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

Consolidated Financial Statements

For the year ended March 31, 2010

THE BROOKLYN UNION GAS COMPANY

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Report of Independent Auditors

To the Stockholders and Board of Directors of
Brooklyn Union Gas Company and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, retained earnings, capitalization and cash flows present fairly, in all material respects, the financial position of Brooklyn Union Gas Company and its subsidiaries at March 31, 2010 and March 31, 2009, and the results of their operations and their 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. 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.

/s/PricewaterhouseCoopers LLP
July 9, 2010

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	**$ 78,410**	$ 82,225
Restricted cash	**790**	1,300
Accounts receivable	**498,615**	527,177
Unbilled revenue	**84,344**	113,357
Allowance for doubtful accounts	**(61,954)**	(49,113)
Accounts receivable money pool	**13,585**	2,418
Gas in storage, at average cost	**89,941**	202,258
Materials and supplies, at average cost	**10,769**	10,012
Deferred income taxes	**13,191**	18,846
Prepayments	**56,344**	34,823
Regulatory assets	**101,971**	126,249
Derivative contracts	**3,334**	13,911
	889,340	1,083,463
Equity investments	**77,314**	85,938
Property, plant and equipment, net	**2,356,357**	2,243,887
Deferred charges		
Goodwill	**1,451,141**	1,451,141
Regulatory assets	**884,981**	811,771
Derivative contracts	**1,307**	-
Deferred charges and other assets	**23,385**	23,387
	2,360,814	2,286,299
Total assets	**$ 5,683,825**	$ 5,699,587

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

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable, non-affiliates	**$ 112,735**	$ 148,204
Accounts payable, affiliates net	**379,093**	491,030
Taxes accrued	**13,593**	28,834
Customer deposits	**40,141**	33,955
Interest accrued	**43,505**	38,700
Regulatory liabilities	**27,408**	37,926
Derivative contracts	**40,828**	75,439
	657,303	854,088
Deferred credits and other liabilities		
Regulatory liabilities	**294,520**	270,520
Asset retirement obligations	**9,667**	9,120
Deferred income taxes	**547,794**	391,283
Environmental and other reserves	**372,594**	380,133
Derivative contracts	**7,117**	8,922
Other deferred credits and liabilities	**6,461**	8,701
	1,238,153	1,068,679
Capitalization		
Additional paid-in capital	**2,605,830**	2,605,830
Retained earnings	**143,686**	132,338
Accumulated other comprehensive loss	**(278)**	(409)
Total common shareholder's equity	**2,749,238**	2,737,759
Long-term debt	**1,039,131**	1,039,061
Total capitalization	**3,788,369**	3,776,820
Total liabilities and capitalization	**$ 5,683,825**	$ 5,699,587

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

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars)	**Year ended March 31, 2010**	Year ended March 31, 2009
Operating revenues	**$ 1,837,949**	$ 2,437,503
Operating expenses		
Purchased gas for resale	**945,699**	1,560,799
Operations and maintenance	**348,142**	336,930
Depreciation and amortization	**82,335**	75,603
Operating taxes	**179,049**	187,094
Total operating expenses	**1,555,225**	2,160,426
Operating income	**282,724**	277,077
Interest charges	**(80,059)**	(67,574)
Other income	**39,289**	25,908
Earnings before income taxes	**241,954**	235,411
Income taxes		
Current	**(60,662)**	42,213
Deferred	**166,268**	52,150
Total income taxes	**105,606**	94,363
Net income	**$ 136,348**	$ 141,048

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

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)		**Year ended March 31, 2010**		Year ended March 31, 2009
Operating Activities				
Net income	**$**	**136,348**	$	141,048
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		**82,335**		75,603
Deferred income taxes		**166,268**		52,150
Income from equity investments		**(16,394)**		(13,547)
Dividends from equity investments		**25,220**		-
Amortization of financing fees		**1,811**		1,811
Amortization of property tax prepayments		**121,065**		121,206
Changes in assets and liabilities				
Accounts receivable		**61,056**		24,793
Materials and supplies and gas in storage		**109,377**		(35,110)
Accounts payable and accrued expenses		**(46,767)**		33,501
Prepayments		**(157,962)**		(116,765)
Environmental payments		**(39,629)**		(44,855)
Property tax refund		**4,891**		23,416
Other		**(3,991)**		21,447
Net cash provided by operating activities		**443,628**		284,698
Investing Activities				
Capital expenditures		**(161,489)**		(178,215)
Other, including cost of removal		**(15,520)**		(17,079)
Derivative margin calls		**9,360**		(4,550)
Net cash used in investing activities		**(167,649)**		(199,844)
Financing Activities				
Dividends		**(125,000)**		(150,000)
Accounts payable, affiliates net		**(154,794)**		(74,066)
Net cash used in financing activities		**(279,794)**		(224,066)
Net decrease in cash and cash equivalents		**(3,815)**		(139,212)
Cash and cash equivalents at beginning of year		**82,225**		221,437
Cash and cash equivalents at end of year	**$**	**78,410**	$	82,225
Supplemental information				
Interest paid	**$**	**49,294**	$	55,413
Income taxes paid	**$**	**4,047**	$	5,750

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

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of dollars)		**Year ended March 31, 2010**		Year ended March 31, 2009
Balance at beginning of year	**$**	**132,338**	$	141,290
Net income		**136,348**		141,048
Dividends		**(125,000)**		(150,000)
Balance at end of year	**$**	**143,686**	$	132,338

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)		**Year ended March 31, 2010**		Year ended March 31, 2009
Net income	**$**	**136,348**	$	141,048
Other comprehensive income, net of tax				
Unrealized gains (losses) on marketable securities		**131**		(487)
Other comprehensive income, net of tax		**131**		(487)
Comprehensive income	**$**	**136,479**	$	140,561
Related tax expense				
Unrealized gains (losses) on marketable securities		**71**		(262)
Total tax expense	**$**	**71**	$	(262)

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

THE BROOKLYN UNION GAS COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
Common shareholder's equity		
Additional paid-in capital	**$ 2,605,830**	$ 2,605,830
Retained earnings	**143,686**	132,338
Accumulated other comprehensive loss	**(278)**	(409)
Total common shareholder's equity	**2,749,238**	2,737,759
Long-term debt		
Gas facilities revenue bonds:		
6.368% Series 1993A and 1993B due April 1, 2020	**75,000**	75,000
Variable Rate Series 1997 due December 1, 2020	**125,000**	125,000
5.5% Series 1996 due January 1, 2021	**153,500**	153,500
4.7% Series 2005A due February 1, 2024	**82,000**	82,000
Variable Rate Series 2005B due June 1, 2025	**55,000**	55,000
6.95% Series 1991A and 1991B due July 1, 2026	**100,000**	100,000
Variable Rate Series 1991D due July 1, 2026	**50,000**	50,000
Notes:		
5.6% Senior Unsecured Note 2016	**400,000**	400,000
	1,040,500	1,040,500
Other	**(1,369)**	(1,439)
Total long-term debt	**1,039,131**	1,039,061
Total capitalization	**$ 3,788,369**	$ 3,776,820

