KeySpan Corporation and Subsidiaries
Consolidated Financial Statements
For the year ended March 31, 2010

KEYSPAN CORPORATION AND SUBSIDIARIES

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Report of Independent Auditors

To the Stockholder and Board of Directors of
KeySpan Corporation 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 KeySpan Corporation 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.

PricewaterhouseCoopers LLP

July 9, 2010

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions of dollars)	**March 31, 2010**	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	**$ 635.8**	$ 368.6
Restricted cash	**7.4**	3.6
Accounts receivable	**1,187.1**	1,266.0
Allowance for doubtful accounts	**(132.0)**	(126.0)
Accounts receivable - affiliates	**-**	622.0
Unbilled revenue	**322.5**	385.5
Gas in storage, at average cost	**254.2**	423.5
Material and supplies, at average cost	**112.0**	133.1
Derivative contracts	**29.8**	41.6
Regulatory assets	**327.8**	360.5
Prepayments	**96.0**	71.0
Other	**208.2**	59.4
Deferred income taxes	**-**	3.0
Discontinued assets held for sale	**-**	15.1
	3,048.8	3,626.9
Equity investments and other	**274.7**	225.1
Property, plant and equipment		
Gas	**7,124.7**	6,659.3
Electric	**942.7**	895.1
Other	**436.9**	427.9
Accumulated depreciation	**(522.2)**	(318.2)
Property, plant and equipment, net	**7,982.1**	**7,664.1**
Deferred charges		
Regulatory assets	**1,860.7**	1,711.8
Goodwill	**3,987.4**	3,987.4
Intangible assets, net	**135.6**	165.5
Derivative contracts	**49.9**	3.7
Other	**141.4**	159.9
Discontinued deferred assets held for sale	**-**	11.7
	6,175.0	6,040.0
Total assets	**$ 17,480.6**	$ 17,556.1

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In millions of dollars)	March 31, 2010	March 31, 2009
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable and other accrued liabilities	**$ 782.8**	$ 831.5
Accounts payable - affiliates	**130.4**	-
Current portion of long-term debt	**720.0**	400.0
Taxes accrued	**82.8**	480.8
Customer deposits	**46.5**	53.6
Interest accrued	**123.4**	125.9
Derivative contracts	**179.2**	207.3
Regulatory liabilities	**71.4**	84.9
Current portion of deferred federal income taxes	**32.9**	-
Discontinued current liabilities held for sale	**-**	12.7
	2,169.4	2,196.7
Deferred credits and other liabilities		
Regulatory liabilities	**1,098.5**	933.6
Asset retirement obligations	**52.6**	51.6
Deferred income taxes	**873.5**	550.0
Postretirement benefits and other reserves	**2,629.7**	2,563.9
Derivative contracts	**26.0**	52.5
Other	**66.0**	183.2
	4,746.3	4,334.8
Capitalization		
Additional paid-in-capital	**7,574.3**	7,574.3
Retained earnings	**789.1**	495.4
Accumulated other comprehensive loss	**(398.4)**	(379.2)
Total common equity	**7,965.0**	7,690.5
Non-controlling interests	**3.5**	4.1
Total equity	**7,968.5**	7,694.6
Long-term debt	**2,596.4**	3,330.0
Total capitalization	**10,564.9**	11,024.6
Total liabilities and capitalization	**$ 17,480.6**	$ 17,556.1

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Operating Revenues		
Gas distribution	$ 4,568.4	$ 5,953.2
Electric services	994.9	1,019.4
Other	142.8	163.2
Total operating revenues	5,706.1	7,135.8
Operating expenses		
Purchased gas for resale	2,542.1	3,889.0
Fuel and purchased power	0.5	0.7
Operations and maintenance	1,631.7	1,765.4
Depreciation, depletion and amortization	363.9	358.0
Operating taxes	533.2	513.0
Total operating expenses	5,071.4	6,526.1
Income from equity investments	26.1	22.1
Operating income	660.8	631.8
Interest and other income		
Interest charges	(247.9)	(322.1)
Interest and other income	97.6	20.8
Total other income and (deductions)	(150.3)	(301.3)
Income taxes		
Current	(168.9)	921.2
Deferred	384.8	(770.6)
Total income taxes	215.9	150.6
Net income from continuing operations	294.6	179.9
Net income from discontinued operations, net of tax of $17.5 million	-	24.6
Net income	294.6	204.5
Net loss attributable to non-controlling interests	(0.9)	(0.8)
Net income attributable to KeySpan shareholders	$ 293.7	$ 203.7

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Operating activities		
Net income	**$ 293.7**	$ 203.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation, depletion and amortization	**363.9**	358.0
Deferred income taxes	**384.8**	(770.6)
Income from equity investments	**2.7**	(21.8)
Amortization of property taxes and demand charges	**110.1**	110.9
Net income from discontinued operations	**-**	(24.6)
Other non-cash items	**(4.1)**	118.8
Pension and other postretirement costs	**(69.5)**	(139.6)
Changes in assets and liabilities		
Accounts receivable, net	**115.0**	218.0
Materials and supplies, and gas in storage	**178.1**	(39.5)
Accounts payable and accrued expenses	**(621.0)**	53.9
Property tax and other prepayments	**(174.9)**	(116.8)
Environmental payments	**(119.5)**	(132.6)
Other	**38.2**	48.6
Net cash provided by (used in) continuing operating activities	**497.5**	(133.6)
Investing activities		
Capital expenditures	**(564.1)**	(659.2)
Net proceeds from sale of property and investments	**-**	2,989.3
Derivative margin calls	**36.4**	(34.5)
Other, including cost of removal	**(51.9)**	(58.6)
Net cash (used in) provided by continuing investing activities	**(579.6)**	2,237.0
Financing activities		
Repayment of long-term debt	**(400.0)**	(170.1)
Payment of commercial paper	**-**	(286.8)
Accounts receivable and payable affiliates, net	**749.3**	(1,398.9)
Net cash provided by (used in) continuing financing activities	**349.3**	(1,855.8)
Net increase in cash and cash equivalents	**267.2**	247.6
Cash flow from discontinued operations - operating activities	**-**	(28.8)
Cash flow from discontinued operations - investing activities	**-**	(13.2)
Cash flow from discontinued operations - financing activities	**-**	(425.0)
Cash and cash equivalents at beginning of year	**368.6**	588.0
Cash and cash equivalents at end of year	**$ 635.8**	$ 368.6
Supplemental information:		
Interest paid	**$ 239.7**	$ 255.0
Income taxes paid	**$ 381.9**	$ 615.2

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

KEYSPAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Balance at beginning of year	$ 495.4	$ 291.7
Net income	293.7	203.7
Balance at end of year	$ 789.1	$ 495.4

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Net income	$ 293.7	$ 203.7
Other comprehensive income, net of tax		
Reclassification of losses included in net income	37.1	10.2
Unrealized (losses) gains on derivative contracts	(1.4)	7.6
Unrealized gains (losses) on available for sale securities	9.6	(19.5)
Change in pensions and other postretirement obligations	(64.5)	(275.7)
Other comprehensive loss, net of tax	(19.2)	(277.4)
Comprehensive income (loss)	$ 274.5	$ (73.7)
Related tax (benefit) expense		
Reclassification of losses included in net income	$ 23.9	$ 6.6
Unrealized (losses) gains on derivative contracts	(1.0)	5.0
Unrealized gains (losses) on available for sale securities	6.4	(13.0)
Change in pensions and other postretirement obligations	(41.6)	(177.8)
Total tax benefit	$ (12.3)	$ (179.2)

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

KEYSPAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In millions of dollars)	**March 2010**	**March 2009**	**March 2010**	**March 2009**
Common shareholders' equity	**Shares Issued**			
Additional paid-in-capital			7,574.3	7,574.3
Retained earnings			789.1	495.4
Accumulated other comprehensive loss			(398.4)	(379.2)
Total common equity	100	100	7,965.0	7,690.5
Non-controlling interest			3.5	4.1
Total equity			7,968.5	7,694.6
Long - term debt	**Interest Rate**	**Interest Rate**		
Medium and long term notes	4.65% - 9.75%	4.65% - 9.75%	2,240.2	2,640.2
Gas facilities revenue bonds	Variable	Variable	230.0	230.0
	4.70% - 6.95%	4.70% - 6.95%	410.5	410.5
Total gas facilities revenue bonds			640.5	640.5
Promissory notes to LIPA				
Pollution control revenue bonds	5.15%	5.15%	108.0	108.0
Electric facilities revenue bonds	5.30%	5.30%	47.4	47.4
Total promissory notes to LIPA			155.4	155.4
Industrial development bonds	5.25%	5.25%	128.3	128.3
First mortgage bonds	6.90% - 8.80%	6.34% - 8.80%	75.0	75.0
Authority financing notes	Variable	Variable	66.0	66.0
Subtotal			3,305.4	3,705.4
Other			11.0	24.6
Current maturities			(720.0)	(400.0)
Total long-term debt			2,596.4	3,330.0
Total capitalization			$ 10,564.9	$ 11,024.6

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

KeySpan Corporation "KeySpan," the "Company," "we," "us" and "our") is a public utility holding company that distributes natural gas to customers in New York City, Long Island, Massachusetts and New Hampshire. We also own and operate electric generating plants in Nassau and Suffolk Counties on Long Island. Under contractual arrangements, we provide power, electric transmission and distribution services, billing and other customer services for approximately 1.1 million electric customers of the Long Island Power Authority ("LIPA"). KeySpan's other operating subsidiaries are primarily involved in gas production and development; underground gas storage; liquefied natural gas storage; retail electric marketing; and service and maintenance of energy systems. We also invest and participate in the development of natural gas pipelines and other energy-related projects.

