NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES

ANNUAL REPORT
MARCH 31, 2009

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME

(In Thousands of Dollars)	Twelve Months March 31, 2009	Successor For The Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1,2007 - August 24,2007
Operating Revenues	$ 420,195	$ 237,172	$ 254,944
Operating Expenses			
Operations	102,100	59,872	63,441
Maintenance	47,537	27,834	33,614
Emission credit write down	24,600	-	-
Depreciation and amortization	61,856	37,151	39,724
Operating taxes	167,721	90,537	97,569
Total Operating Expenses	403,814	215,394	234,348
Operating Income	16,381	21,778	20,596
Interest Charges	(24,069)	(15,966)	(16,881)
Other Income and (Deductions)	5,951	5,906	7,456
Earnings Before Income Taxes	(1,737)	11,718	11,171
Income Taxes			
Current	14,875	9,190	4,884
Deferred	(16,590)	(5,795)	(1,803)
Total Income Taxes	(1,715)	3,395	3,081
Net Income before Extraordinary items	$ (22)	$ 8,323	$ 8,090
Extraordinary charge (net of tax)	-	-	(25,492)
Net Income (loss)	$ (22)	$ 8,323	$ (17,402)

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)	**Fiscal Year Ended March 31, 2009**	**Fiscal Year Ended March 31, 2008**
ASSETS		
Current Assets		
Cash	-	-
Other Special Deposit	49	-
Accounts receivable	12,101	4,689
Allowance for doubtful accounts	(5,927)	(2,979)
Unbilled revenue	15,573	29,306
Accounts receivable, affiliates, net	145,229	61,600
Emission credits	47,906	288,115
Materials and supplies, at average cost	36,346	36,344
Prepaid assets and other	1,257	12,951
Current deferred tax asset	10,510	-
	263,044	430,026
Property, Plant and Equipment		
Plant	1,765,800	1,720,853
Accumulated depreciation	(1,015,113)	(967,428)
	750,687	753,425
Deferred Charges and Other Assets		
Contractual receivable - Pension and OPEB (See Note 3)	30,775	42,111
Other	9,080	9,261
	39,855	51,372
Total Assets	$ 1,053,586	$ 1,234,823

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

NATIONAL GRID GENERATION LLC
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CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)	**Fiscal Year Ended March 31, 2009**	**Fiscal Year Ended March 31, 2008**
LIABILITIES AND CAPITALIZATION		
Current Liabilities		
Accounts payable and accrued expenses	24,547	22,280
Taxes accrued	27,742	42,306
Current deferred tax liability	-	12,085
	52,289	76,671
Deferred Credits and Other Liabilities		
Asset retirement obligations	8,172	7,709
Emission credit reserve	38,200	243,652
Other	22,154	26,516
Deferred income taxes	97,782	45,408
	166,308	323,285
Commitments and Contingencies (Note 5)	-	-
Capitalization		
Other paid in capital	427,954	427,954
Retained earnings	8,301	8,323
Members equity	436,255	436,277
Long-term debt	266,866	266,722
Total Capitalization	703,121	702,999
Advances from Parent	131,868	131,868
Total Capitalization and Advances from Parent	834,989	834,867
Total Liabilities and Capitalization	$ 1,053,586	$ 1,234,823

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

NATIONAL GRID GENERATION LLC
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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)	Twelve Months March 31, 2009	Successor For The Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1,2007 - August 24,2007
Operating Activities			
Net income	$ (22)	$ 8,323	$ (17,402)
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	61,856	37,151	39,724
Deferred income tax	(16,590)	(5,795)	(1,803)
Extraordinary charge, net of taxes	-	-	25,492
Emission credit impairment	24,600	-	-
Changes in assets and liabilities			
Accounts receivable, net	18,622	(7,104)	14,411
Materials and supplies	(1)	410	(616)
Accounts payable and accrued expenses	46,356	11,999	(39,467)
Accounts receivable (payable) affiliates, net	(20,592)	-	-
Other	11,897	(11,172)	13,197
Net Cash Provided by Operating Activities	126,126	33,812	33,536
Investing Activities			
Capital expenditures	(59,839)	(26,117)	(27,321)
Other	(8,211)	(4,714)	(3,706)
Intercompany moneypool and affiliated transactions	(58,076)	(2,981)	(2,509)
Net Cash Used in Investing Activities	(126,126)	(33,812)	(33,536)
Financing Activities	-	-	-
Net Cash Used in Financing Activities	-	-	-
Net increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	$ -	$ -	$ -
Interest paid	$ 25,969	$ 12,823	$ 13,781

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

NATIONAL GRID GENERATION LLC
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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In Thousands of Dollars)	Twelve Months March 31, 2009	Successor For The Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1,2007 - August 24,2007
Balance at beginning of period	8,323	124,525	141,927
Net income / loss	(22)	8,323	(17,402)
Reclassification to paid in capital- pre acquisition	-	(124,525)	-
Balance at end of period	8,301	8,323	124,525

