2008 and 2007. There were no royalties paid in the fiscal years ended March 31, 2008 or 2007. Taxes, other than income taxes, charged to operating expenses are set forth by class as follows:

Fiscal Year ended March 31, (In thousands)	**2008**	2007
Municipal property taxes	**$ 1,831**	$ 1,627
Federal and state payroll and other taxes	**355**	309
Total taxes, other than income taxes	**$ 2,186**	$ 1,936

Note K – Accumulated Other Comprehensive Income/(Loss)

(In thousands)	Unrealized Gain/(Loss) on Available for Sale Securities	Postretirement Benefit Liability	Total Accumulated Other Comprehensive Income/(Loss)
March 31, 2006 balance, net of tax	$ 51	$ (255)	$ (204)
Change in additional minimum pension liability	-	132	132
Adjustment to initially apply SFAS No.158	-	(5,423)	(5,423)
Adjusted Balance - AOCI	51	(5,546)	(5,495)
Other comprehensive income/(loss):			
Unrealized gains/(losses) on securities	38	-	38
Reclassification adjustment for gain/(loss) included in net income	(23)	-	(23)
March 31, 2007 balance, net of tax	$ 66	$ (5,546)	$ (5,480)
Other comprehensive income/(loss):			
Unrealized gains/(losses) on securities	(9)	-	(9)
Reclassification adjustment for gain/(loss) included in net income	(19)	-	(19)
Amortization of postretirement costs		(125)	(125)
Tax on Medicare subsidy		(72)	(72)
March 31, 2008 balance, net of tax	$ 38	$ (5,743)	$ (5,705)

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Notes to Financial Statements

Note L – Cost of Removal and Asset Retirement Obligations

SFAS No. 143, "Accounting for Asset Retirement Obligations," provides the accounting requirements for retirement obligations associated with tangible long-lived assets. The Company does not have any material asset retirement obligations arising from legal obligations as defined under SFAS No. 143. However, under the Company's current and prior rate plans, it has collected through rates an implied cost of removal for its plant assets. This cost of removal collected from customers differs from the SFAS No. 143 definition of an asset retirement obligation in that these collections are for costs to remove an asset when it is no longer deemed usable (i.e. broken or obsolete) and not necessarily from a legal obligation. These collections have been recorded to a regulatory liability account to reflect future use. The Company estimates it has collected over time approximately $3,980,000 and $3,742,000 for cost of removal through March 31, 2008 and 2007, respectively.

In March 2005, FIN 47, an interpretation of SFAS No. 143, was adopted by the Company for the fiscal year ended March 31, 2006. FIN 47 clarifies that the term "conditional asset retirement obligation" used in SFAS No. 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. The Company continues to monitor such contingencies, which do not have a material impact on the Company's results of operations or its financial position for the periods ended March 31, 2008 and 2007.