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.

KeySpan has two major lines of business: "Gas Distribution" and "Electric Services" and operates various Energy Services and Energy Investment companies.

The Gas Distribution business consists of six gas distribution subsidiaries. The Brooklyn Union Gas Company ("Brooklyn Union") provides gas distribution services to customers in the New York City Boroughs of Brooklyn, Queens and Staten Island. KeySpan Gas East Corporation ("KeySpan Gas East") provides gas distribution services to customers in the Long Island Counties of Nassau and Suffolk and the Rockaway Peninsula of Queens County. The remaining gas distribution subsidiaries, Boston Gas Company ("Boston Gas"), Colonial Gas Company ("Colonial Gas"), Essex Gas Company ("Essex Gas") and EnergyNorth Natural Gas, Inc. ("Energy North"), provide gas distribution service to customers in Massachusetts and New Hampshire.

The Electric Services business consists of subsidiaries that operate the electric transmission and distribution system owned by LIPA, own and provide capacity to and produce energy for LIPA from our generating facilities located on Long Island, and manage fuel supplies for LIPA to fuel our Long Island generating facilities. These services are provided in accordance with existing long-term service contracts having a remaining term of four years and power purchase agreements having remaining terms that range from four to eighteen years. The Electric Services business also conducts retail marketing of electricity to commercial customers.

Energy Services business includes companies that provide energy-related services to customers located primarily within the northeastern United States. Subsidiaries provide residential and small commercial customers with service and maintenance of energy systems and appliances, as well as operation and maintenance, and design to commercial, institutional and industrial customers.

Energy Investments business consists of our gas production and development investments, as well as certain other domestic energy-related investments. KeySpan's gas production and development activities include its wholly-owned subsidiary Seneca Upshur Petroleum, Inc. ("Seneca-Upshur"). Seneca-Upshur is engaged in gas production and development activities primarily in West Virginia. Additionally, through its wholly-owned subsidiary, National Grid LNG, the Company owns a 600,000 barrel liquefied natural gas storage and receiving facility in Providence, Rhode Island.

Energy Investments is also engaged in pipeline development activities. KeySpan has a 26.25% interest in the Millennium Pipeline Company LLC, a pipeline that has the capacity to transport up to 525,000 DTH of natural gas a day from Corning, New York to Ramapo, New York, where it will connect to an existing pipeline. Additionally, another subsidiary holds a 20% equity interest in the Iroquois Gas Transmission System LP, a pipeline that transports Canadian gas supply to markets in the northeastern United States. These investments are accounted for under the equity method.

Pursuant to the Public Utility Holding Company Act of 2005, the Federal Energy Regulatory Commission ("FERC") has jurisdiction over certain of our holding company activities, including (i) regulating certain transactions among our affiliates within our holding company system; (ii) governing the issuance, acquisition and disposition of securities and assets by certain of our public utility subsidiaries; and (iii) approving certain utility mergers and acquisitions.

Moreover, our affiliate transactions also remain subject to certain regulations of the New York State Public Service Commission ("NYPSC"), the Massachusetts Department of Public Utilities ("MADPU") and the New Hampshire Public Utilities Commission ("NHPUC") in addition to FERC.

Under our holding company structure, we have no independent operations or source of income of our own and conduct all of our operations through our subsidiaries and, as a result, we depend on the earnings and cash flow of, and dividends or distributions from, our subsidiaries to provide the funds necessary to meet our debt and contractual obligations. Furthermore, a substantial portion of our consolidated assets, earnings and cash flow is derived from the operations of our regulated utility subsidiaries, whose legal authority to pay dividends or make other distributions to us is subject to regulation by state regulatory authorities (See Note 2. "Rate and Regulatory" regarding dividend restrictions associated with Brooklyn Union and KeySpan Gas East).

KeySpan derives approximately 14% of its consolidated revenues from a series of agreements with LIPA pursuant to which we manage LIPA's transmission and distribution system and supply electricity to a majority of LIPA's customers.

B. Basis of Presentation

The consolidated financial statements for the years ended March 31, 2010 and 2009, are prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"), including accounting principles for rate-regulated entities with respect to the Company's subsidiaries engaged in the transmission and distribution of gas and electricity (regulated subsidiaries), and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities having jurisdiction over such entities (See Item C. "Accounting for the Effects of Rate Regulation").

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.

All material intercompany balances and transactions have been eliminated.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and other entities in which the Company has a controlling financial interest. The Company adopted accounting guidance for non-controlling interests on March 31, 2009. Accordingly, for consolidated subsidiaries that are less than wholly-owned, the third-party holdings of equity interests are referred to as non-controlling interests. The portion of net income attributable to non-controlling interests for such subsidiaries is presented as "net income (loss) attributable to non-controlling interests" on the Consolidated Statements of Income, and the portion of the shareholders' equity of such subsidiaries is presented as "non-controlling interests" in the Consolidated Balance Sheets and Consolidated Statements of Capitalization.

For entities where (1) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (2) the equity holders bear the economic residual risks of the entity and have the right to make decisions about the entity's activities, the Company consolidates those entities it controls through a majority voting interest or otherwise.

The Company has evaluated events or transactions that occurred after March 31, 2010 through July 9, 2010 for potential recognition or disclosure in the financial statements. (See Note 14. "Subsequent Events" for additional details.)

C. Accounting for the Effects of Rate Regulation

The accounting records for our six regulated gas utilities are maintained in accordance with the Uniform System of Accounts prescribed by the NYPSC, the NHPUC, and the MADPU. Our electric generation subsidiaries are not subject to state rate regulation, but they are subject to FERC oversight. Our consolidated financial statements reflect the ratemaking policies and actions of these regulators in conformity with GAAP for rate-regulated enterprises.

All of our six regulated gas utilities are subject to current accounting guidance for rate regulated enterprises. This statement recognizes the ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, we record these future economic benefits and obligations as regulatory assets and regulatory liabilities on the Consolidated Balance Sheets, respectively.

The following table presents our net regulatory assets at March 31, 2010 and March 31, 2009.

	March 31, 2010		March 31, 2009	
(In millions of dollars)	Current	Non-Current	Current	Non-Current
Regulatory Assets				
Regulatory tax asset	$ -	$ 27.7	$ 5.2	$ 22.2
Property and other taxes	3.7	69.1	3.7	51.0
Environmental costs	11.8	1,058.3	11.3	976.3
Postretirement benefits	84.4	590.4	89.3	547.2
Derivative financial instruments	178.0	26.0	204.6	52.4
Other	49.9	89.2	46.4	62.7
Total Regulatory Assets	327.8	1,860.7	360.5	1,711.8
Regulatory Liabilities:				
Derivative financial instruments	(25.9)	(48.6)	(36.1)	(3.0)
Miscellaneous	(45.5)	(358.2)	(48.8)	(294.4)
Total Regulatory Liabilities	(71.4)	(406.8)	(84.9)	(297.4)
Net Regulatory Assets	256.4	1,453.9	275.6	1,414.4
Removal Costs Recovered	-	(691.7)	-	(636.2)
	$ 256.4	$ 762.2	$ 275.6	$ 778.2

The regulatory assets above are not included in utility rate base. However, for those regulatory items for which cash expenditures have been made or for which cash has been collected in advance, we record an appropriate amount of carrying charges. For regulatory items in which cash has not been paid or received, carrying charges are not recorded. We anticipate recovering or refunding those items in our gas rates concurrently with future cash expenditures or recoveries. If recovery or refund is not concurrent with the cash expenditures or collections, we will record the appropriate level of carrying charges. 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

KeySpan could no longer apply the guidance, the resulting charge would be material to KeySpan's reported financial statements.

Environmental costs represents deferred costs associated with KeySpan's share of the estimated costs to investigate and perform certain remediation activities at hazardous waste sites with which it may be associated. Our rate plans provide for specific rate allowances for these costs, with variances deferred for future recovery or pass-back to customers. KeySpan believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates.

Costs of KeySpan's pension and postretirement benefits plans over amounts reflected in rates are deferred to a regulatory asset to be recovered in a future period. This regulatory asset includes the deferral of the fair value adjustments to the pension and postretirement benefits plans other than pensions. KeySpan has also recorded a regulatory asset as an offset to its unfunded pension and other postretirement liabilities for its rate regulated enterprises. As KeySpan has recovery on pension liability on a dollar for dollar basis for its regulated enterprises, it is reasonable to expect that there will be no impact on the Consolidated Income Statements for pension and other postretirement benefits as the revenues per recovery will match the underlying pension expenses.

D. Revenue Recognition

Gas Distribution. Utility gas customers are billed monthly on a cycle 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 cost of gas adjustment factor ("CGAF") included in utility tariffs. The CGAF provision requires periodic reconciliation of recoverable gas costs and CGAF revenues. Any difference is deferred pending recovery from or refund to firm customers. Further, net revenues from tariff gas balancing services, off-system sales and certain on-system interruptible sales are refunded, for the most part, to firm customers subject to certain sharing provisions. At March 31, 2010 and March 31, 2009, deferred gas costs of $48.2 million (asset) and $62.1 million (liability), respectively are reflected in accounts receivable on the Consolidated Balance Sheets.