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. Nature of Operations

Brooklyn Union Gas Company d/b/a National Grid New York ("Brooklyn Union", the "Company", "we", "us", and "our"), was incorporated in the State of New York in 1895 as a combination of existing companies, the first of which was granted a franchise in 1849. Brooklyn Union Gas Company distributes natural gas at retail in the boroughs of Brooklyn and Staten Island and two-thirds of the borough of Queens, all in New York City. Brooklyn Union Gas Company is subject to the regulatory jurisdiction of the New York State Public Service Commission ("NYPSC"). In 1997, Brooklyn Union and its subsidiaries were reorganized into a holding company structure with KeySpan Corporation ("KeySpan") becoming the parent company. KeySpan is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation, transmission, distribution, and sale of both natural gas and electricity. NGUSA is a wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Through its wholly-owned subsidiary, North East Transmission Co., Inc. ("NETCO"), Brooklyn Union owns a 19.4% interest in the Iroquois Gas Transmission System L.P. ("Iroquois"), a 375-mile pipeline that currently transports Canadian gas supply daily to markets in the northeastern United States.

B. Basis of Presentation

The consolidated financial statements reflect the accounts of Brooklyn Union and its subsidiaries. All material intercompany balances and 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.

The Company has evaluated events or transactions that occurred after March 31, 2010 through July 9, 2010 for potential recognition or disclosure in the consolidated financial statements. There were no subsequent events that needed to be recognized.

C. Accounting for the Effects of Rate Regulation

The accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the New York State Public Service Commission ("NYPSC"). Our financial statements

reflect the ratemaking policies and actions of the NYSPSC in conformity with GAAP for rate-regulated enterprises.

The Company follows the accounting guidance for rate-regulated enterprises. This guidance recognizes the ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Company records these future economic benefits and obligations as regulatory assets and regulatory liabilities on the Company's consolidated balance sheets.

The following table presents Brooklyn Union's regulatory assets and regulatory liabilities at March 31, 2010 and March 31, 2009:

(In thousands of dollars)	March 31, 2010		March 31, 2009	
	Current	**Non-current**	**Current**	**Non-current**
Regulatory assets				
Regulatory tax asset	**$ -**	**$ 17,976**	$ -	$ 22,150
Property taxes	**3,700**	**47,633**	3,700	37,975
Environmental costs	**5,973**	**539,803**	5,973	504,009
Postretirement benefits	**30,441**	**238,415**	30,067	219,067
Derivative contracts	**40,514**	**7,117**	74,982	8,400
PSC assessment	**8,988**	**-**	-	-
Other	**12,355**	**34,037**	11,527	20,170
Total regulatory assets	**$ 101,971**	**$ 884,981**	$ 126,249	$ 811,771
Regulatory liabilities				
Miscellaneous liabilities	**$ (25,107)**	**$ (148,185)**	$ (25,107)	$ (135,586)
Derivative liabilities	**(2,301)**	**(1,307)**	(12,819)	-
Total regulatory liabilities	**$ (27,408)**	**$ (149,492)**	$ (37,926)	$ (135,586)
Subtotal	**$ 74,563**	**$ 735,489**	$ 88,323	$ 676,185
Removal costs recovered	**-**	**(145,028)**	-	(134,934)
Net regulatory assets	**$ 74,563**	**$ 590,461**	$ 88,323	$ 541,251

The regulatory items above are not included in utility rate base. We record carrying charges, as appropriate, on the regulatory items for which cash expenditures have been made and are subject to recovery or for which cash has been collected and is subject to refund. In the year ended March 31, 2010, we recorded a net out of period adjustment for interest expense for carrying charges of $4.7 million before tax. Carrying charges are not recorded on items for which expenditures have not yet been made. We anticipate recovering these costs in our gas rates concurrently with future cash expenditures. If recovery is not concurrent with the cash expenditures, we will record the appropriate level of carrying charges. Deferred gas costs credits of approximately $30.5 million at March 31, 2010 and $5.1 million of debits as of March 31, 2009, respectively, are reflected in "Accounts receivable" on the consolidated balance sheets.

Management believes its rates are based on costs and investments and it should continue to apply the

current accounting guidance for rate regulated enterprises. If the Company could no longer apply the guidance, the resulting charge would be material to the Company's reported financial condition and results of operations.

D. Revenue Recognition

Customers are generally billed on a monthly basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of each month.

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

Brooklyn Union's tariff contains a weather normalization adjustment that provides for recovery from, or refund to, firm customers of material shortfalls or excesses of firm delivery revenues (revenues less applicable gas costs and revenue taxes) during a heating season due to variations from normal weather.

E. Property, Plant and Equipment

Utility gas property is stated at original cost of construction, which includes allocations of overheads, taxes, asset retirement costs and an allowance for funds used during construction. The rate at which the Company capitalized interest was 2.3% at March 31, 2010 and 2.5% at March 31, 2009. Capitalized interest for the year ended March 31, 2010 and March 31, 2009 was approximately $0.8 million and $0.9 million, respectively, and is reflected as a reduction to interest expense.

Depreciation was provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property of 2.60% at March 31, 2010 and 2.63% at March 31, 2009. The cost of property retired, and the cost of removal less salvage, is charged to accumulated depreciation. Brooklyn Union recovers certain asset retirement costs through rates charged to customers as a portion of depreciation expense. At March 31, 2010 and March 31, 2009, Brooklyn Union had costs recovered in excess of costs incurred totaling $145.0 million and $134.9 million, respectively. These amounts are reflected as a regulatory liability on the consolidated balance sheets. The cost of repair and minor replacement and renewal of property is charged to maintenance expense.

Provisions for depreciation of all non-utility property are computed on a straight-line basis over their respective lives.

Cost of removal expenditures are in "Other" in investing activities on the consolidated statements of cash flows.

F. Goodwill

In accordance with current accounting guidance for goodwill and other intangible assets, the Company tests goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of the impairment. Additionally, if the forecasted returns utilized in the analysis are not achieved, an impairment of goodwill may result. For example, within our calculation of forecasted returns, we have made certain assumptions around the amount of pension and environmental costs to be recovered in future periods. Should we not benefit from improved rate relief in these areas, the result could be a reduction in fair value of the Company, which in turn could give rise to an impairment of goodwill.