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of Dollars)	Twelve Months March 31, 2009	Successor For The Period August 25, 2007 - March 31, 2008	Predecessor For the Period January 1,2007 - August 24,2007
Net Income	$ (22)	$ 8,323	$ (17,402)
Other comprehensive income (loss), net of tax			
Change in pension and other postretirement obligations	-	-	(34,096)
Other comprehensive income (loss), net of tax	-	-	(34,096)
Comprehensive Income (Loss)	$ (22)	$ 8,323	$ (51,498)
Related tax expense			
Change in pension and other postretirement obligations	-	-	(22,731)
Total Tax Expense (Benefit)	$ -	$ -	$ (22,731)

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

NATIONAL GRID GENERATION LLC
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CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In Thousands of Dollars)				**March 31, 2009**	**March 31, 2008**
Total Member's Equity				$ 436,255	$ 436,277
Long-Term Debt.	Maturity	Interest Rate	Series		
Authority Financing Notes					
Pollution Control Revenue Bonds					
	October 1, 2028	Variable	1999 A	41,125	41,125
Electric Facilities Revenue Bonds					
	December 1, 2027	Variable	1997 A	24,880	24,880
Total Authority Financing Notes				66,005	66,005
Promissory Notes to LIPA*					
Pollution Control Revenue Bonds					
	March 1, 2016	5.15%	1985 B	27,900	27,900
Electric Facilities Revenue Bonds					
	November 1, 2023	5.30%	1993 B	29,600	29,600
	October 1, 2024	5.30%	1994 A	2,600	2,600
	August 1, 2025	5.30%	1995 A	15,200	15,200
Total Promissory Notes to LIPA				75,300	75,300
Tax-exempt Bonds					
Nassau County Industrial Development Revenue Bonds					
	September 1, 2027	5.25%		53,275	53,275
Suffolk County Industrial Development Revenue Bonds					
	September 1, 2027	5.25%		75,000	75,000
Long-Term Debt				269,580	269,580
Fair Value Adjustment				(2,714)	(2,858)
Total Long-Term Debt				266,866	266,722
Total Capitalization				703,121	702,999
Advances from Parents		6.15%		131,868	131,868
Total Capitalization and Advances from Parents				$ 834,989	$ 834,867

*The Promissory Notes to LIPA have been allocated to National Grid Generation LLC from the Parent. (See Note 4 to the Consolidated Financial Statements "Long-term Debt")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Organization

National Grid Generation LLC (referred to in these notes as "National Grid Generation," "we," "us" and "our") is a wholly owned subsidiary of KeySpan Corporation d/b/a KeySpan Energy (the "Parent"). We own and operate 53 electric generation units throughout Long Island, 20 of which can be powered either by oil or natural gas at our election. Our wholly owned subsidiaries, National Grid Glenwood Energy Center LLC ("Glenwood") and National Grid Port Jefferson Energy Center LLC ("Port Jefferson") sell capacity, energy conversion and ancillary services to The Long Island Power Authority ("LIPA').

National Grid Generation has an agreement with LIPA ("The Power Supply Agreement") ("PSA") for which it provides for the sale to LIPA all of the capacity and, to the extent LIPA requests, energy from the generating facilities. LIPA represents our only customer of capacity and energy. Capacity refers to the ability to generate energy and, pursuant to New York Independent System Operator ("NYISO") requirements, must be maintained at specified levels (including reserves) regardless of the source and amount of energy consumption. By contrast, energy refers to the electricity generated for consumption by customers. Such sales of capacity and energy to LIPA are made under terms of the PSA contract which is reviewed by the Federal Energy Regulatory Commission ("FERC"). These rates may be modified in accordance with the terms of the PSA (See Note 5 "Commitments and Contingencies" for additional information on the PSA.)

National Grid Glenwood Energy Center LLC and National Grid Port Jefferson Energy Center LLC have entered into 25 year Power Purchase Agreements (the "PPAs") with LIPA. Under the terms of the PPAs, these subsidiaries sell capacity, energy conversion services and ancillary services to LIPA. Both plants are designed to produce 79.9 megawatts of electricity. Under the PPAs, LIPA pays a monthly capacity fee, which provides for the recovery of each plant's construction costs, as well as an appropriate rate of return on investment. The PPAs also obligate LIPA to pay for each plant's costs of operation and maintenance. These costs are billed on a monthly estimated basis and are subject to true-up for actual costs incurred.

On August 24, 2007, KeySpan completed its merger (the "Merger") with National Grid plc, a public limited company incorporated under the laws of England and Wales. As a result of the merger KeySpan is a wholly owned subsidiary of National Grid USA, a public utility holding company with regulated subsidiaries engaged in the transmission, distribution and sale of both natural gas and electricity. National Grid USA is a wholly owned subsidiary of National Grid plc. National Grid Generation continues to operate its utility business as a wholly-owned subsidiary of KeySpan and as an indirect subsidiary of National Grid USA.

B. Basis of Presentation

The Consolidated Financial Statements reflect the accounts of National Grid Generation and its subsidiaries. Due to the acquisition of KeySpan by National Grid plc and the change in KeySpan's fiscal year, NG Generation's Statement of Comprehensive Income and its Statement of Cash Flows are presented for the following periods: (i) the twelve month period ended March 31, 2009; (ii) the predecessor period January 1, 2007 – August 24, 2007; and (iii) the successor period August 25, 2007 – March 31, 2008. The Consolidated Balance Sheet is presented at March 31, 2009 and March 31, 2008 as the successor company. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("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 period. Actual results could differ from those estimates.