The New York and Long Island gas utility tariffs contain weather normalization adjustments that largely offset shortfalls or excesses of firm net revenues (revenues less gas costs and revenue taxes) during a heating season due to variations from normal weather. Revenues are adjusted each month the clause is in effect. The New England gas utility rate structures contain no weather normalization feature; therefore their net revenues are subject to weather related demand fluctuations. As a result, fluctuations from normal weather may have a significant positive or negative effect on the results of these operations.

Electric Services. Electric revenues are primarily derived from billings to LIPA for management of LIPA's transmission and distribution system ("T&D System"), electric generation, and procurement of fuel.

LIPA Agreements. KeySpan and LIPA have three major long-term service agreements that (i) provide to LIPA all operation, maintenance and construction services and significant administrative services relating to the Long Island electric transmission and distribution system pursuant to the Management Services Agreement (the "MSA"); (ii) supply LIPA with electric generating capacity, energy conversion and ancillary services from our Long Island generating units pursuant to the Power Supply Agreement (the "PSA"); and (iii) manage all aspects of the fuel supply for our Long Island generating facilities, pursuant to the Energy Management Agreement (the "EMA"). The agreements expire on December 31, 2013, May 28, 2013 and May 28, 2013, respectively. On June 3, 2010, LIPA issued a Request for Proposal ("RFP") for an operating and maintenance services provider to furnish the services currently provided under the MSA after the MSA expires.

KeySpan's compensation for managing the electric transmission and distribution system owned by LIPA under the MSA consists of two components: a minimum compensation component of $224 million per year and a variable component based on electric sales. The $224 million component remained unchanged for three years and thereafter increases annually by 1.7%, plus inflation. The variable component, which will comprise no more than 20% of KeySpan's compensation, is based on electric sales on Long Island exceeding a base amount of 16,558 gigawatt hours, increasing by 1.7% in each year. Above that level, KeySpan will receive approximately 1.34 cents per kilowatt hour for the first contract year, 1.29 cents per kilowatt hour in the second contract year (plus an annual inflation adjustment), 1.24 cents per kilowatt hour in the third contract year (plus an annual inflation adjustment), with the per kilowatt hour rate thereafter adjusted annually by inflation. At March 31, 2010, the contract is in its 5th year.

Pursuant to the MSA, the Company must meet eighteen (18) performance metrics, one of which is a Customer Satisfaction metric. Failure to achieve a minimum level of performance under this metric for three consecutive years gives rise to an event of default under the MSA. The 2008 results were released, but LIPA and KeySpan had a dispute as to interpretation. LIPA and KeySpan have settled this dispute and the parties have executed settlement documents which have been approved by the New York State Comptroller and Attorney General. The settlement will not have a material impact on KeySpan's consolidated financial statements. In addition, the Company met all the performance metrics in year 2009, as a result, no penalty was assessed.

In addition, the PSA provides for the sale to LIPA of all the capacity and, to the extent LIPA requests, energy conversion services from National Grid Generation, LLC's (our direct subsidiary) existing Long Island based oil and gas-fired generating plants. LIPA is the only customer for capacity and energy services from our facilities. Sales of capacity and energy conversion services are made under rates approved by the FERC. Rates charged to LIPA include a fixed and variable component. The variable component is

billed to LIPA on a monthly per megawatt hour basis and is dependent on the number of megawatt hours dispatched.

The PSA runs for a term of fifteen years through May 28, 2013, with LIPA having the option to renew the PSA for an additional fifteen-year term. On January 30, 2009, our subsidiary, National Grid Generation filed with the FERC for a rate increase for the final five year rate term of the fifteen year contract for the electricity generated and supplied to LIPA under the PSA. The filing sought an increase of $92 million. FERC issued an order on December 31, 2009 accepting National Grid Generation's proposed tariff rates effective from February 1, 2009, subject to refund and the outcome of any proceedings instituted by FERC. The FERC also established settlement procedures to encourage LIPA and National Grid Generation to explore the possibility of a settlement. LIPA and National Grid Generation filed a settlement on October 23, 2009 with a FERC Administrative Law Judge that provides for a revenue requirement of $435.7 million, an annual increase of approximately $65.7 million, an ROE of 10.75% and a capital structure of 50% debt and 50% equity. FERC approved the settlement on January 5, 2010. The order accepting the settlement is no longer subject to rehearing and the settlement became effective on March 1, 2010. All outstanding balances associated with the revenue increases were settled in March 2010.

Pursuant to the EMA, KeySpan procures and manages fuel supplies for LIPA to fuel KeySpan's Long Island based generating facilities. In exchange for these services, KeySpan earns an annual fee of $750,000 (with fuel purchase incentives/disincentives). The term of the EMA for the remaining services expires on May 28, 2013.

KeySpan Glenwood Energy Center, LLC and KeySpan Port Jefferson Energy Center, LLC have entered into 25 year Power Purchase Agreements with LIPA (the "PPAs"). Under the terms of the PPAs, these subsidiaries sell capacity, energy conversion services and ancillary services to LIPA. Each plant is designed to produce 79.9 MW. Under the PPAs, LIPA pays a monthly capacity fee, which provides full 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.

Other Revenues. Revenues earned for service and maintenance contracts associated with small commercial and residential appliances are recognized as earned or over the life of the service contract, as appropriate. We have unearned revenue recorded in "Deferred credits and other liabilities – other" on the Consolidated Balance Sheets totaling $23.4 million and $25.3 million as of March 31, 2010 and 2009 respectively. These balances represent primarily unearned revenues for service contracts and are generally amortized to income over a one year period.

E. Property, Plant and Equipment

Property, principally utility gas property is stated at original cost of construction, less accumulated depreciation. Property balances also include allocations of overheads, including taxes, and an allowance for funds used during construction.

Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property. Average remaining service life for gas distribution property, primarily mains and services, is 32 years. Average remaining service life associated with KeySpan's electric generating plants and component parts is 28 years. The cost of property retired is charged to accumulated depreciation as required by regulatory accounting guidance and LIPA agreements. KeySpan recovers cost of removal through rates charged to customers as a portion of depreciation expense. At March 31, 2010 and March 31, 2009, KeySpan had cumulative costs recovered in excess of costs incurred totaling $691.7 million and $636.2 million, respectively. These amounts are reflected as a regulatory liability.

The composite rates on average depreciable property were as follows:

	Year ended March 2010	Year ended March 2009
Electric	3.57%	3.74%
Gas	3.08%	2.93%

The rates at which KeySpan subsidiaries capitalized interest for the year ended March 31, 2010 ranged from 2.32% to 6.47%. Capitalized interest for the year ended March 31, 2010 and March 31, 2009 was $4.4 million and $4.0 million respectively and is reflected as a reduction to interest expense.

We also had $433.2 million of other property at March 31, 2010, consisting of assets held primarily by our corporate service subsidiary of $389.3 million and $43.9 million of gas production assets held by non-regulated subsidiaries. The corporate service assets consist largely of land, buildings, office equipment and furniture, vehicles, computer and telecommunications equipment and systems. These assets have depreciable lives ranging from 4 to 75 years. We allocate the carrying cost of these assets to our operating subsidiaries through our filed allocation methodology. Energy Services assets consist largely of computer equipment, office furniture and equipment and leasehold improvements with service lives ranging from 3 to 7 years. The Energy Investment assets consist of land, storage facilities and various property and equipment.

KeySpan's repair and maintenance costs, including planned major maintenance in the Electric Services segment for turbine and generator overhauls, are expensed as incurred unless they represent replacement of property to be capitalized. Planned major maintenance cycles primarily range from seven to eight years. Smaller periodic overhauls are performed approximately every 18 months.

KeySpan capitalizes costs incurred in connection with its projects to develop and build energy facilities after a project has been determined to be probable of completion.

F. Goodwill and Other Intangible Assets

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.

Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, an impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

Indefinite-lived intangible assets are not amortized but are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. For indefinite-lived intangible assets, an impairment exists when the carrying amount exceeds its fair value.

G. Cash and Cash Equivalents

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

H. Income 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 balance sheets that have been included in previous tax returns or are expected to be included in future tax returns. (See Note 6 – Income Taxes)

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. For the year ended March 31, 2010 and for the year ended March 31, 2009, excise taxes collected and paid were $62.1 million and $75.6 million, respectively.

I. 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 risk 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 that the credit risk related to the futures, options and swap instruments is no greater than that associated with the primary commodity contracts which they hedge.

Commodity Derivative Instruments – Regulated Utilities. We use derivative financial instruments to reduce cash flow variability associated with the purchase price for a portion of future natural gas purchases associated with our Gas Distribution operations. Our strategy is to minimize fluctuations in firm gas sales prices to our regulated firm gas sales customers in our New York and New England service territories. The accounting for these derivative instruments is subject to the current accounting guidance for rate regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and 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 consistent with regulatory requirements.

Certain of our contracts for the physical purchase of natural gas were assessed as no longer being exempt from the requirements of current accounting guidance for derivative instruments as normal purchases. 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 current accounting guidance for regulated

enterprises, changes in the fair market value of these contracts are recorded as a regulatory asset or regulatory liability on the Consolidated Balance Sheets.

Commodity Derivative Instruments – Hedge Accounting. We also use derivative financial instruments, such as futures, options and swaps, for the purpose of hedging cash flow variability associated with forecasted purchases and sales of various energy-related commodities. All such derivative instruments are accounted for pursuant to the requirements of current accounting guidance 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 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 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.