The Company utilizes a discounted cash flow approach incorporating its most recent business plan forecasts together with a projected terminal year calculation in the performance of the annual goodwill impairment test. Critical assumptions used in the Company's analysis include a discount rate of 6% and a terminal year growth rate of 3% based upon expected long-term average growth rates. Our forecasts assume long-term recovery and rate of returns that are in line with historical levels within the utility industry. The resulting fair value of the annual analysis determined that no adjustment of the goodwill carrying value was required.

G. *Cash and Cash Equivalents*

The Company classifies short-term investments with an original maturity of three months or less as cash equivalent.

H. Derivatives

We employ derivative instruments to hedge a portion of our exposure to commodity price risk. Whenever hedge positions are in effect, we are exposed to credit risks in the event of nonperformance by counter-parties to derivative contracts, as well as nonperformance by the counter-parties of the transactions against which they are hedged. We believe the credit risk related to derivative instruments is no greater than that associated with the primary commodity contracts which they hedge.

Firm Gas Sales Derivative Instruments

We use derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers in our service territory. Since these derivative instruments are employed to reduce the variability of the purchase price of natural gas to be sold to regulated firm gas sales customers, the accounting for these derivative instruments is subject to the FASB guidance on the accounting for the effects of rate regulation. Therefore, changes in the market value of these derivatives are recorded as a regulatory assets or regulatory liabilities on the consolidated

balance sheets. Gains or losses on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements.

Physically-Settled Commodity Derivative Instruments

Certain of our contracts for the physical purchase of natural gas are derivatives as defined by current accounting literature. As such, these contracts are recorded on the consolidated balance sheets at fair market value. However, since such contracts were executed for the purchases of natural gas that is sold to regulated firm gas sales customers, and pursuant to the requirements of the FASB guidance on accounting for the effects of rate regulation, changes in the fair market value of these contracts are recorded as a regulatory asset or regulatory liability on the consolidated balance sheets.

Other Financially-Settled Commodity Derivative Instruments

We also employ a limited number of derivative financial instruments that are accounted for pursuant to the requirements of the FASB guidance on the accounting for derivative instruments and hedging activities. With respect to those commodity derivative instruments that are designated and accounted for as cash flow hedges, the effective portion of periodic changes in the fair market value of cash flow hedges is recorded as accumulated other comprehensive income/(loss) on the consolidated balance sheets, while the ineffective portion of such changes in fair value is recognized in earnings. Unrealized gains and losses (on such cash flow hedges) that are recorded as accumulated other comprehensive income/(loss) are subsequently reclassified into earnings concurrent when hedged transactions impact earnings. With respect to those commodity derivative instruments that are not designated as hedging instruments, such derivatives are accounted for on the consolidated balance sheets at fair value, with all changes in fair value reported in earnings.

I. Accumulated Other Comprehensive Loss

Comprehensive income 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 is reported as net income or loss, the other components of comprehensive income relate to changes in current accounting guidance for employers' accounting for defined benefit pension and postretirement plans, deferred gains and losses associated with hedging activity, and unrealized gains and losses associated with certain investments held as available for sale.

The table below indicates the components of accumulated other comprehensive loss:

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
Unrealized losses on marketable securities	**$ (278)**	$ (409)
Accumulated other comprehensive loss	**$ (278)**	$ (409)

J. Employee Benefits

In December 2006, the Company adopted the provisions of current accounting guidance for employers' accounting for defined benefit pensions and other postretirement benefit plans. The guidance requires employers to fully recognize all postretirement plans' funded status on the balance sheet as a net liability or asset and required an offsetting adjustment to accumulated other comprehensive income in shareholders' equity or to regulatory assets for rate regulated enterprises like the Company upon implementation. Consistent with past practice and as required by the guidance, the Company values its pension and other postretirement assets using the year-end market value of those assets. Benefit obligations are also measured at year-end. (See Note 3. "Employee Benefits" for additional details on the Company's pension and other postretirement plans.)

K. Income Taxes and Excise Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of 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. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected on the Company's consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns.

We report our collections and payments of excise taxes on a gross basis. Gas distribution revenues include the collection of excise taxes, while operating taxes include the related expense. Excise taxes collected and paid for the year ended March 31, 2010 and March 31, 2009 were approximately $52.2 million and $61.3 million, respectively.

L. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date - exit price. The determination of the fair value incorporates various factors required including not only the credit standing of the counterparties involved but also the impact of the Company's nonperformance risk on its liabilities. To increase consistency and comparability in fair value measurements, a fair value hierarchy was established that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The following is a fair value hierarchy:

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

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

Level 3 — unobservable inputs, such as internally-developed pricing models for the asset or liability

due to little or no market activity for the asset or liability with low correlation to observable market inputs.

M. Inventory

Inventory is stated primarily at the lower of cost or market value under the average cost method. The Company's policy is to write-off obsolete inventory.

N. Equity Investments

As previously stated, NETCO, which owns a 19.4% interest in Iroquois, is accounted for under the equity method. Operating income for this investment for the year ended March 31, 2010 and March 31, 2009 was $16.4 million and $13.5 million, respectively is reflected in "Other Income" on the consolidated statement of income.

O. Recent Accounting Pronouncements

In May 2009, the FASB issued accounting guidance establishing the general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this FASB guidance requires enhanced disclosures about (a) events or transactions that may occur for potential recognition or disclosure in the financial statements in the period after the balance sheet date, (b) circumstances under which an entity should recognize such events, and (c) date through which an entity has evaluated subsequent events, including the basis for that date, and whether that date represents the date the financial statements were issued or available to be issued. This FASB guidance is effective for financial statements issued for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers and servicing of financial assets and extinguishment of liabilities. The objective of the amendment is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; and effects of a transfer on its financial position, financial performance and cash flows; and transferor's continuing involvement, if any, in transferred financial assets. The new provisions must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009 and are to be applied to transfers occurring on or after the effective date.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The objective of the amendment is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amendment requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The new requirements shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009.

In June 2009, the FASB issued the FASB Accounting Standards Codification ("Codification"). The Codification will become the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification does not change GAAP and will not have an affect on our financial position, results of operations or liquidity. With the adoption of this new guidance, the Company has eliminated specific references in the notes to its financial statements and other documents and replaced them with more general topical references.