In our opinion, the accompanying audited Consolidated Financial Statements contain all adjustments necessary to present fairly National Grid Generation financial position as of March 31, 2009 and March 31, 2008 and the results of operations and cash flows for the twelve months ended March 31, 2009 and the fifteen months ended March 31, 2008.

C. Revenues

Electric revenues are derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from our existing oil and gas-fired generating plants. Sales of capacity and energy are made under terms of the Power Supply Agreement with rates approved by FERC. (See Note 5, "Commitments and Contingencies" for additional information on the PSA.)

D. Property - Depreciation and Maintenance

Property is stated at original cost of construction, which includes allocations of overheads and taxes and an allowance for funds used during construction. Capitalized interest for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008 was $1 million, $0.2 million and $0.3 million respectively. At March 31, 2009, National Grid Generation had $1.8 billion of plant and $55.8 million of construction work in progress on the balance sheet.

Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property. The annualized composite rate on average depreciable property was approximately 3.60% and 3.73% for the twelve months ended March 31, 2009 and March 31, 2008 respectively. The cost of property retired, plus the cost of removal less salvage, is charged to accumulated depreciation. The cost of repair and minor replacement and renewal of property is charged to maintenance expense when incurred.

E Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities." This Statement amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses of derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. This Statement shall be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement has no impact on results of operations, financial position or cash flows, since National Grid Generation has no outstanding derivative instruments.

In December 2007, the FASB issued SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin 51 "Consolidated Financial Statements." The objective of SFAS 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 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. This Statement will have no impact on results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. This statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. National Grid Generation has not elected the fair value method.

Note 2. Income Tax

Following is a summary of the components of federal and state income tax and reconciliation between the amount of federal income tax expense reported in the Consolidated Statements of Operations and the computed amount at the statutory tax rate:

(In Thousands of Dollars)	For the Twelve Months Ended March 31,2009	Sucessor For the Period August 25, 2007 - March 31,2008	Predessor For the Period January 1, 2007 - August 24, 2007
Current income tax			
Federal	$ 10,208	$ 6,701	$ 3,849
State and Local	4,667	2,489	1,035
Total Current income tax	14,875	9,190	4,884
Deferred income tax			
Federal	(11,760)	(4,273)	(1,243)
State and Local	(4,830)	(1,522)	(560)
Total deferred income tax	(16,590)	(5,795)	(1,803)
Total income tax	$ (1,715)	$ 3,395	$ 3,081

Income tax expense for 2009 and for the periods ended March 31, 2008 and August 24, 2007 varied from the amount computed by applying the statutory rate to income before income taxes. A reconciliation of expected federal income tax expense, using federal statutory rate of 35 percent, to the Corporation's actual income tax expense for 2009 for the periods ended March 31, 2008 and August 24, 2007 is presented in the following table:

(In thousands of dollars)	For the Twelve Months Ended March 31, 2009	Successor For the Period August 25, 2007 - March 31, 2008	Predecessor For the Period January1, 2007 - March 31, 2008
Computed tax	$ (608)	$ 4,101	$ 3,910
Increase (reduction) attributable to certain tax adjustments:			
State income taxes, net of federal income tax benefit	(106)	625	308
Medicare reimbursement	(232)	(134)	(298)
Manufacturing deduction	-	(290)	(196)
Intercompany tax sharing	(993)	-	-
Provision to return adjustment	292	-	-
Other items, net	(68)	(907)	(643)
Total	(1,107)	(706)	(829)
Federal and state income taxes	$ (1,715)	$ 3,395	$ 3,081
	99%	29%	28%

Significant components of net deferred tax assets and liabilities at March 31, 2009 and March 31, 2008 are presented in the following table:

(In thousands of dollars)	As at March 31, 2009	2008
Employee benefits and compensation	12,571	16,005
State income taxes	9,702	-
Reserves not currently deductible	5,132	402
Other, net	7,242	-
Asset retirement obligations	3,551	2,788
Total deferred tax assets [(1)]	38,198	19,195
Property related differences	88,384	22,694
Property taxes	24,971	14,959
Sales of emissions allowances	12,115	19,783
Interest payable	-	16,030
State income taxes	-	3,222
Total deferred tax liabilities	125,470	76,688
Net accumulated deferred income tax liability	87,272	57,493
Current portion (net deferred tax asset)	(10,510)	12,085
Net accumulated deferred income tax liability (non-current)	$ 97,782	$ 45,408

[(1)] There were no valuation allowances for deferred tax assets at March 31, 2009 or 2008.

As part of the finalization of the purchase accounting exercise following the acquisition of KeySpan by National Grid plc, we performed a detailed review and reconciliation exercise of all tax related balances. As a consequence of this review, National Grid Generation revised its other paid-in-capital by $31 million and other balance sheet accounts by like amounts.

In 2008, National Grid Generation recorded a $7.6 million adjustment to income tax expense related to 2006 and prior periods which is recorded in the period January 1, 2007 to August 24, 2007 and offsetting adjustments to deferred income tax and accrued expenses.

In July 2006, the FASB issued Financial Interpretation (FIN) 48, "Accounting for Uncertainty in Income Taxes," which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, assuming the taxing authority has full knowledge of all relevant information and that any dispute with a taxing authority is resolved by the court of last resort. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Recognized tax benefits are measured as the largest amount of tax benefit that is more likely than not to be realized upon settlement with the taxing authority, assuming the taxing authority has full knowledge of all relevant information.