J. Other Comprehensive Income/(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.

K. Employee Benefits

KeySpan follows 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 upon implementation or in the case of our regulated enterprise to regulatory assets. Consistent with past practice and as required by the guidance, KeySpan 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 KeySpan's pension and other postretirement plans.)

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. Reclassifications

Certain amounts from prior years have been reclassified on the accompanying consolidated financial statements to conform to the current year presentation.

N. Inventory

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

O. Equity Investments and Other

Certain subsidiaries own as their principal assets, investments (including goodwill), representing ownership interests of 50% or less in energy-related businesses that are accounted for under the equity method. None of these current investments are publicly traded. Additionally, KeySpan has corporate assets recorded on the Consolidated Balance Sheets representing funds designated for Supplemental Executive Retirement Plans. These funds are invested in corporate owned life insurance policies. KeySpan records changes in the value of these assets in accordance with Accounting for the Purchase of Life Insurance. As such, increases and decreases in the value of these assets are recorded through earnings in the Consolidated Statements of Income concurrent with the change in the value of the underlying assets.

P. Emission allowance credit

The US Environmental Protection Agency issued the Clean Air Interstate Rule (CAIR) which was intended to permanently cap emission of sulfur dioxide (SO_2) and nitrogen oxide (NO_x) in 28 eastern states and the District of Columbia. The CAIR requirements

were supplemental to the existing emission reductions required under the Clean Air Act. The Company has an emission allowance credit of $28.6 million and $47.9 million at March 31, 2010 and 2009, respectively, which is recorded in materials and supplies on the Consolidated Balance Sheets. On a quarterly basis, the emission allowance credit is reviewed for impairment at the balance sheet date the allowance could have been traded or sold in an active market. At March 31, 2010, we reduced the inventory value resulting in a $7.2 million charge to the Consolidated Income Statement.

Q. 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 Company adopted this new standard, see Note 14. Subsequent Events for further discussion.

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

Brooklyn Union

Brooklyn Union is currently subject to a five year rate plan through December 2012. Base delivery rates were increased $5 million annually in rate year one through rate year 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 costs or other cost deferrals. The plan is based on a return on equity of 9.6%. Cumulative annual earnings above 10.5% will be shared with customers. There are various reconciliation mechanisms that permit Brooklyn Union 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. The deferred amount was $1.4 million at March 31, 2010.

Pursuant to its current rate plan, on January 29, 2010, Brooklyn Union filed the status of its 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. Brooklyn Union 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.

KeySpan Gas East

KeySpan Gas East is currently subject to a five year rate plan through December 2012. Base delivery rates were increased by $60 million on January 1, 2008. In rate years two through five, base delivery rates will be increased by $10 million. However, the incremental revenue from the increase in delivery rates in years two through five 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 ROE of 9.6%. Cumulative annual earnings above 10.5% will be shared with customers. There are various reconciliation mechanisms that permit KeySpan Gas East 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, KeySpan Gas East may recover overspending in addition to returning under-spent funds related to City and State construction. KeySpan Gas East is permitted to reconcile its actual pension and other post-employment benefit expense to the amount allowed in rates and remains 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 KeySpan Gas East 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. The deferred amount was $0.7 million at March 31, 2010.

Pursuant to its current rate plan, on January 29, 2010, KeySpan Gas East filed the status of its deferrals so that the NYPSC can determine whether in 2011 KeySpan Gas East should adjust the level of revenue it receives under the existing rate plan to minimize outstanding deferrals. KeySpan Gas East proposed an increase on 2009 revenues of or 2.48% through an existing surcharge to take effect January 1, 2011, subject to NYPSC approval. The Company is proposing to recover $33.3 million of regulatory assets that are on the consolidated balance sheets.

Temporary State Assessment

On June 30, 2009, Brooklyn Union and KeySpan Gas East (the Companies) made a compliance filing with the NYPSC regarding the implementation of the Temporary State Energy and Utility Conservation Assessment per §18-a(6) of the New York Public Service Laws of 2009. The combined General and 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 Commission 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 Companies calculated the incremental assessment to be collected from customers, including carrying charges and an allowance for uncollectible amounts to be approximately $70 million for the period from July 1, 2009 through June 30, 2010. On July 1, 2009 the Companies filed an alternative proposal, whereas the Companies would recover the incremental assessment over a fiscal year basis, with a compressed first-year period from July 1, 2009 through March 31, 2009. An Order denying recovery over the compressed period was denied on October 15, 2009. The Companies commenced collection of the Temporary State Assessment as of July 1, 2009.

Boston Gas, Colonial Gas and Essex Gas

Boston Gas currently has a long-term rate plan in place to 2013, unless terminated earlier. Under the long-term rate plan, rates are adjusted each year with the approval of the MADPU based on a price cap formula. The rate plan also provides for a true-up mechanism for pension and other postretirement benefit costs under which variations between actual pension and other postretirement benefit costs and amounts used to establish rates are deferred and collected from or refunded to customers in subsequent periods. This true-up mechanism allows for carrying charges on deferred assets and liabilities at Boston Gas's weighted-average cost of capital. There is also an earnings sharing mechanism. If the ROE is greater than 14.2%, customers share 25% of the excess gain. Conversely, if the ROE is lower than 6.2%, customers bear 25% of the loss. On September 15, 2009, Boston Gas filed its sixth annual request for an increase under the rate plan in the amount of $5.4 million, which was approved by the MADPU in October 2009. On April 16, 2010, Boston Gas, jointly with Colonial Gas and Essex Gas, KeySpan subsidiaries, filed a request for an increase in base distribution rates. Boston Gas and Essex Gas are proposing a combined increase of $79.2 million and Colonial Gas is proposing an increase of $26.8 million. The filing includes, among other things, a revenue decoupling proposal. The matter is pending before the MADPU. An Order is anticipated on November 1, 2010 with rates to become effective on November 2, 2010.

Colonial Gas and Essex Gas are currently subject to MADPU 10 year rate freezes that expired on September 2009 and September 2008 respectively. Those rate stay in effect until the MADPU approves a rate change.

On December 16, 2009, Essex Gas and Boston Gas filed a joint petition for authorization for legal consolidation under MGL Chapter 164, Section 96, with the MADPU. In their petition, the companies requested that the MADPU confirm that Boston Gas, as the

surviving corporation of the consolidation, will continue to have all of the franchise rights and obligations that were previously held by Boston Gas and Essex Gas, and that further action pursuant to MGL Chapter 164, Section 21 is not required to consummate the consolidation. This matter is pending before the MADPU.

Energy North

On February 23, 2008, EnergyNorth, filed for a $10 million rate increase in natural gas delivery rates with the NHPUC. The NHPUC subsequently issued and order approving an allowed ROE of 9.54% and an increase in gas distribution rates of $5.5 million. Energy North's motion for reconsideration was denied on November 13, 2009. On February 26, 2010, EnergyNorth filed for an $11.4 million rate increase in rates with the NHPUC. This filing proposes an 11.2% ROE and a 50/50 debt to equity capital structure. This matter is still pending before the NHPUC.

Note 3. Employee Benefits

Pension Plans.

The following information represents the consolidated net periodic pension cost for the year ended March 31, 2010 and the year ended March 31, 2009 for our noncontributory defined benefit pension plans which cover substantially all employees. Benefits are based on years of service and compensation. Funding for pensions is in accordance with requirements of federal law and regulations. KeySpan Gas East, Brooklyn Union and Boston Gas are subject to certain deferral accounting requirements mandated by the NYPSC and the MADPU, respectively for pension costs and other postretirement benefit costs.

The calculation of net periodic pension cost is as follows:

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Service cost, benefits earned during the year	$ 50.4	$ 57.4
Interest cost on projected benefit obligation	183.6	175.6
Expected return on plan assets	(146.1)	(195.0)
Net amortization and deferral	80.7	19.9
Settlement / Curtailment	2.8	-
Special termination benefits	15.0	27.4
Total pension cost	$ 186.4	$ 85.3

The following table sets forth the pension plans' funded status at March 31, 2010 and March 31, 2009.

(In millions of dollars)	Year ended March 31, 2010	Year ended March 31, 2009
Change in benefit obligation:		
Benefit obligation at beginning of period	$ (2,618.2)	$ (2,747.0)
Service cost	(50.4)	(57.4)
Interest cost	(183.6)	(175.6)
Amendments	(16.1)	-
Actuarial gain	(414.1)	195.3
Benefits paid	174.9	171.4
Curtailments/settlements/divestitures	12.0	22.5
Special termination benefits	(15.0)	(27.4)
Benefit obligation at end of year	$ (3,110.5)	$ (2,618.2)
Change in plan assets:		
Fair value of plan assets at beginning of year	1,792.9	2,458.6
Actual return on plan assets	579.6	(672.9)
Employer contributions	184.7	204.8
Benefits paid	(174.9)	(171.4)
Divestitures/settlements	(12.0)	(26.2)
Fair value of plan assets at end of period	2,370.3	1,792.9
Funded status	$ (740.2)	$ (825.3)

Amounts recognized in the Consolidated Balance Sheets consist of:		
Current liabilities	$ (12.3)	$ (21.9)
Noncurrent liabilities	(727.9)	(803.4)
Total	$ (740.2)	$ (825.3)

Amounts recognized in accumulated other comprehensive income consist of:		
Net gain/(loss)	$ (689.9)	$ (791.6)
Prior service cost	(14.9)	-
Total	$ (704.8) *	$ (791.6)

* As a result of deferral accounting requirements mandated by the NYPSC and MADPU $246.8 million of this amount has been recorded in regulatory assets on the Consolidated Balance Sheets. The estimated amount of accumulated other comprehensive income and regulatory assets to be recognized in the next fiscal year is $78.6 million.