In January 2010, the FASB issued an amendment to the accounting guidance for fair value measurements that will provide for additional disclosures about (a) the different classes of assets and liabilities measured at fair value, (b) the valuation techniques and inputs used, (c) the activity in Level 3 fair value measurements, and (d) the transfers between Levels 1, 2, and 3. This FASB guidance is effective for financial statement issued for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

NOTE 2 – RATE AND REGULATORY

On June 30, 2009, the Company made a compliance filing with the NYPSC regarding the implementation of the Temporary State Energy & Utility Conservation Assessment per §18-a(6) of the New York Public Service Laws of 2009. The combined General & Temporary Conservation assessment will equal 2% of the prior calendar year's gross operating revenues derived from intra-state utility operations. Per order dated June 19, 2009, the NYPSC authorized recovery of the revenues required for payment of the Temporary State Assessment, including carrying charges, subject to reconciliation over five years, July 1, 2009 through June 30, 2014. In its compliance filing, the Company calculated the incremental assessment to be collected from customers, including carrying charges and an allowance for uncollectible amounts to be $42.2 million for the period from July 1, 2009 through June 30, 2010. The Company commenced collection of the Temporary State Assessment as of July 1, 2009. At March 31, 2010 $11 million is deferred pending recovery; nothing was recorded at March 31, 2009.

The Company is currently subject to a five year rate plan through December 2012. Base delivery rates are increased $5 million annually in rate years one through five. However, the incremental revenue from the increase in base delivery rates will be deferred and used to offset future increases for customers such as environmental investigation and remediation or other cost deferrals. The plan is based on an allowed return on equity of 9.6%. Cumulative annual earnings above 10.5% will be shared with customers. There are various reconciliation mechanisms that permit the Company to fully or partially true up to established thresholds for such items as real property taxes, special franchise taxes and site investigation and remediation costs. In the case of non growth-related capital, other than city and state construction, Brooklyn Union must return unspent funds below established targets to customers, but may not recover overspending. Brooklyn Union may recover overspending in addition to returning under-spent funds related to city and state construction. Brooklyn Union is permitted to reconcile its actual pension and other post-employment benefit expense to the amount allowed in rates and is subject to affiliate rules and various financial protections for the term of the rate plan.

On December 22, 2009, the NYPSC adopted the terms of a Joint Proposal between NYPSC Staff and Brooklyn Union that provided for a revenue decoupling mechanism to take effect as of January 1, 2010. The revenue decoupling mechanism applies only to the Company's firm residential heating sales and transportation customers, and permits the Company to reconcile actual revenue per customer to target revenue per customer for the affected customer classes on an annual basis. The revenue decoupling mechanism is designed to eliminate the disincentive for the Company to implement energy efficiency programs.

Pursuant to its current rate plan, on January 29, 2010, Brooklyn Union filed the status of its regulatory deferrals so that the NYPSC can determine whether in 2011 Brooklyn Union should adjust the level of revenue it receives under the existing rate plan to minimize outstanding deferrals. The Company proposed an increase on 2009 revenues of 1.63% through an existing surcharge, to take effect January 1, 2011, subject to NYPSC approval. The Company is proposing to recover $31.7 million of regulatory assets that are on the consolidated balance sheets.

In April 2008, the Company filed with the NYPSC to recover an incentive earned in 2002-07 relating to lost and unaccounted for ("LAUF") gas. The Company was entitled to earn an incentive during that period by reducing LAUF below an amount specified in a prior rate case. Due to an error in the methodology that had been used to calculate LAUF for the years 2002-07, the incentive amount earned and recovered in rates was understated by approximately $27 million. The 2008 petition seeks recovery of the understated amount. The gain contingency is not reflected in the financial statements. The NYPSC has not yet acted on the filing.

NOTE 3 – EMPLOYEE BENEFITS

Pension Plans

The employees of Brooklyn Union 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 Brooklyn Union; related pension obligations and assets are commingled and are not allocated to individual sponsors. The Parent's defined benefit pension plan had a net underfunded obligation of $740.2 million at March 31, 2010 and $825.3 million at March 31, 2009. Funding for pensions is in accordance with requirements of federal law and regulations.

Certain current year changes in the funded status of the Parent's plan are allocated to Brooklyn Union through an intercompany payable amount. Brooklyn Union is subject to certain deferral accounting requirements mandated by the NYPSC for pension and other postretirement benefit costs. Any variation between actual costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. Any deferral is recorded as either a regulatory asset or regulatory liability on the consolidated balance sheets. Gross actuarial pension expense allocated to Brooklyn Union was approximately $24.0 million for the year ended March 31, 2010 and $2.7 million for the year ended March 31, 2009 and is included in "Operations and maintenance" on the consolidated statements of income.

Pension benefits for salaried employees are based on salary and years of service, while pension benefits for union employees are based on negotiated benefits and years of service. Employees hired before 1993 who are participants in the pension benefit plans become eligible for postretirement health care benefits if they reach retirement age while working for Brooklyn Union.

The table below details the end-of-year assumptions used for both the net periodic cost calculations and liability amounts for the year ended March 31,

Pension	**2010**	2009
Assumptions:		
Obligation discount	**6.10%**	7.30%
Asset return, net of expenses	**8.00%**	8.00%
Average annual increase in compensation	**3.50%**	3.50%

Other Postretirement Benefits

Brooklyn Union employees are members of a noncontributory defined benefit plan. The Parent has 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 the individual sponsors. The KeySpan defined benefit plan had a net underfunded obligation of $1.1 billion at March 31, 2010 and $923.5 million at March 31, 2009. Certain current year changes in the funded status of the KeySpan plan are allocated to Brooklyn Union through an intercompany payable amount. Gross actuarial other postretirement expense allocated to Brooklyn Union was $13.2 million for the year ended March 31, 2010 and $8.4 million for the year ended March 31, 2009, respectively, and is included in "Operations and maintenance" on the consolidated statements of income.

The table below details the end-of-period assumptions used for both the net periodic cost calculations and liability amounts for the year ended March 31,

OPEB	**2010**	2009
Assumptions:		
Obligation discount	**6.10%**	7.30%
Asset return, net of expenses	**7.70%**	7.60%

Pension/Other Postretirement Benefit Plan Assets

KeySpan's weighted average asset allocations at March 31, 2010 and March 31, 2009, by asset category, for both the pension and other postretirement benefit plans are as follows:

	Pension		OPEB	
Asset Category	**2010**	2009	**2010**	2009
Equity securities	**51%**	49%	**63%**	62%
Debt securities	**42%**	41%	**18%**	32%
Other	**7%**	10%	**19%**	6%
Total	**100%**	100%	**100%**	100%

KeySpan has developed a multi-year funding strategy for its plans. We believe that it is reasonable to assume assets can achieve or outperform the assumed long-term rate of return with the target allocation as a result of historical performance of equity investments over long-term periods.

Key Assumptions Used

Several assumptions affect the pension and other postretirement benefit expense and measurement of their respective obligations. The following is a description of some of those assumptions:

Benefit plan investments. KeySpan manages benefit plan 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 plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income securities. 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. Periodically, small investments are also held in private equity funds and or venture capital funds with the objective of enhancing long-term returns while improving portfolio diversification. Investments are managed to maximize after tax returns, on earnings that are taxable, consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by the investment committee on a quarterly basis.