National Grid Generation adopted the provisions of FIN 48 on January 1, 2007. Upon adoption, National Grid Generation recorded no change to the liability for unrecognized tax benefits or retained earnings as a result of the implementation of FIN 48.

As of March 31, 2009 and 2008, National Grid Generation's unrecognized tax benefits totaled $13.3 million and $39.7 million, respectively, of which $23.4 million and $0.5 million, respectively, would impact the effective tax rate, if recognized.

The following table reconciles the changes to unrecognized tax benefits for the years ended March 31, 2009 and 2008

Reconciliation of Unrecognized Tax Benefits	**As at March 31,**	
(In thousands of dollars)	**2009**	**2008**
Unrecognized tax benefit - March 31, 2008	39,719	29,717
Gross increases - tax positions in prior period	3,056	-
Gross decreases - tax positions in prior period	(29,479)	-
Gross increases - tax positions in current period	-	10,002
Gross decreases - tax positions in prior period	-	-
Settlements	-	-
Lapse of statute of limitations	-	-
Unrecognized Tax Benefit - March 31, 2009	**$ 13,296**	**$ 39,719**

We believe that it is not reasonably possible that the tax liability for unrecognized tax benefits will significantly increase or decrease by an amount ranging from $15.5 million to $18.3 million by March 31, 2010.

Effective as of April 1, 2007, National Grid Generation 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, National Grid Generation recognized such accrued interest and penalties in income tax expense. Accrued interest and penalties are included within the related liability lines in the consolidated balance sheet as of March 31, 2009. As of March 31, 2009 and March 31, 2008, National Grid Generation has accrued for total interest of $9.8 million and $7.9 million, respectively. During the periods ended March 31, 2009 and March 31, 2008, National Grid Generation recorded interest expense of $1.9 million and $3.0 million, respectively. No penalties were recognized during the periods ended March 31, 2009 and March 31, 2008.

As of August 25, 2007, National Grid Generation participates in filing a federal consolidated return with National Grid Holdings, Inc. ("NGHI") and subsidiaries. Federal income tax returns have been examined and all appeals and issues have been agreed with the Internal Revenue Service (IRS) and the NGHI consolidated filing group through March 31, 2002. The IRS is currently auditing NGHI's federal consolidated income tax returns, which do not include National Grid Generation for March 31, 2005 through March 31, 2007. Fiscal years ended March 31, 2008 and March 31, 2009, which include National Grid Generation remain subject to examination by the IRS.

Prior to August 25, 2007, National Grid Generation participated in filing a federal consolidated return with KeySpan Corporation and Subsidiaries. Federal income tax returns have been examined and all appeals and issues have been agreed with the Internal Revenue Service (IRS) and KeySpan Corporation's consolidated filing group through December 31, 1999. The IRS is currently auditing KeySpan Corporation's federal consolidated income tax returns, which include National Grid Generation for December 31, 2000 through December 31, 2006. The period ended August 24, 2007 remains subject to examination by the IRS.

Beginning with calendar year ended December 31, 2003, National Grid Generation filed as a part of the New York State combined tax return of KeySpan Corporation. KeySpan Corporation combined New York State tax returns for calendar years December 31, 2003 through December 31, 2006 remain subject to examination. The periods ended August 24, 2007, March 31, 2008 and March 31, 2009 also remain subject to examination

Note 3. Postretirement Benefits

Pension Plans: The employees of National Grid Generation are members of a consolidated defined benefit pension plan, under the Parent. Benefits are based on years of service and compensation. Pension costs are allocated to National Grid Generation; related pension obligations and assets are commingled and are not allocated to individual sponsors. Pension expense allocated to us for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008 was $4.6 million, $3.8 million and $1.4 million respectively and is included in operating expenses on the Statement of Comprehensive Income.

At March 31, 2009, it is estimated that approximately $32 million of unfunded pension liabilities of National Grid Generation resides in accumulated other comprehensive income of the Parent and will be allocated to National Grid Generation through pension expense in future periods.

Other Postretirement Benefits: National Grid Generation employees are members of a noncontributory defined benefit plan under which is provided certain health care and life insurance benefits for all former LILCO retired employees. The Parent and, prior to the KeySpan Acquisition, LILCO had been funding a portion of future benefits over employees' active service lives through Voluntary Employee Beneficiary Association ("VEBA") trusts. Contributions to VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code.

Other postretirement costs are allocated to us; related other postretirement obligations and assets are commingled and are not allocated to individual sponsors. Other postretirement expense allocated to us for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008 was $12.8 million, $11.3 million and $7.4 million respectively and is included in operations expense on the Statement of Comprehensive Income.

At March 31, 2009, it is estimated that approximately $9 million of unfunded pension liabilities of National Grid Generation resides in accumulated other comprehensive income of the Parent and will be allocated to National Grid Generation through other postretirement expense in future periods.

In 1993, National Grid Generation adopted the provisions of SFAS No. 106, "Employer's Accounting for Post-Employment Benefits Other Than Pensions," and reported an accumulated postretirement benefit obligation and corresponding regulatory asset of $250 million which is fully recoverable from LIPA. As of March 31, 2009 and March 31, 2008, the remaining balance was $30.8 million and $42.1 million respectively and is recorded as a contractual receivable from LIPA.