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

	March 2010	March 2009
Assumptions:		
Obligation discount	6.10%	7.30%
Asset return, net of expenses	8.00%	8.00%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(In millions of dollars)	Pension Benefits	
2011	$	168.3
2012	$	174.5
2013	$	180.7
2014	$	187.2
2015	$	194.8
2016-2020	$	1,107.5

Other Postretirement Benefits:

The following information represents the consolidated net periodic other postretirement benefit cost for the years ended March 31, 2010 and 2009 for our noncontributory defined benefit plans covering certain health care and life insurance benefits for retired employees. We have 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.

Net periodic other postretirement benefit cost included the following components:

(In millions of dollars)	Year ended March 31, 2010		Year ended March 31, 2009	
Service cost, benefits earned during the year	$	19.2	$	21.6
Interest cost on accumulated postretirement benefit obligation		88.6		83.9
Expected return on plan assets		(28.4)		(36.6)
Net amortization and deferral		10.5		5.6
Special termination benefit		0.3		0.6
Other postretirement cost	$	90.2	$	75.1

The following table sets forth the plans' funded status for the years ended March 31, 2010 and March 31, 2009.

(In millions of dollars)	Year ended March 31, 2010		Year ended March 31, 2009	
Change in benefit obligation:				
Benefit obligation at beginning of year	$	(1,255.0)	$	(1,367.3)
Actual Medicare Part D subsidy received		(5.4)		-
Service cost		(19.2)		(21.6)
Interest cost		(88.6)		(83.9)
Amendments		(8.9)		-
Actuarial gain (loss)		(273.0)		149.2
Benefits paid		73.1		69.2
Special termination benefit		(0.3)		(0.6)
Other		(5.5)		-
Benefit obligation at end of year		(1,582.8)		(1,255.0)
Change in plan assets:				
Fair value of plan assets at beginning of year		331.5		488.9
Acquisition / New England Life Insurance		0.8		-
Actual return on plan assets		128.9		(130.5)
Employer contributions		109.6		42.3
Benefits paid		(73.1)		(69.2)
Fair value of plan assets at end of year		497.7		331.5
Funded status	$	(1,085.1)	$	(923.5)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Noncurrent assets	$	2.6	$	-
Current liabilities		(6.7)		(6.4)
Noncurrent liabilities		(1,081.0)		(917.1)
Total	$	(1,085.1)	$	(923.5)
Amounts recognized in accumulated other comprehensive income consist of:				
Net gain / (loss)	$	(269.4)	$	(110.3)
Prior service cost		(8.8)		-
Total	$	(278.2) *	$	(110.3)

*As a result of deferral accounting requirements mandated by the NYPSC and the MADPU, $92.9 million of this amount has been recorded as a regulatory asset on the Consolidated Balance Sheets. The estimated amount of regulatory assets and accumulated other comprehensive income to be recogized in the next fiscal year is $27.4 million.

The table below details the end-of-period assumptions used for both the net periodic cost calculations and liability amounts.

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

The measurement of plan liabilities assumes a health care cost trend rate of 9.25% grading down to 5%. A 1% increase in the health care cost trend rate would have the effect of increasing the accumulated postretirement benefit obligation as of March 31, 2010 by $205.4 million and the net periodic health care expense by $14.4 million and March 31, 2009 by $143.6 million and the net periodic health care expense by $14.4 million. A 1% decrease in the health care cost trend rate would have the effect of decreasing the accumulated postretirement benefit obligation as of March 31, 2010 by $167.9 million and the net periodic health care expense by $11.7 million and March 31, 2009 by $119.1 million and the net periodic health care expense by $11.7 million.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

(In millions of dollars)	Gross Benefit Payments	Subsidiary Receipts Expected**
2011	$ 75.6	$ 4.3
2012	$ 81.4	$ 4.7
2013	$ 86.0	$ 5.1
2014	$ 91.3	$ 5.4
2015	$ 96.5	$ 5.7
2016 - 2020	$ 555.1	$ 33.1

** Rebates are based on calendar year in which prescription drug costs are incurred. Actual receipt of rebates may occur in the following year.

Pension/Other Post Retirement 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%

Key Assumptions Used.
Several assumptions affect the pension and other post-retirement 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 for its pension plan and a 7.7% expected rate of return on assets for its other postretirement plans. 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.

***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 cash flows from the KeySpan retirement plans to determine the weighted average discount rate assumption. At March 31, 2010 a discount rate assumption of 6.1% was deemed appropriate for the plans.

Cash Contributions.
In fiscal year 2011, KeySpan is expected to contribute approximately $152.0 million to its pension plan and approximately $74.0 million to its other postretirement benefit plan.

Defined Contribution Plan.
KeySpan also offers both its union and management employees a defined contribution plan. Both the NGUSA's Incentive Thrift Plan I and Incentive Thrift Plan II are available to all eligible employees. These Plans are defined contribution plans subject to Title I of the Employee Retirement Income Security Act of 1974. Eligible employees contributing to the Plan may receive certain employer contributions including matching contributions and a 10% discount on the purchase of National Grid plc common stock in the Plan. For the year ended March 31, 2010 and 2009, we recorded an expense of $10.3 million and $10.8 million, respectively.

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 $44.0 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.

Fair Value Measurement.
Current accounting guidance on fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;

- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement

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

Following is a description of the valuation methodologies used at March 31, 2010 for plan assets measured at fair value.

- Interest bearing cash is valued at the investment principal plus all accrued interest.

- Temporary cash investment and short-term investments are valued at either the investment principal plus all accrued interest or the net asset value of shares held by the Plans at year end.

- Mutual funds and pooled separate accounts are valued at the net asset value of shares held by the Plan at year end.

- Common stocks, preferred stocks, and real estate investment trusts are valued using the official close (for NASDAQ only), last trade, bid of the ask offer price reported on the active market on which the individual securities are traded.

- Fixed income securities, convertible securities, collateral received from securities lending (which include corporate debt securities, municipal fixed income securities, US Government and Government agency securities which are in turn comprised of government agency securities, government mortgage-backed securities, index linked government bonds, and state and local bonds), Derivatives (except certain options traded on an exchange) and forward foreign exchange contracts (comprised of interest rate swaps, credit default swaps, index swaps, financial futures, and other derivatives), and investment of securities lending collateral (comprised of repurchase agreements, asset-backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation or an institutional mid evaluation. A bid evaluation is an estimated price at which a dealer would pay for a security (typically in an institutional round lot). A mid evaluation is the average of the estimated price at which a dealer would sell a security and the estimated price at which a dealer would pay for a security

(typically in an institutional round lot). Oftentimes, these evaluations are based on proprietary models which pricing vendors establish for these purposes. In some cases, there may be manual sources used when primary price vendors do not supply prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table depicted below sets forth by level, within the fair value hierarchy, the KeySpan Master Union Trust Plan pension investments at fair value as of March 31, 2010:

(In millions of dollars)				
Asset Type	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Cash & Cash Equivalents	$ 15.0	$ 62.0	$ -	$ 77.0
Equity	541.0	526.0	48.0	1,115.0
Fixed Income Securities	259.0	665.3	-	924.3
Futures Contracts	-	-	-	-
Preferred Securities	5.0	-	-	5.0
Private Equity	-	-	249.0	249.0
NET ASSETS AT FAIR VALUE	$ 820.0	$ 1,253.3	$ 297.0	$ 2,370.3

The table depicted below sets forth by level, within the fair value hierarchy, the KeySpan Master Union Trust Plan retirement benefits other than pension investments at fair value as of March 31, 2010:

(in millions of dollars)				
Asset Type	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Cash & Cash Equivalents	$ 33.0	$ 1.0	$ -	$ 34.0
Equity	107.0	143.0	12.0	262.0
Fixed Income Securities	79.0	78.0	-	157.0
Private Equity	-	9.0	36.0	45.0
NET ASSETS AT FAIR VALUE	$ 219.0	$ 231.0	$ 48.0	$ 498.0

The following table sets forth a summary of changes in the fair value of the pension plan's level 3 investments for the year ended March 31, 2010:

(in millions of dollars)	Equity	Private Equity	Total
Balance, beginning of year	$ 76.0	$ 180.0	$ 256.0
Realized gains (losses)	3.0	(1.0)	2.0
Unrealized gains/(losses) at reporting date	23.0	3.0	26.0
Purchases, sales, issuance, and settlements (net)	(54.0)	67.0	13.0
Balance, end of year	$ 48.0	$ 249.0	$ 297.0

The following table sets forth a summary of changes in the fair value of the retirement benefits other than pension plan's level 3 investments for the year ended March 31, 2010:

(in millions of dollars)	Equity	Private Equity	Total
Balance, beginning of year	$ 36.0	$ 21.0	$ 57.0
Realized gains (losses)	3.0	1.0	4.0
Unrealized gains/(losses) at reporting date	9.0	(1.0)	8.0
Purchases, sales, issuance, and settlements (net)	(36.0)	15.0	(21.0)
Balance, end of year	$ 12.0	$ 36.0	$ 48.0

Note 4. Debt

Notes Payable.

In 2006, KeySpan issued at Brooklyn Union and KeySpan Gas East, respectively, $400 million and $100 million of Senior Unsecured Notes at 5.6% due November 29, 2016. Both series remain outstanding at March 31, 2010.