Expected return on assets. The expected rate of return for various passive asset classes is based on both 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 long-term assumptions. A small premium is added for active management and rebalancing of both equity and fixed income securities. These rates of return for each asset class are then weighted in accordance with a target asset allocation, and the resulting long-term rate of return on assets is applied to the market-related value of assets. For the year ended March 31, 2010, KeySpan used an 8.0% expected rate of return on assets, net of expenses for its pension plan and a 7.7% expected rate of return on assets, net of expenses for its other postretirement plans.

*Discount rat*e. KeySpan selects its discount rate assumption based upon rates of return on high quality corporate bond yields in the marketplace as of each measurement date (typically each March 31st). Specifically, KeySpan uses the Hewitt Top Quartile Discount Curve along with the expected future

cashflows from the KeySpan retirement plans to determine the weighted average discount rate assumption. At March 31, 2010 and March 31, 2009, a discount rate assumption of 6.1% and 7.3% was deemed appropriate for the plans.

Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 became law. These laws' included provisions which resulted in the repeal, with effect from 2012, of the deduction for federal income tax purposes of the portion of the cost of an employer's retiree prescription drug coverage for which the employer received a benefit under the Medicare Prescription Drug Improvement and Modernization Act of 2003. The consequential reduction in the deferred tax asset balance resulted in a net charge to the income statement of approximately $6.0 million.

No regulatory asset has been established with respect to this charge as any potential future recovery from customers of the increased cost of the Company's retiree health plans that results from the loss of this tax deduction has not been agreed under the terms of the Company's current rate plans.

Workforce Reduction Program

In connection with the merger, 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 the VERO offer to Brooklyn Union is estimated to be approximately $20 million, which is deferred for recovery from gas sales customers as part of the synergy savings and cost to achieve calculations. This amount is being accrued over a three year period or over the remaining service period whichever is shorter. The VERO is near completion and Brooklyn Union has accrued approximately $20.1 million of VERO costs.

NOTE 4 – DEBT

Gas Facilities Revenue Bonds

Brooklyn Union can issue tax-exempt bonds through the New York State Energy Research and Development Authority. Whenever bonds are issued for new gas facilities projects, proceeds are deposited in trust and subsequently withdrawn by Brooklyn Union to finance qualified expenditures. There are no sinking fund requirements for any of Brooklyn Union's Gas Facilities Revenue Bonds ("GFRB"). At March 31, 2010, $640.5 million of GFRBs were outstanding; $230.0 million of which are variable-rate, auction rate bonds. The interest rate on the various variable rate series due through July 1, 2026 is reset weekly and ranged from 0.40% to 4.00% during the year ended March 31, 2010.

The bonds are currently in the auction rate mode and are backed by bond insurance. The recent 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 the Company's bonds. To date, the effect on the interest expense has not been material.

Notes Payable

During 2006, Brooklyn Union issued $400 million of Senior Unsecured Notes at 5.60% due November 29, 2016. Interest is payable on a semi-annual basis in May and November.

Debt Maturity Schedule

There is no long-term debt maturing in the next five years.

The following table represents the ratings of Brooklyn Union's senior unsecured long-term debt at March 31, 2010:

Standard & Poor's	Moody's Investor Services	FitchRatings
A	N/A	A+

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The following table reflects the movements in our property, plant and equipment for the years ended March 31, 2010 and 2009:

(In thousands of dollars)	Plant and Machinery	Land and Buildings	Assets in Construction	Software Intangibles	Total
Balance at March 31, 2008	$ 2,659,085	$ 148,925	$ 65,838	$ 112,666	$ 2,986,514
Additions	-	-	175,426	7,058	182,484
Disposals	(24,403)	(2,615)	-	-	(27,018)
Reclassifications	189,396	5,753	(195,149)	-	-
Balance at March 31, 2009	2,824,078	152,063	46,115	119,724	3,141,980
Accumulated depreciation at March 31, 2009	(734,650)	(57,658)	-	(105,785)	(898,093)
Net book value at March 31, 2009	$ 2,089,428	$ 94,405	$ 46,115	$ 13,939	$ 2,243,887
Balance at March 31, 2009	$ 2,824,078	$ 152,063	$ 46,115	$ 119,724	$ 3,141,980
Additions	-	-	164,516	3,591	168,107
Disposals	(19,417)	(85)	-	-	(19,502)
Reclassifications	146,861	644	(147,505)	-	-
Balance at March 31, 2010	2,951,522	152,622	63,126	123,315	3,290,585
Accumulated depreciation at March 31, 2010	(762,296)	(61,190)	-	(110,742)	(934,228)
Net book value at March 31, 2010	$ 2,189,226	$ 91,432	$ 63,126	$ 12,573	$ 2,356,357

NOTE 6 – INCOME TAXES

Following is a summary of the components of federal and state income tax expense (benefit):

(In thousands of dollars)		**Year ended March 2010**		Year ended March 2009
Components of federal and state income taxes:				
Current tax (benefit) expense:				
Federal	**$**	**(43,770)**	$	25,745
State		**(16,892)**		16,468
Total current tax (benefit) expense	**$**	**(60,662)**	$	42,213
Deferred tax expense (benefit):				
Federal	**$**	**124,096**	$	48,988
Investment tax credits [1]		**(911)**		(911)
State		**43,083**		4,073
Total deferred tax expense	**$**	**166,268**	$	52,150
Total income tax expense	**$**	**105,606**	$	94,363

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

Income tax expense for 2010 and 2009 varied from the amount computed by applying the statutory rate to income before income taxes. A reconciliation of expected federal income tax expense, using the federal statutory rate of 35 percent, to the Company's actual income tax expense for 2010 and 2009 is presented in the following table:

(In thousands of dollars)		**Year ended March 31, 2010**		Year ended March 31, 2009
Computed tax	**$**	**84,684**	$	82,393
Increase (reduction) including those attributable to flow-through of certain tax adjustments:				
State income tax, net of federal benefit		**17,917**		12,459
Medicare subsidy, including Patient Protection & Affordable Care Act effect, net		**4,958**		(417)
Depreciation differences not normalized		**3,301**		3,301
Provision to return adjustments		**(2,234)**		584
Intercompany tax allocation		**(1,752)**		(2,290)
Investment tax credit		**(911)**		(911)
Allowance for equity funds used during construction		**(463)**		(629)
Other items - net		**106**		(127)
Total		**20,922**		11,970
Federal and state income taxes	**$**	**105,606**	$	94,363

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2010 and 2009 are presented in the following table:

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
Reserve - environmental	**$ 161,550**	$ 175,938
Pensions, OPEB and other employee benefits	**97,027**	74,795
Allowance for uncollectible accounts	**27,030**	21,430
Future federal benefit on state taxes	**23,824**	8,710
Regulatory liabilities - other	**21,716**	33,066
Other items	**14,938**	14,882
Total deferred tax assets [1]	**346,085**	328,821
Property related differences	**(449,537)**	(352,101)
Regulatory assets - environmental	**(231,359)**	(225,869)
Regulatory assets - pension and OPEB	**(96,636)**	(60,319)
Regulatory assets - other	**(23,772)**	-
Regulatory assets - property taxes	**(15,338)**	(1,330)
Property taxes	**(14,491)**	(12,579)
Investment tax credit	**(7,457)**	(8,368)
Partnership bases differences	**(42,098)**	(40,692)
Total deferred tax liabilities	**(880,688)**	(701,258)
Net accumulated deferred income tax liability	**(534,603)**	(372,437)
Current portion of net deferred tax asset	**13,191**	18,846
Non-current portion of net deferred income tax liability	**$ (547,794)**	$ (391,283)

[1] There were no valuation allowances for deferred tax assets at March 31, 2010 or 2009.