Note 4. Long-Term Debt and Advances from Parent

Authority Financing Notes: We can issue tax-exempt bonds through the New York State Energy Research and Development Authority. At March 31, 2009, $41.1 million of Authority Financing Notes 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The bonds are currently in the 7-Days auction rate mode and are backed by bond insurance. The recent credit rating agency downgrades of the bond insurers have resulted in some periods of higher than typical interest rates. The variable-rate auction bonds are currently in the auction rate mode and are backed by bond insurance. At times, turmoil in the auction rate markets has led to widespread auction failures. In the case of a failed auction, the resulting interest rate on the bonds would revert to the maximum rate which depends on the current commercial paper rates and the senior unsecured rating of National Grid Generation's or the bond insurer, whichever is greater. To date, the effect on interest expense has not been material. The interest rate during the twelve month period ended March 31, 2009 ranged from 2.00% to 18.00%. The interest rates at March 31, 2009 and March 31, 2008 was 5.39% and 6.85% respectively. Interest expense related to these notes for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008 was $2.6 million, $1.0 million and $1.2 million respectively.

We also have outstanding $24.9 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and during the twelve month period ended March 31, 2009 ranged from 0.40% to 8.03%.The interest rate was 3.6% and 0.50% at March 31, 2008 and March 31, 2009, respectively. Interest expense related to these notes was $0.6 million, $0.5 million and $0.4 million for the period January 1, 2007 through August 24, 2007, August 25, 2007 through March 31, 2008 and April 01, 2008 through March 31, 2009, respectively.

Promissory Notes: The Parent has issued promissory notes to LIPA representing an amount equivalent to certain Authority Financing Notes. The Parent then allocated a portion of these notes to us. At March 31, 2009 we had outstanding $75.3 million of such notes, consisting of $27.9 million, 5.15% notes due March 1, 2016 and $47.4 million, 5.30% notes with maturities ranging from November 1, 2023 to August 1, 2025.

Industrial Development Revenue Bonds*:* At March 31, 2009, we had outstanding $128.3 million of 5.25% tax-exempt bonds due June 1, 2027 - $53.3 million of these Industrial Development Revenue Bonds were issued through the Nassau County Industrial Development Authority for the construction of the Glenwood electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. KeySpan Corporation has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to these tax-exempt bonds. The face value of these notes is included in long-term debt on the Consolidated Balance Sheet.

All currently outstanding debt matures beyond five years.

Advances from Parent: At March 31, 2009 the $131.9 million allocated debt due to the Parent remains outstanding.

Fair Value of Financial Instruments: The fair values and carrying amounts of the long-term debt at March 31, 2009 were as follows:

(In Thousands of Dollars)	Carrying Value	Fair Value
Authority Financing Notes	$ 66,005	$ 66,005
Promissory Notes	75,300	69,364
Notes Payable	131,868	131,868
Tax-exempt Bonds	128,275	108,980
	$ 401,448	$ 376,217

All other financial instruments on the balance sheet such as accounts receivable and accounts payable are stated at amounts that approximate fair value.

On July 20, 2009, Moody's Investors Service changed the outlook for National Grid plc and its rated subsidiaries, including National Grid Generation's debt ratings to stable outlook from negative as a result of Moody's review of National Grid plc's results for FY2008/09 and its medium-term forecasts.

Note 5. Commitments and Contingencies

Fixed Obligations: Substantially all leases are the obligations of the Parent. National Grid Generation records as intercompany expenses, costs incurred for the use of leased equipment such as buildings, office equipment, vehicles, and powered operated equipment. These intercompany expenses are reflected in operations expense on the Statement of Income.

Asset Retirement Obligations: On December 31, 2005, National Grid Generation implemented FIN 47. FIN 47 was issued to clarify that the term conditional asset obligation used in SFAS 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 entity. Previously, National Grid Generation adopted SFAS 143 on January 1, 2003. SFAS 143 required us to record a liability and corresponding asset representing the present value of legal obligations associated with the retirement of tangible, long-lived assets that existed at the inception of the obligation.

At March 31, 2009 the following asset retirement obligations were recorded on the balance sheet in other noncurrent liabilities, at their estimated present values:

(In Millions of Dollars) March 31, 2009	
Asset Retirement Obligations	
Asbestos removal	$ 1.6
Tanks removal and cleaning	4.9
Waste water treatment pond removal	1.6
Total Asset Retirement Obligations	$ 8.1

National Grid Generation recorded $0.5 million, $0.2 million and $0.3 million of asset retirement obligation accretion expense for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008, respectively.

Power Supply Agreement (PSA):

The PSA provides for the sale to LIPA of all of the capacity and, to the extent LIPA requests, energy conversion from the oil and gas-fired generating facilities. (LIPA represents the only customer of capacity and energy.) Capacity refers to the ability to generate energy and, pursuant to NYISO requirements, must be maintained at specified levels (including reserves) regardless of the source and amount of energy consumption. By contrast, energy refers to the electricity generated for consumption by customers. Such sales of capacity and energy to LIPA are made under the terms of the PSA entered into in 1998. On January 30, 2009, we filed with the FERC a new contract with the proposed rates increase charges to LIPA in 2009 by $92 million over revenues for 2007, and by $32 million over what revenues would have been in 2009 absent the filing. FERC issued an order on March 31, 2009 accepting our proposed rates and placed them into effect retroactive to February 1 subject to refund. The FERC also established settlement procedures to encourage LIPA and National Grid Generation to explore the possibility of a settlement – discussions are currently on-going.