KeySpan also has $1.74 billion of medium and long-term notes outstanding of which $950 million of these notes were associated with prior KeySpan acquisitions. These notes were issued in two series as follows: $700 million of 7.625% Notes due 2010 and $250 million of 8.00% Notes due 2030. KeySpan also has $307.2 million of 5.8% notes outstanding with a maturity date of April 2035. The remaining debt of $483 million had interest rates ranging from 4.65% to 9.75%. The maturity dates of the bonds range from 2010 to 2035. At March 31, 2009, $1.74 billion of notes payable was outstanding.

On February 1, 2010, KeySpan Gas East repaid $400 million of 7.875% Medium-Term Notes at maturity.

Gas Facilities Revenue Bonds (GFRBs).

Brooklyn Union can issue tax-exempt bonds through the New York State Energy Research and Development Authority ("NYSERDA"). Whenever bonds are issued for new gas facilities projects, proceeds are deposited in trust and subsequently withdrawn to finance qualified expenditures. There are no sinking fund requirements on any of our GFRBs. At March 31, 2010, $640.5 million of GFRBs were outstanding, $230 million of which are variable-rate auction bonds. The interest rate on the variable rate series due through July 1, 2026 is reset weekly and ranged from 0.4% to 4.0% for the year ended March 31, 2010. The variable-rate auction bonds are currently in the auction rate mode

and are backed by bond insurance. 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 bonds. To date, the effect on interest expense has not been material.

At March 31, 2009, $640.5 million of GFRBs were outstanding, $230 million of which are variable-rate auction bonds. The interest rate on the variable rate series due through July 1, 2026 is reset weekly and ranged from 0.83% to 11.0% for the year ended March 31, 2009.

Promissory Notes to LIPA.

In connection with the KeySpan/Long Island Lighting Company ("LILCO") transaction, KeySpan and certain of its subsidiaries issued promissory notes to LIPA to support certain debt obligations assumed by LIPA. At March 31, 2010 and 2009, $155.4 million of these promissory notes remained outstanding with maturity dates between 2016 and 2025. Under these promissory notes, KeySpan is required to obtain letters of credit to secure its payment obligations if its long-term debt is not rated at least in the "A" range by at least two nationally recognized statistical rating agencies. At March 31, 2010, KeySpan was in compliance with this requirement.

Industrial Development Revenue Bonds.

At March 31, 2010 and 2009, KeySpan had outstanding $128.3 million of tax-exempt bonds with a 5.25% coupon maturing in June 2027 - $53.3 million dollars of these Industrial Development Revenue Bonds were issued in its behalf through the Nassau County Industrial Development Authority for the construction of the Glenwood Energy Center, an electric-generation peaking plant, and the balance of $75 million was issued in its behalf by the Suffolk County Industrial Development Authority for the Port Jefferson Energy Center an electric-generation peaking plant. KeySpan has guaranteed all payment obligations of these subsidiaries with regard to these bonds.

First Mortgage Bonds.

Colonial Gas had $75 million of first mortgage bonds which remained outstanding at March 31, 2010 and 2009. These bonds are secured by gas utility property. The first mortgage bond indentures include, among other provisions, limitations on: (i) the issuance of long-term debt; (ii) engaging in additional lease obligations; and (iii) the payment of dividends from retained earnings. At March 31, 2010, these bonds have interest rates ranging from 6.9% to 8.8% and maturities that range from 2022 to 2028.

Authority Financing Notes.

Certain of our electric generation subsidiaries can issue tax-exempt bonds through the NYSERDA. At March 31, 2010, $41.1 million of Authority Financing Notes 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 remained outstanding. The interest rate ranged from 0.45% to 18.00% for the year ended March 31, 2010, at which time the rate was 2.0% and ranged from 2.0% to 18.00% for the year ended March 31, 2009, at which time the rate was 5.39%.

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 ranged from 0.18% to 0.55% for the year ended March 31, 2010, at which time the rate was 0.30% and ranged from 0.40% to 8.03% for the year ended March 31, 2009, at which time the rate was 0.50%.

Commercial Paper and Revolving Credit Agreements.
At March 31, 2009, KeySpan had two credit facilities totaling $1.5 billion - $580 million through 2009, which has expired, and $920 million, which was terminated in November 2009. These credit facilities were used to support KeySpan's commercial paper program for working capital needs. KeySpan's commercial paper program has been terminated and all commercial paper was repaid in fiscal year 2009.

Debt Maturity.
The following table reflects the maturity schedule for our debt repayment requirements at March 31, 2010:

(In millions of dollars)	Long-Term Debt
Repayments:	
2011	$ 720.0
2012	10.0
2013	10.0
2014	160.0
2015	2.0
Thereafter	2,403.4
	$ 3,305.4

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

	Standard & Poor's	Moody's Investor Services	FitchRatings
KeySpan Corporation	A-	Baa1	A-
Brooklyn Union	A	N/A	A+
KeySpan Gas East	A	A3	A-
Boston Gas	A-	Baa1	N/A
Colonial Gas	A-	A3	N/A
KeySpan Generation	A-	Baa1	N/A

On January 31, 2008, National Grid plc announced that it would increase its dividend for the year ending March 31, 2008 by 15% and attempt to grow its dividends 8% per annum thereafter. Following this announcement, Moody's Investors Service changed the outlook for KeySpan and its rated subsidiaries debt ratings to negative outlook from stable due to the perceived aggressiveness of the dividend policy. On July 20, 2009

Moody's Investors Service changed the outlook to stable from negative for National Grid plc and its rated subsidiaries.

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 millions of dollars)	Plant and Machinery	Land and Buildings	Assets in Construction	Software Intangibles	Total
Balance at March 31, 2008	$ 7,079.1	$ 806.1	$ 315.2	$ 312.2	$ 8,512.6
Additions	34.4	-	612.4	19.4	666.2
Disposals	(996.6)	(125.5)	(70.8)	(6.8)	(1,199.7)
Reclassifications	592.9	34.9	(627.7)	-	0.0
Balance at March 31, 2009	6,709.8	715.5	229.1	324.8	7,979.1
Accumulated depreciation at March 31, 2009	(42.6)	(10.6)	-	(261.8)	(315.0)
Net Book Value at March 31, 2009	$ 6,667.2	$ 704.9	$ 229.1	$ 63.0	$ 7,664.1
Balance at March 31, 2009	$ 6,709.8	$ 715.5	$ 229.1	$ 324.8	$ 7,979.1
Additions	(12.5)	3.2	564.4	9.3	564.4
Disposals	(40.7)	(0.7)	(1.7)	-	(43.1)
Reclassifications	540.3	27.0	(563.5)	-	3.8
Balance at March 31, 2010	7,196.9	745.0	228.3	334.1	8,504.2
Accumulated depreciation at March 31, 2010	(208.0)	(29.8)	-	(284.4)	(522.2)
Net book value at March 31, 2010	$ 6,988.9	$ 715.2	$ 228.3	$ 49.7	$ 7,982.1

Note 6. Income Taxes

KeySpan files a consolidated federal income tax return. A tax sharing agreement between the KeySpan's holding company and its subsidiaries provides for the allocation of a realized tax expense or benefit based upon separate return contributions of each subsidiary to the consolidated taxable income or loss in the consolidated income tax return. The subsidiaries record income tax payable or receivable from KeySpan resulting from the inclusion of their taxable income or loss in the consolidated return.

Income tax expense is reflected as follows in the Consolidated Statements of Income:

(In millions of dollars)		For the Year Ended March 31, 2010		For the Year Ended March 31, 2009
Current Income Tax				
Federal	$	(158.3)	$	663.6
State and Local		(10.6)		257.6
Total Current Income Tax	$	(168.9)	$	921.2
Deferred Income Tax				
Federal	$	319.5	$	(562.6)
Investment Tax Credits (1)		(1.7)		(0.9)
State and Local		67.0		(207.1)
Total Deferred Income Tax	$	384.8	$	(770.6)
Total income tax	$	215.9	$	150.6

(1) Investment tax credits (ITC) are being deferred and amortized over the depreciable life of the property giving rise to the 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 millions of dollars)		For the Year Ended March 31, 2010		For the Year Ended March 31, 2009
Computed tax	$	178.6	$	115.4
Increase (reduction) including those attributable to flow-through of certain tax adjustments:				
State income tax, net of federal benefit		39.9		26.9
Medicare subsidy, including Patient Protection & Affordable Care Act effect, net		35.4		(3.1)
Audit and related reserve movements		7.2		8.6
Depreciation differences not normalized		3.3		3.3
Provision to return adjustments		3.3		(1.7)
Allowance for equity funds used during construction		(1.2)		(2.0)
Investment tax credit		(1.7)		(0.9)
Change in cash surrender value		(11.4)		13.2
Intercompany tax allocation		(37.3)		(9.5)
Other items - net		(0.2)		0.4
Total	$	37.3	$	35.2
Federal and state income taxes	$	215.9	$	150.6

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 millions of dollars)		March 31, 2010		March 31, 2009
Pensions, OPEB and other employee benefits	$	866.7	$	744.0
Reserve - Environmental		251.5		288.3
Reserves not currently deducted		68.2		71.9
Regulatory liabilities - Other		45.3		136.6
Future federal benefit on state taxes		27.5		10.7
Other items		34.8		81.5
Total deferred tax asset (1)	$	1,294.0	$	1,333.0
Property related differences	$	1,440.8	$	1,175.1
Regulatory Assets - Environmental		419.7		398.2
Regulatory Assets - Pension and OPEB		254.6		236.3
Property taxes		76.4		59.8
Investment tax credit		8.9		10.6
Total deferred tax liabilities	$	2,200.4	$	1,880.0
Net accumulated deferred income tax liability		906.4		547.0
Current portion - net tax asset		(32.9)		3.0
Non-current portion of net deferred income tax liability	$	873.5	$	550.0

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

Subsequent to its 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 has joint and serveral 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)) to deduct 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 recognized during the fiscal year ended March 31, 2010.