Subsequent to Keyspan's acquisition by National Grid on August 24, 2007, Keyspan and its subsidiaries became members of the National Grid Holdings Inc. (NGHI) and subsidiaries consolidated federal income tax return. The Company is a member of this consolidated group. The Company has joint and several liability for any potential assessments against the consolidated group. In December 2009, NGHI made an income tax accounting method change (in accordance with Internal Revenue Code Section 481(a)) for routine repair and maintenance of network assets pursuant to Internal Revenue Code Section 162 and Treasury Regulation §1.162-4 in its consolidated federal income tax return for the tax year ended March 31, 2009 which resulted in a current tax benefit during fiscal year ended March 31, 2010.

As of March 31, 2010 and March 31, 2009, the Company's current federal income tax balances payable to its parent are $82.3 million, and $98.6 million, respectively.

Due to the application of ASC 740, as of March 31, 2010 and 2009, the Company’s unrecognized tax benefits totaled $117.1 million and $94.8 million, respectively, of which $11.6 million and $7.0 million would affect the effective tax rate, if recognized.

The following table reconciles the changes to the Company's unrecognized tax benefits for the years ended March 31, 2010 and 2009:

Reconciliation of Unrecognized Tax Benefits *(In thousands of dollars)*	**March 31, 2010**	March 31, 2009
Beginning balance	**$ 94,775**	$ 72,583
Gross increases - related to prior period	**-**	22,192
Gross increases - related to current period	**22,326**	-
Settlements with tax authorities	**-**	-
Reductions due to lapse of statute of limitations	**-**	-
Ending balance	**$ 117,101**	$ 94,775

As of March 31, 2010 and March 31, 2009, the Company has accrued for interest related to unrecognized tax benefits of $31.2 million and $26.7 million, respectively. During fiscal years ended March 31, 2010 and March 31 2009, the Company recorded interest expense related to unrecognized tax benefits of $4.5 million and $5.1 million, respectively. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense or interest income and related penalties, if applicable, in operating expenses. No penalties were recognized during fiscal years ended March 31, 2010 and March 31, 2009.

The IRS is in the process of examining Keyspan and subsidiaries consolidated federal income tax returns for the calendar years ended December 31, 2000 through 2006. The examination is expected to be concluded during the fiscal year ending March 31, 2011. At that time, the Company expects to decrease its unrecognized tax benefits by $48.4 million. The tax returns for the short period ended August 24, 2007, as well as fiscal years ended March 31, 2008 and March 31, 2009 remain subject to examination by the IRS.

The State of New York concluded its examination of the Company's NYS income tax returns for the calendar years ended December 31, 2005 through December 31, 2006 with no changes proposed. The tax returns for the short period ended August 24, 2007, as well as fiscal years ended March 31, 2008 and March 31, 2009 remain subject to examination by the state of New York. The company has filed NY ITC claims for tax years ended December 31, 2000 through December 31, 2006. These claims have been denied by the State of New York and are currently under protest.

NOTE 7 – DERIVATIVE CONTRACTS

Firm Gas Sales Derivatives

The Company uses derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases. Our strategy is to minimize fluctuations in firm gas sales prices to regulated firm gas sales customers in our service territory. The accounting for these derivative instruments follows current guidance for rate regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred asset and liabilities, with offsetting positions recorded as regulatory asset or regulatory liability on the consolidated balance sheets. Gains or losses

on the settlement of these contracts are initially deferred and then refunded to or collected from our firm gas sales customers during the appropriate winter heating season consistent with regulatory requirements. The fair value of these derivative instruments was a liability of $23.0 million and $62.4 million at March 31, 2010 and March 31, 2009, respectively.

Physically-Settled Commodity Derivatives

Current accounting guidance for derivative instruments establishes criteria that must be satisfied in order for option contracts, forward contracts with optionality features or contracts that combine a forward contract and a purchased option contract to qualify as normal purchase and normal sales. Certain contracts for the physical purchase of natural gas do not qualify for this exception. Since these contracts are for the purchase of natural gas sold to regulated firm gas sales customers, the accounting for these contacts follows the accounting guidance for rate regulated enterprises. Additionally, Brooklyn Union has gas transportation service agreements with large generating facilities that contain embedded derivatives. These contracts and related embedded derivatives also follow the accounting guidance for rate regulated enterprises. The fair value of these derivatives was a liability of $21.0 million and $8.2 million at March 31, 2010 and March 31, 2009, respectively.

Other Financially-Settled Derivative Instruments

The Company employs a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers. These financial derivative instruments which are reflected as unregulated contracts on the following tables do not qualify for hedge accounting or the accounting guidance for rate regulated enterprises. The fair value of these contracts was a gain of $0.7 million and $0.1 million at March 31, 2010 and March 31, 2009, respectively. We use market quoted forward prices to value these contracts.