The PSA provides incentives or penalties for us to maintain the output capability of the generating facilities, as measured by annual industry-standard tests of operating capability, and plant availability and efficiency. These combined incentives and penalties may total $4.0 million annually. National Grid Generation, for the twelve months ended March 31, 2009 and for the periods January 1, 2007 through August 24, 2007 and August 25, 2007 through March 31, 2008, earned $4.2 million, $3.0 million and $1.0 million of incentives respectively. The PSA provides LIPA with all of the capacity from the generating facilities. However, LIPA has no obligation to purchase energy from the generating facilities and is able to purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the transmission and distribution ("T&D") system. We must, therefore, operate our generating facilities in a manner such that we can remain competitive with other producers of energy. To date, we have dispatched to LIPA and LIPA has accepted the level of energy generated at the agreed to price per megawatt hour. However, no assurances can be given as to the level and price of energy to be dispatched to LIPA in the future. Under the terms of the PSA, LIPA is obligated to pay for capacity at rates that reflect a large percentage of the overall fixed cost of maintaining and operating the generating facilities. A variable maintenance charge is imposed for each unit of energy actually acquired from the generating facilities. The variable maintenance charge is billed to LIPA on a monthly basis. The billings to LIPA under the PSA include no provision for fuel, as such fuel is owned by LIPA, and LIPA reimburses National Grid Generation for the cost of all fuel deliveries.

The PSA runs through May 2013, with LIPA having the option to renew the PSA for an additional fifteen-year term.

National Grid Generation has an inventory of sulfur dioxide ("SO2") and nitrogen oxide ("NOx") emission allowances that may be sold to third party purchasers. The number available for sale of emission allowances varies from year to year relative to the level of emissions from the generating facilities, which is greatly dependent on the mix of natural gas and fuel oil used for generation and the amount of purchased power that is imported onto Long Island. In accordance with the PSA, 33% of emission allowance sales revenue is retained by National Grid Generation and the other 67% is credited to LIPA. LIPA also has a right of first refusal on any potential emission allowance sales. Additionally, we are bound by a memorandum of understanding with the New York State Department of Environmental Conservation which prohibits the sale of SO2 allowances into certain states and requires the purchaser to be bound by the same restriction, which may affect the allowances' market value.

C. Generation Purchase Rights Agreement and 2006 Option Agreement

On February 1, 2006, KeySpan and LIPA entered into an a new Option and Purchase and Sale Agreement (the "2006 Option Agreement"), to replace the Generation Purchase Rights Agreement (as amended, the "GPRA"), pursuant to which LIPA had the option, through December 15, 2005, to effectively acquire substantially all of the electric generating facilities owned by KeySpan on Long Island.

Under an amended GPRA, LIPA had the right to acquire certain of KeySpan's Long Island-based generating assets formerly owned by LILCO, at fair market value at the time of the exercise of such right. LIPA was initially required to make a determination by May 2005, but KeySpan and LIPA agreed to extend the date by which LIPA was to make this determination to December 15, 2005. As part of the 2006 settlement between KeySpan and LIPA, the parties entered into the 2006 Option Agreement (the "Option Agreement") whereby LIPA had the option during the period January 1, 2006 to December 31, 2006 to purchase only the steam generating units at KeySpan's Far Rockaway and/or E.F. Barrett Generating Stations (and certain related assets) at a price equal to the net book value of each facility. The Option Agreement replaced the GPRA. In December 2006, KeySpan and LIPA entered into an amendment to the 2006 Option Agreement whereby the parties agreed to extend the expiration of the option period to the later of (i) December 31, 2007 or (ii) 180 days following the effective date of the 2006 Option Agreement. Pursuant to the National Grid plc, KeySpan and LIPA negotiations, the parties further amended the 2006 Option Agreement extending the expiration of the option period to May 31, 2008 and adding the E.F. Barrett ICU's to the list of assets that could be acquired by LIPA under the Option Agreement. The Option Agreement deadline was subsequently extended to December 31, 2008, and the right to purchase the ICU's was made contingent upon LIPA's purchase of the E.F. Barrett Plant. Thereafter, the Option Agreement was again amended to extend LIPA's deadline to June 30, 2009, but the option as it applied to Far Rockaway was permitted to expire. The Option Agreement was again twice extended through (i) June 30, 2009 and (ii) September 30, 2009, but only exercisable if LIPA executes a one-year extension of the Power Supply Agreement ("PSA"). The Option Agreement expired by its terms on September 30, 2009, without LIPA exercising its option to acquire the E.F. Barrett facility, and no further extensions of time were requested by LIPA or otherwise granted by National Grid.

Following the announcement of the Merger of KeySpan and National Grid plc, LIPA, National Grid plc and KeySpan engaged in discussions concerning the impact of the transaction on LIPA's operations. KeySpan, National Grid plc and LIPA reached an agreement pursuant to which LIPA agreed to waive its contractual right to terminate the 1998 LIPA Agreements and the 2006 LIPA Agreements upon consummation of the Merger between KeySpan and National Grid plc, in exchange for enhancements to certain of the 2006 LIPA Agreements and certain other considerations. The amended and enhanced agreements became effective upon the completion of the Merger between KeySpan and National Grid plc and the approval by the New York State Attorney General and the New York State Comptroller."