ASC 740 clarifies the accounting for uncertain tax positions. ASC 740-10-25-6 provides that the financial effects of a tax position shall initially be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

Due to the application of ASC 740, as of March 31, 2010 and 2009, the Company's unrecognized tax benefits totaled $523.7 million and $367.4 million, respectively, of which $179.3 million and $174.1 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:

(In millions of dollars)	March 31, 2010	March 31, 2009
Beginning balance	$ 367.4	$ 366.9
Gross increases (decreases) related to prior period	151.4	0.5
Gross increases (decreases) related to current period	4.9	-
Settlements with tax authorities	-	-
Reductions due to lapse of statute of limitations	-	-
Ending balance	$ 523.7	$ 367.4

As of March 31, 2010 and March 31, 2009, the Company has accrued for interest related to unrecognized tax benefits of $49.2 million and $45.6 million, respectively. During fiscal years ended March 31, 2010 and March 31 2009, the Company recorded interest expense related to unrecognized tax benefits of $3.6 million and $53.8 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 fiscal year ending March 31, 2011. At that time, the Company expects to decrease its unrecognized tax benefits by $215.4 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 remains subject to examination by the IRS.

The Company and its subsidiaries file unitary or separate returns with various states where it operates predominately in New York and Massachusetts. These returns are subject to examination for the years open under the statute of limitations.

The following table indicates the Company's earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	Tax Year
Federal	2000
New York State	2000

The State of New York is in the process of examining Company's NYS income tax returns for calendar years ended December 31, 2000 through December 31, 2002. The tax returns for the calendar years ended December 31, 2003 through December 31, 2006, as

well as short period ended August 24, 2007 and fiscal years ended March 31, 2008 and March 31, 2009 remains subject to examination by the State of New York. No other state income tax audits are currently in progress. State income tax returns remain open subject to the statute of limitations of each respective state. KeySpan's subsidiaries have 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

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

The majority of the derivative instruments utilized by KeySpan are subject to the current accounting guidance for rate regulated enterprises since various rate agreements associated with its gas distribution subsidiaries allow for the pass-through of the commodity cost of natural gas and the costs related to hedging activities.

Certain derivative instruments employed by KeySpan are accounted for as cash-flow hedges that receive hedge accounting treatment under current accounting guidance for derivative instruments. Additionally, KeySpan employs a limited number of derivative instruments that do not qualify for hedge accounting treatment.

Commodity Derivative Instruments - Regulated Utilities:
We use derivative financial instruments to reduce the cash flow variability associated with the purchase price for a portion of future natural gas purchases associated with our New York, Long Island and New England gas service territories. Our strategy is to minimize fluctuations in gas sales prices to our regulated firm gas sales customers. The accounting for these derivative instruments is subject to current guidance for rate regulated enterprises. Therefore, the fair value of these derivatives is recorded as current or deferred assets and liabilities, with offsetting positions recorded as regulatory assets and 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 firm gas sales customers consistent with regulatory requirements. At March 31, 2010 and 2009 the net fair value of these derivative instruments was a liability of $74.3 million and $193.1 million, respectively.

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 purchase option contract to qualify for the normal purchases and sales exception. Certain contracts for the physical purchase of

natural gas associated with our regulated gas utilities do not qualify for normal purchases under current accounting guidance for derivative instruments. Additionally, our regulated gas utilities have gas transportation service agreements with large generating facilities that contain embedded derivatives. These derivatives are also subject to current guidance for rate regulated enterprises accounting treatment. At March 31, 2010 and 2009, the net fair value of these derivatives was a liability of $55.2 million and $25.4 million, respectively.

Commodity Derivative Instruments – Hedge Accounting:
Our Energy Investments subsidiary, Seneca-Upshur, utilizes over the counter (OTC) natural gas swaps to hedge the cash flow variability associated with the forecasted sales of a portion of its natural gas production. At March 31, 2010, Seneca-Upshur has hedge positions in place for approximately 66% of its estimated 2010 gas production, net of gathering costs. We use market quoted forward prices to value these swap positions. The maximum length of time over which Seneca-Upshur has hedged such cash flow variability is through March 2011. The fair value of these derivative instruments at March 31, 2010 was an asset of $1.3 million. The amount is included in accumulated other comprehensive income and is expected to be reclassified to earnings in the next twelve months. Ineffectiveness associated with these outstanding derivative financial instruments was immaterial for the year ended March 31, 2010. The fair value of these derivative instruments at March 31, 2009 was $4.2 million.

These derivative financial instruments are designated as cash flow hedges under current accounting guidance for derivative instruments and are not considered held for trading purposes as defined by current accounting literature. Accordingly, we carry the fair value of these derivative instruments on the Consolidated Balance Sheets as either a current or deferred asset or liability, as appropriate, and record the effective portion of unrealized gains or losses in accumulated other comprehensive income. Gains and losses are reclassified from accumulated other comprehensive income to the Consolidated Statements of Income in the period the hedged transaction affects earnings. Gains and losses on settled transactions are reflected as a component of revenue. Any hedge ineffectiveness that results from changes during the period in the price differentials between the index price of the derivative contract and the price of the purchase or sale for the cash flow that is being hedged is recorded directly to earnings.

Commodity Derivative Instruments that are not Accounted for as Hedges:
Additionally the Company employs a small number of derivative instruments related to storage optimization, and a limited number of natural gas swaps to hedge the risk associated with fixed price natural gas sales contracts for certain large gas sales customers. These financial derivative instruments do not qualify for hedge accounting treatment. The fair value of these contracts at March 31, 2010 and 2009 was a gain of $2.7 million and $0.2 million. We use market quoted forward prices to value these contracts.

The following are commodity volumes associated with the above derivative contracts:

As of March 31, 2010		
		('000)
Physicals	Gas (dths)	140,936
Financials	Gas swaps (dths)	60,293
	Gas options (dths)	-
Total	**Gas (dths)**	**201,229**

The following are balance sheet, statement of income, and cash flow hedging tables for the various commodities.

Fair Values of Derivative Instruments -- Consolidated Balance Sheets

	Asset Derivatives			Liability Derivatives	
(In millions of dollars)	March 31, 2010	Mar 31, 2009		March 31, 2010	Mar 31, 2009
Regulated Contracts					
Gas Contracts:					
Gas Swaps Contract - Current Asset	$ -	$ 14.8	Gas Swaps Contract - Current Liability	$ (74.2)	$ (191.3)
Gas Options Contract - Current Asset	-	0.1	Gas Options Contract -Current Liability	-	(1.4)
Gas Purchase Contract - Current Asset	25.9	21.2	Gas Purchase Contract - Current Liability	(103.8)	(13.1)
Current Asset	*25.9*	36.1	*Current Liability*	*(178.0)*	*(205.8)*
Gas Swaps Contract - Deferred Asset	-	-	Gas Swaps Contract - Deferred Liability	(0.1)	(15.3)
Gas Purchase Contract - Deferred Asset	48.6	3.7	Gas Purchase Contract - Deferred Liability	(25.9)	(37.3)
Deferred Asset	*48.6*	*3.7*	*Deferred Liability*	*(26.0)*	*(52.6)*
Subtotal	***74.5***	***39.8***		***(204.0)***	***(258.4)***
Non-Regulated Contracts					
Gas Contracts:					
Gas Swaps Contract - Current Asset	2.8	0.3	Gas Swaps Contract - Current Liability	(1.1)	(0.7)
Gas Puchase Contract - Current Asset	1.1	1.1	Gas Purchase Contract - Current Liability	-	-
Oil Contracts:					
Oil Swaps Contract - Current Asset	-	-	Oil Swaps Contract - Current Liability	-	(0.9)
Subtotal	***3.9***	***1.4***		***(1.1)***	***(1.6)***
	78.4	**41.2**		**(205.1)**	**(260.0)**
Cash Flow Hedge					
Gas Contracts:					
Gas Swaps Contract - Current Asset	-	4.2	Gas Swaps Contract - Current Liability	-	-
Gas Swaps Contract - Deferred Asset	1.3	-	Gas Swaps Contract - Deferred Liability	-	-
	1.3	**4.2**		**-**	**-**
Total Derivatives	**$ 79.7**	**$ 45.4**		**$ (205.1)**	**$ (260.0)**

Fair Values of Derivative Instruments

(In millions of dollars)	YTD Movement	March 31, 2010	March 31, 2009
Regulated Contracts			
Gas Contracts:			
Gas Swaps Contract - Regulatory Asset	$ 132.3	$ (74.3)	$ (206.6)
Gas Options Contract - Regulatory Asset	1.4	-	(1.4)
Gas Purchase Contract - Regulatory Asset	(79.3)	(129.6)	(50.3)
Gas Swaps Contract - Regulatory Liability	(14.8)	-	14.8
Gas Options Contract - Regulatory Liability	(0.1)	-	0.1
Gas Purchase Contract - Regulatory Liability	49.6	74.5	24.9
Subtotal	***89.1***	***(129.4)***	***(218.5)***
Non Regulated Contracts			
Gas Contracts:			
Gas Swaps Contract - Other Income (Deduction)	0.2	(0.3)	(0.5)
Gas Swaps Contract - Other Revenues	1.9	2.0	0.1
Gas Purchase Contract- Other Income (Deduction)	(0.1)	1.0	1.1
Gas Subtotal	*2.0*	*2.7*	*0.7*
Oil Contracts:			
Oil Swaps Contract - Other Income (Deduction)	0.9	-	(0.9)
Oil Subtotal	*0.9*	-	*(0.9)*
Subtotal	***2.9***	***2.7***	***(0.2)***
Total	**$ 92.0**	**$ (126.7)**	**$ (218.7)**

Movements in the fair value of regulatory contracts are recorded as a regulatory asset or liability, rather than through the Statements of Income. Movements in the fair value of non-regulatory contracts are recorded through the Statement of Income.