The following are commodity volumes associated with those derivative contracts:

As of March 31, 2010		
(In thousands)		
Physicals	Gas (dths)	65,902
	Gas swaps (dths)	16,159
Financials	Gas options (dths)	-
Total	**Gas (dths)**	**82,061**

The following are balance sheet and income statement tables under different accounting treatments for various commodities:

Fair Values of Derivative Instruments - Consolidated Balance Sheets					
	Asset Derivatives			Liability Derivatives	
(In thousands of dollars)	**March 31, 2010**	March 31, 2009		**March 31, 2010**	March 31, 2009
Regulated Contracts					
Gas Contracts:					
Gas Swaps Contract - Current Asset	**$ 6**	$ 11,162	Gas Swaps Contract - Current Liability	**$ (22,988)**	$ (69,222)
Gas Options Contract - Current Asset	**-**	7	Gas Options Contract - Current Liability	**-**	(689)
Gas Purchase Contract - Current Asset	**2,296**	1,650	Gas Purchase Contract - Current Liability	**(17,526)**	(4,548)
Current Asset	***2,302***	*12,819*	*Current Liability*	***(40,514)***	*(74,459)*
Gas Swaps Contract - Deferred Asset	**-**	-	Gas Swaps Contract - Deferred Liability	**-**	(3,651)
Gas Options Contract - Deferred Asset	**-**	-	Gas Options Contract -Deferred Liability	**-**	-
Gas Purchase Contract - Deferred Asset	**1,307**	-	Gas Purchase Contract - Deferred Liability	**(7,117)**	(5,272)
Deferred Asset	***1,307***	-	*Deferred Liability*	***(7,117)***	*(8,923)*
Subtotal	***3,609***	***12,819***		***(47,631)***	***(83,382)***
Unregulated Contracts					
Gas Contracts:					
Gas Swaps Contract - Current Asset	**-**	14	Gas Swaps Contract - Current Liability	**(313)**	(523)
Gas Purchase Contract - Current Asset	**1,032**	1,078	Gas Purchase Contract - Current Liability	**-**	-
Oil Contracts:					
Oil Swaps Contract - Current Asset	**-**	-	Oil Swaps Contract - Current Liability	**-**	(457)
Oil Swaps Contract - Deferred Asset	**-**	-	Oil Swaps Contract - Deferred Liability	**-**	-
Subtotal	***1,032***	***1,092***		***(313)***	***(980)***
Total Derivatives	**$ 4,641**	**$ 13,911**		**$ (47,944)**	**$ (84,362)**

Fair Values of Derivative Instruments

(In thousands of dollars)	YTD Movement	March 31, 2010	March 31, 2009
Regulated contracts			
Gas Contracts:			
Gas Swaps Contract - Regulatory Asset	$ 49,885	$ (22,988)	$ (72,873)
Gas Option Contract - Regulatory Asset	689	-	(689)
Gas Purchase Contract - Regulatory Asset	(14,823)	(24,643)	(9,820)
Gas Swaps Contract - Regulatory Liability	(11,156)	6	11,162
Gas Option Contract - Regulatory Liability	(7)	-	7
Gas Purchase Contract - Regulatory Liability	1,953	3,603	1,650
Subtotal	***26,541***	***(44,022)***	***(70,563)***
Non-regulated contracts			
Gas Contracts:			
Gas Swaps Contract - Other Income (Deduction)	196	(313)	(509)
Gas Purchase - Other Income (Deduction)	(46)	1,032	1,078
Gas Subtotal	*150*	*719*	*569*
Oil Contracts:			
Oil Swaps Contract - Other Income (Deduction)	457	-	(457)
Oil Subtotal	*457*	-	*(457)*
Subtotal	***607***	***719***	***112***
Total	**$ 27,148**	**$ (43,303)**	**$ (70,451)**

Movements in the fair value of regulatory contracts are recorded on the Consolidated Balance Sheet.
Non-regulatory contracts are recorded on the Consolidated Statements of Income.

The aggregate fair value of all of the Company's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2010 is $38.7 million for which the Company has posted collateral of $0.8 million in the normal course of business. The aggregate fair value on March 31, 2009 was in a liability position of $70.4 million for which Brooklyn Union Gas posted collateral of $8.9 million. If the Company's credit rating were to be downgraded by one notch, it would be required to post additional collateral of $1.0 million on March 31, 2010. If the Company's credit rating were to be downgraded by three notches, it would be required to post $37.9 million additional collateral to its counterparties.

Credit and Collateral

Derivative contracts are primarily used to manage exposure to market risk arising from changes in commodity prices and interest rates. In the event of non-performance by a counterparty to a derivative contract, the desired impact may not be achieved. The risk of counterparty non-performance is generally considered a credit risk and is actively managed by assessing each counterparty credit profile and negotiating appropriate levels of collateral and credit support. In instances where the counterparties' credit quality has declined, or credit exposure exceeds certain levels, we may limit our credit exposure by restricting new transactions with counterparties, requiring additional collateral or credit support and negotiating the early termination of certain agreements. At March 31, 2010, Brooklyn

Union has paid $0.8 million to its counterparties as collateral associated with outstanding derivative contracts. This amount has been recorded as restricted cash, with offsetting positions on the consolidated balance sheets.

NOTE 8 – FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date - exit price.

The determination of the fair value incorporates various factors required including not only the credit standing of the counterparties involved but also the impact of the Company's nonperformance risk on its liabilities.

Derivatives — we enter into a variety of derivative instruments to include both exchange traded and OTC gas forwards, options and swaps.

The Company's level 1 fair value derivative instruments primarily consist of natural gas futures traded on the NYMEX. There is no liquidity or credit reserve associated with such trades, and no discounting as well.

The Company's level 2 fair value derivative instruments primarily consist of OTC gas swaps and forward physical gas deals where market data for pricing inputs is observable. Level 2 pricing inputs are obtained from NYMEX and Platts M2M (industry standard, non-exchange-based editorial commodity forward curves) when it can be verified by available market data from Intercontinental Exchange. Level 2 derivative instruments may utilize discounting based on quoted interest rate curve as well as have liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 0.95 or higher.

Level 3 fair value derivative instruments primarily consist of our gas OTC forwards, options, and physical gas transactions where pricing inputs are unobservable, as well as other complex and structured transactions. Complex or structured transactions can introduce the need for internally-developed models based on reasonable assumptions. Industry-standard valuation techniques, such as Black-Scholes pricing model, Monte Carlo simulation, and Financial Engineering Associates libraries are used for valuing such instruments. The value is categorized as level 3. Level 3 is also applied in cases when forward curve is extrapolated or derived from market observable curve with correlation coefficients less than 0.95, or optionality is present, or non-economical assumptions are made.

The following table presents assets and liabilities measured and recorded at fair value on the Company's consolidated balance sheet on a recurring basis and their level within the fair value hierarchy as of March 31, 2010:

(In thousands of dollars)

	Level 1	Level 2	Level 3	March 31, 2010
Assets				
Derivatives contracts	$ -	$ 6	$ 4,635	$ 4,641
Total assets	$ -	$ 6	$ 4,635	$ 4,641
Liabilities				
Derivatives	$ -	$ (23,314)	$ (24,630)	$ (47,944)
Total liabilities	$ -	$ (23,314)	$ (24,630)	$ (47,944)

Year to Date Level 3 Movement Table

The following table presents the fair value reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis during the year ended March 31, 2010:

(In thousands of dollars)	
Beginning balance at March 31, 2009	$ (7,328)
Transfers into Level 3	(1,308)
Transfers out of Level 3	-
Total gains or losses	
included in earnings (or changes in net assets)	(230)
included in other comprehensive income	-
included in regulatory assets and liabilities	(21,178)
Purchases	10,049
Sales	-
Ending balance at March 31, 2010	$ (19,995)
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributed to the change in unrealized gains or losses relating to assets still held at March 31, 2010.	$ 1,674

The Company transfers amounts from Level 2 to Level 3 as of the beginning of each period and amounts from Level 3 to Level 2 as of the end of each period.