Legal Matters: From time to time, we are subject to various legal proceedings arising out of the ordinary course of business. We do not consider any of such proceedings to be material to our business or likely to result in a material adverse effect on our financial statements.

Environmental Matters

Ordinary business operations subject National Grid Generation to various federal, state and local laws, rules and regulations dealing with the environment, including air, water, and hazardous waste. Our business operations are regulated by various federal, regional, state and local authorities, including the United States Environmental Protection Agency (the "EPA"), the New York State Department of Environmental Conservation ("DEC"), the New York City Department of Environmental Protection (NYC DEP) and the Nassau and Suffolk County Departments of Health.

Except as set forth below, no material proceedings relating to environmental matters have been commenced or, to our knowledge, are contemplated by any federal, state or local agency against us, and we are not a defendant in any material litigation with respect to any matter relating to the protection of the environment. We believe that National Grid Generation's operations are in substantial compliance with environmental laws and that requirements imposed by environmental laws are not likely to have a material adverse impact upon us.

Air. Our generating facilities are located within a Clean Air Act ("CAA") ozone non-attainment and PM 2.5 (fine particulate matter) non-attainment area, and are likely to be subject to increasingly stringent NOx, SO2 and particulate emission limitations. While regulatory programs to implement such limitations are the subject of various federal legal proceedings, the Company is implementing strategies to achieve various improvements. These improvements also include measures to improve fuel efficiency and reduce CO2 emissions and are planned to be incurred over a five to six year period. Costs associated with these measures are estimated to be approximately $100 to $115 million. Such amounts are recoverable through contractual provisions with LIPA.

Water. Additional capital expenditures associated with the compliance and renewal of the surface water discharge permits for our power plants will likely be required by the Department of Environmental Conservation ("DEC"). We are currently conducting studies as directed by the DEC to determine the impacts of our discharges on aquatic resources and are engaged in discussions with the DEC regarding the nature of capital upgrades or other mitigation measures necessary to reduce any impacts. These upgrades are expected to cost approximately $50 to $60 million over the next ten years, and are substantially recoverable from LIPA. The actual expenditures will depend upon the outcome of the ongoing studies and the subsequent determination by the DEC of how to apply the standards set forth in recently promulgated federal regulations under Section 316 of the Clean Water Act designed to mitigate such impacts.

Note 6. Related Party Transactions

National Grid Generation is engaged in various transactions with KeySpan, National Grid USA and its affiliates. For the most part, the various subsidiaries of KeySpan do not maintain separate cash balances. Financing for our working capital is obtained through the participation in a money pool. In addition, all cash generated from billings to LIPA is collected and held by the Parent's corporate and administrative subsidiary. Further, all payments to third parties for our payables, including labor, are made by KeySpan on our behalf. We are also obligated to reimburse the Parent for our allocated share of interest on the promissory notes due LIPA and on the Authority Financing Notes.

The money pool is funded by commercial paper issuance by KeySpan and National Grid USA and operating funds of the consolidated entity. The various subsidiaries can either borrow from or lend to the money pool. Interest expense is charged to "borrowers", while "lenders" earn interest income. We had an outstanding money pool receivable balance of $246.2 million and $188.2 million as of March 31, 2009 and March 31, 2008, respectively. Interest rates associated with the money pool are generally the same as KeySpan's and National Grid USA short-term borrowing rate, plus a proportional share of the administrative costs incurred in obtaining the required funds.

KeySpan and its affiliates also provide us with various services, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury/finance), human resources, information technology, legal, and strategic planning. The costs of these services are charged to us via inter-company billings and generally settled through the money pool on a monthly basis. We had a $47.2 million and a $29.8 million liability for these amounts as of March 31, 2009 and March 31, 2008 respectively. In addition, we had a $54.2 million and a $39.1 million liability to KeySpan for allocated pension and other postretirement benefit ("OPEB") costs, as well as a $0.4 asset and a $57.7 million liability associated with intercompany tax sharing as of March 31, 2009 and March 31, 2008, respectively.

Operating and capital costs allocated to the Company from the various service companies including NGUSA approximated $100.9 million and $103.2 million for the fiscal year ended March 31, 2009 and fifteen months ended March 31, 2008 respectively.

Note 7. Emission Credits and Acquisition of KeySpan

On August 24, 2007 National Grid plc purchased all the outstanding stocks of Keyspan Corporation for $42.00 per share in cash. The transaction has been accounted for using the purchase method of accounting for business combination in accordance with SFAS 141 "Business Combination". The purchase price of $7.6 billion allocated to KeySpan's net assed based upon their fair value. The historical cost basis of National Grid Generation assets and liabilities were determined to represent fair value due to the existence of regulatory-approved LIPA agreed to rate plans based upon the recovery of historic costs and a fair return thereon.