Long term debt are the Company's debt were based on quoted market prices where available or

calculated prices based on the remaining cash flows of the underlying bond discounted at the Company's incremental borrowing rate. The debt is recorded at carrying value on the consolidated balance sheets; the fair value of this debt is $1.1 billion at March 31, 2010.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. Except as described below, the Company does not consider any of such proceedings to be material to its business or likely to result in a material adverse effect on its results of operations, financial condition or cash flows.

Environmental Matters - Manufactured Gas Plant Sites

The Company uses the "Expected Value" method for measuring its environmental liabilities. The Expected Value method applies a weighting to potential future expenditures based on the probability of these costs being incurred. A liability is recognized for all potential costs based on this probability. Costs considered to be 100% probable of being incurred are recognized in full, with costs below a 100% probability recognized in proportion to their probability. The Company discounted its environmental reserves at the time of the KeySpan acquisition by National Grid plc using an appropriate fair value methodology.

We have identified numerous MGP sites and related facilities, which were owned or operated by us or our predecessors. These former sites, some of which are no longer owned by us, have been identified to the NYPSC and the DEC for inclusion on appropriate site inventories. ACO or Voluntary Cleanup Agreements ("VCA") have been executed with the DEC to address the investigation and remediation activities associated with certain sites.

Several plaintiffs in a single lawsuit allege damages resulting from contamination associated with the historic operations of a former manufactured gas plant located in Staten Island, New York. KeySpan has been conducting site investigations and remediation at this location pursuant to an Order on Consent with the New York State Department of Environmental Conservation ("DEC"). KeySpan intends to contest this proceeding vigorously.

On February 8, 2007, we received a Notice of Intent to File Suit from the Office of the Attorney General for the State of New York ("AG") against KeySpan and four other companies in connection with the cleanup of historical contamination found in certain lands located in Greenpoint, Brooklyn and in an adjoining waterway. KeySpan has previously agreed to remediate portions of the properties referenced in this notice and will work cooperatively with the DEC and AG to address environmental conditions associated with the remainder of the properties. KeySpan has entered into an Administrative Orders on Consent ("ACO") for the land-based sites. The DEC and AG recently determined that the State did not have the financial resources to continue oversight of this project and sent a letter to the United States Environmental Protection Agency ("USEPA") requesting

evaluation of the site for possible inclusion on its list of superfund sites. We are currently in negotiations with the USEPA. On September 23, 2009, the USEPA proposed this site for listing on its National Priorities List ("NPL") of Superfund sites. At this time, we are unable to predict what effect, if any, the outcome of these proceedings will have on our financial condition, results of operation and cash flows.

We presently estimate the remaining cost of our environmental remediation activities will be $370.3 million, which amount has been accrued by us as a reasonable estimate of cost for known sites. However, remediation costs for each site may be materially higher than noted, depending upon changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. Expenditures incurred to date by us with respect to these Brooklyn Union MGP-related activities total $204.7 million.

The Brooklyn Union rate plan provides for the recovery of MGP-related investigation and remediation costs as costs are incurred. A regulatory asset of $545.8 million and $510.0 million is reflected at March 31, 2010 and March 31, 2009, respectively, for MGP sites.

Asset Retirement Obligations

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

At March 31, the following asset retirement obligations were recorded on the consolidated balance sheets at their estimated present values:

(In thousands of dollars)		
	2010	**2009**
Asbestos removal	**$ 352**	$ 331
Tanks removal and cleaning	**15**	15
Main - cutting, purging and capping	**9,300**	8,774
Total asset retirement obligations	**$ 9,667**	$ 9,120

The Company recorded $0.5 million of asset retirement obligation accretion expense for the year ended March 31, 2010 and $0.5 million for the year ended March 31, 2009.

NOTE 10 – DIVIDENDS

Pursuant to the NYPSC's orders, the ability of the Company to pay dividends to KeySpan is conditioned upon maintenance of a utility capital structure with debt not exceeding 56 % of total utility capitalization. At the end of the rate year (December 31, 2009), the Company was in compliance with the utility capital structure required by NYSPC. In June 2009, the Company paid dividends in the amount of $125 million to KeySpan.

NOTE 11 – RELATED PARTY TRANSACTIONS

Money Pool

We engage in various transactions with KeySpan, NGUSA and its affiliates. For the most part, the various affiliates of KeySpan do not maintain large separate cash balances. Financing for Brooklyn Union's working capital and gas inventory needs is obtained through participation in the KeySpan money pool. Brooklyn Union is limited in their participation in the money pool to only be authorized to borrow funds as needed. The Company's subsidiary, NETCO, does not have this restriction and is allowed to borrow and lend funds into the money pool.

The money pool is funded by operating funds from money pool participants. In addition, KeySpan has the ability to borrow up to $3 billion from National Grid, plc for working capital needs including funding of the money pool, if necessary. As of March 31, 2010 and March 31, 2009, we had an outstanding consolidated money pool receivable balance of $13.6 million and $2.4 million, respectively. Interest rates associated with the money pool are designed to approximate the cost of third-party short-term borrowings.

The average interest rate for the money pool was 0.91% and 2.62% for the years ended March 31, 2010 and 2009, respectively.

Accounts Receivable from Affiliates

NGUSA and its affiliates provide the Company with various services, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury/finance), human resources (including pension funding), information technology, legal, and strategic planning. The costs of these services are charged to the Company via inter-company billings and generally settled through the money pool on a monthly basis. At March 31, 2010, the Company had a $170.4 million liability for these services. In addition, the Company had a $126.4 million liability to KeySpan for allocated pension and other postretirement benefit costs and an intercompany tax payable of $82.3 million. Therefore, at March 31, 2010, Brooklyn Union had a money pool receivable of $13.6 million and an intercompany payable, net of intercompany receivables, of $379.1 million, for a total net intercompany payable position of $365.5 million.

Service Company Charges

Operating and capital costs allocated to the Company from the various NGUSA service companies were $241.3 million and $254.2 million for the year ended March 31, 2010 and 2009, respectively.

Parent Company Charges

For the year ended March 31, 2010, NGUSA received charges from National Grid Commercial Holdings Limited (an affiliated company in the UK) for certain corporate and administrative services provided by the Corporate functions of National Grid plc to its US subsidiaries.

These charges, which are recorded on the books of NGUSA, have not been reflected on these financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $3.3 million before tax and $2.2 million after tax.