We are entitled to emission credits associated with our electric generating facilities on Long Island. The fair value of these credits initially valued at $296 million has been amended to reflect a decision of the DC circuit court to vacate the Clean Air Interstate Rule (CAIR), resulting in a $171.5 million reduction to the initial valuation. At March 31, 2009, these credits were determined to be further impaired due to reduced demand in the emissions trading market which resulted in a decline of emission credit prices. We further reduced the inventory value by $62.5 million resulting in a $24.6 million charge to the income statement. As of March 31, 2009, these credits had a fair value of $40.8 million which includes partial use and sale of these credits. These credits have been recorded in Inventory Allowance account. As agreed to in the PSA Agreement with LIPA, LIPA is entitled to $21.4 million of this amount; the LIPA portion of the emission credits is reflected in deferred credits, as these credits are consumed or sold the allowance balance is reduced.

Land owned by National Grid Generation was fair valued under the guidance of SFA 141. As a result we increased the historical cost of the land by $86.1 million in 2008.

Workforce Reduction Program

In connection with the acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer (“VERO”) in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan have the right to retain that employee for up to three years before VERO payments are made. An employee who accepts the VERO offer but elects to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The cost of VERO offer to National Grid Generation is estimated to be approximately $8 million. This amount will be expensed over a three year period or over the remaining service period which ever is shorter. National Grid Generation has expensed approximately $3.7 million and $2.7 million of VERO costs as of March 31, 2009 and March 31, 2008, respectively.

Note 8. Application of SFAS 101 “Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71” for the LIPA Service Agreements

As discussed under “Generation Purchase Rights Agreement and 2006 Option Agreement”, on May 28, 1998, KeySpan and LIPA entered into three major long-term service agreements. Negotiations between KeySpan and LIPA to amend certain aspects of these agreements were substantially concluded in 2006 and while KeySpan and LIPA performed in accordance with certain elements of these restated agreements beginning January 1, 2006, additional changes to these contract terms and the approvals needed to create binding agreements were not obtained until 2007. The changes in these service agreements impacted KeySpan’s accounting for certain transactions conducted between KeySpan and LIPA.

Under both the original and amended and restated service agreements, KeySpan is responsible for the management of employee benefit plans associated with employees providing service to LIPA and LIPA is responsible for the cost of funding and maintaining those plans. From May 28, 1998 through December 31, 2006, KeySpan followed SFAS 71, “Accounting for the Effects of Certain Types of Regulation”, in accounting for the agreements with LIPA and capitalized as a receivable the difference between the accrued liability associated with these plans and the funding based upon the recoveries agreed to in the rate plans with LIPA.

Certain events occurred over the course of 2006 and 2007 that constituted a change in facts and circumstances that made the continued application of SFAS 71 no longer appropriate and therefore KeySpan implemented Statement of Financial Accounting Standard 101 “Regulated Enterprises - Accounting for the Discontinuation of Application of FASB Statement No. 71” (“SFAS 101”) effective January 1, 2007. Specifically, management’s determination to apply SFAS 101, was based upon its analyses of the continued applicability of paragraph 5 of SFAS 71, as well as its assessment of the increasing competitive environment in relation to renewal of the service agreements with LIPA.

Paragraph 5 of SFAS 71, requires that regulated rates be set to recover the enterprise's specific costs of providing the regulated services or products. However, in two material respects these amended and restated agreements did not maintain the direct link between the cost of providing LIPA with the agreed to services and the revenues recovered in providing those services. First, these amended and restated agreements contained a revised revenue formula that introduced a departure from cost of service recovery that had been in place since 1998. Second, although, KeySpan’s rights to be reimbursed for employee benefit plan costs in the future have been completely preserved in the amended and restated service agreements, these rights of recovery are not fully reflected in the revised service agreements’ rates. Management has therefore concluded that the cause-and-effect relationship between costs and revenues no longer exists for its service agreements with LIPA.

Moreover, actions taken and comments made by New York State officials indicated renewal of the service agreements with LIPA will be based on competitive tendering using New York State procurement practices and standards as opposed to the practice to date where the utility franchise had effectively been awarded to KeySpan.

Based on facts and circumstances detailed above, management concluded that the amended and restated service agreements no longer meet all of the relevant SFAS 71 criteria. As a result, National Grid Generation implemented SFAS 101 effective January 1, 2007, the beginning of the period in which the changes that give rise to the need for the discontinuance of SFAS 71 became probable. Implementation of SFAS 101 resulted in National Grid Generation’s de-recognition of a $49.5 million receivable with LIPA, of which $25.5 million (after tax) was recorded as an extraordinary charge for the period January 1, 2007 through August 24, 2007.

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Report of Independent Auditors

To National Grid Generation LLC:

In our opinion, the accompanying consolidated balance sheets and statements of capitalization as of March 31, 2009 and 2008 and the related consolidated statements of income, of cash flows, and of retained earnings for the year ended March 31, 2009 (Successor Company) and the periods from January 1, 2007 to August 24, 2007 (Predecessor Company) and from August 25, 2007 to March 31, 2008 (Successor Company) present fairly, in all material respects, the financial position of National Grid Generation LLC and its subsidiaries at March 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended March 31, 2009 and the periods from January 1, 2007 to August 24, 2007 and from August 25, 2007 to March 31, 2008 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. 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 2 to the financial statements, the Company changed the manner in which it accounts for income taxes effective January 1, 2007.

PricewaterhouseCoopers LLP

October 30, 2009