Fair Values of Derivative Instruments -- (Cash Flow Hedging)

Cash Flow Hedge *(In millions of dollars)*	Amount of Gain or (Loss) Recongized in Accumulated Other Comprehensive Income (AOCI) on Derivative (Effective Portion) March 31, 2010	 March 31, 2009	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) March 31, 2010	Location of gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) March 31, 2010
Seneca Upshur						
Gas Contracts:						
Accumulated Other Comprehensive Income	$ 1.3	$ 4.2	Gas Revenue	$ 4.7	Other Income (Deductions)	$ -
Total	**$ 1.3**	**$ 4.2**		**$ 4.7**		**$ -**

The aggregate fair value of KeySpan's derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2010 is $123.0 million for which KeySpan has posted collateral of $7.4 million in the normal course of business. If KeySpan's credit rating were to be downgraded by one notch, it would be required to post an additional $2.4 million additional collateral. If KeySpan's credit rating were to be downgraded by three notches, it would be required to post an additional $116.0 million of 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, the paid $7.3 million to its counterparties as collateral associated with outstanding derivative contracts.

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.

We currently have no level 1 assets or liabilities for our derivative contracts.

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 FEA 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.

Available for sale securities are primarily equity investments based on quoted market prices and municipal and corporate bonds based on quoted prices of similar traded assets in open markets.

The following table presents assets and liabilities measured and recorded at fair value on the Company's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy during the year ended March 31, 2010:

(In millions of dollars)	Level 1	Level 2	Level 3	March 31, 2010
Assets				
Derivatives contracts	$ -	$ 3.8	$ 75.9	$ 79.7
Available for sale securities	41.9	26.1	-	68.0
Total assets	$ 41.9	$ 29.9	$ 75.9	$ 147.7
Liabilities				
Derivatives	$ -	$ 75.5	$ 129.7	$ 205.2
Total liabilities	$ -	$ 75.5	$ 129.7	$ 205.2

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:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(In millions of dollars)	
Beginning balance at March 31, 2009	$ (23.0)
Transfers into Level 3	(5.1)
Transfers out of Level 3	(0.7)
Total gains or losses	
included in earnings (or changes in net assets)	0.5
included in other comprehensive income	0.5
included in regulatory assets and liabilities	(3.1)
Purchases	(20.9)
Sales	(2.0)
Ending balance at March 31, 2010	$ (53.8)
The amount of total gains or losses for the period included in earnings (or changes in net assets) attribute to the change in unrealized gains or losses relating to assets still held at March 31, 2010	$ 1.1

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 fair value of this debt is $3.6 billion at March 31, 2010.

Note 9. Goodwill and Other Intangible Assets

The balance of goodwill represents primarily the excess of acquisition cost over the fair value of net assets acquired related to the acquisition of KeySpan by National Grid plc. Intangible assets reflect the fair value of customer relationships and plumbing licenses associated with KeySpan's non-utility service companies.

Changes in the carrying amount of the Company's goodwill for the years ended March 31, 2010 and 2009 were as follows:

(In millions of dollars)		**Total**
Goodwill at March 31, 2008	$	3,938.3
Additions		-
Disposals		-
Adjustments associated with acquisition		49.1
Impairment		-
Goodwill at March 31, 2009		3,987.4
Additions		-
Disposals		-
Adjustments		-
Goodwill at March 31, 2010	$	3,987.4

Other Intangible Assets:

Changes in the carrying amount of the Company's intangible assets for the years ended March 31, 2010 and 2009 were as follows:

(In millions of dollars)	LIPA Contracts	Licensing	Other	Total
Balance at March 31, 2008	$ 142.1	$ 35.4	$ -	$ 177.5
Reclassifications	(1.5)	(2.3)	0.5	(3.3)
Amortization	(6.9)	(1.7)	(0.1)	(8.7)
Balance at March 31, 2009	$ 133.7	$ 31.4	$ 0.4	$ 165.5
Disposals	-	(18.3)	-	(18.3)
Amortization	(9.8)	(1.7)	(0.1)	(11.6)
Balance at March 31, 2010	$ 123.9	$ 11.4	$ 0.3	$ 135.6

The Company has recognized an impairment of $18.3 million for the year ended March 31, 2010 in relation to a plumbing license which is used to support the National Grid Energy Services ("NGES") installation business. The Company is planning to sell this license during 2010. The fair value was measured using management's estimate based upon the current market for similar assets. This impairment is reported in operating expenses in the Company's Consolidated Statements of Income.

Note 10. Accumulated Other Comprehensive Income

The following table details the components of accumulated other comprehensive income/(loss) for the years ended March 31, 2010 and 2009:

(In millions of dollars)	2010	2009
Unrealized gains (losses) on available for sale securities	$ (11.2)	$ (20.8)
Change in pensions and other postretirement obligations	(389.5)	(362.1)
Unrealized gains (losses) on derivative financial instruments	2.3	3.7
Accumulated other comprehensive loss	$ (398.4)	$ (379.2)

Note 11. Commitments and Contingencies

Lease Obligations. The Company has various operating leases for buildings, office equipment, vehicles and power operating equipment.

Consolidated rental expense for operating leases included in income from continuing operations was $64.7 million and $68.9 million for the years ended March 31, 2010 and 2009, respectively, which is included in "operations and maintenance" on the

Consolidated Statements of Income. Amortization of assets recorded under capital leases is included in "depreciation, depletion and amortization" on the Consolidated Statements of Income. The following is a summary of future minimum lease payments under operating leases, which at inception had a non-cancelable term of more than one year, and capital leases as of March 31, 2010:

(In millions of dollars)	Operating Leases	Capital Leases
2011	$ 61.0	$ 1.3
2012	60.3	1.4
2013	59.8	1.5
2014	59.5	1.5
2015	59.5	-
Thereafter	135.9	-
Total future minimum lease payments	$ 436.0	$ 5.7

Asset Retirement Obligations.

KeySpan has various asset retirement obligations primarily associated with its gas distribution and electric generation activities. Generally, KeySpan's 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 its gas distribution and transmission system when mains are retired in place; or dispose of sections of gas main when removed from the pipeline system; (ii) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; and (iii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities.

The following table presents our asset retirement obligation at March 31, 2010 and March 31, 2009:

(In millions of dollars)	2010	2009
Asset retirement obligations		
Asbestos removal	$ 3.3	$ 3.1
Tanks removal and cleaning	7.8	7.4
Main-cutting, purging and capping	36.4	34.7
Other obligations	5.1	6.4
Total asset retirement obligations	$ 52.6	$ 51.6

Financial Guarantees.
KeySpan has issued financial guarantees in the normal course of business, on behalf of its subsidiaries, to various third-party creditors. At March 31, 2010, the following amounts would have to be paid by KeySpan in the event of non-payment by the primary obligor at the time payment is due:

Nature of Guarantee (In Millions of Dollars)			Amount of Exposure	Expiration Dates
Guarantees for Subsidiaries				
Industrial Development Revenue Bonds	(i)	$	128.3	June 2027
Surety Bonds	(ii)		61.3	Revolving
Commodity Guarantees and Other	(iii)		56.0	June 2010 - Nov 2027
Letters of Credit	(iv)		79.7	July 2010 - Dec 2010
		$	325.3	

The following is a description of KeySpan's outstanding subsidiary guarantees:

(i) KeySpan has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to $128.3 million of Industrial Development Revenue Bonds issued through the Nassau County and Suffolk County Industrial Development Authorities for the construction of two electric-generation peaking plants on Long Island. The face value of these notes is included in long-term debt on the Consolidated Balance Sheets.

(ii) KeySpan has agreed to indemnify the issuers of various surety and performance bonds associated with certain construction projects being performed by certain current and former subsidiaries. In the event that the subsidiaries fail to perform their obligations under contracts, the injured party may demand that the surety make payments or provide services under the bond. KeySpan would then be obligated to reimburse the surety for any expenses or cash outlays it incurs. Although KeySpan is not guaranteeing any new bonds for any of the former subsidiaries, KeySpan's indemnity obligation supports the contractual obligation of these former subsidiaries. KeySpan has also received from a former subsidiary an indemnity bond issued by a third-party insurance company, the purpose of which is to reimburse KeySpan in an amount up to $80 million in the event it is required to perform under all other indemnity obligations previously incurred by KeySpan to support such company's bonded projects existing prior to divestiture. At March 31, 2010, the total cost to complete such remaining bonded projects is estimated to be approximately $8.3 million.

(iii) KeySpan has guaranteed commodity-related payments for subsidiaries within the Gas and Electric Services segment. These guarantees are provided to third-parties to facilitate physical and financial transactions involved in the

purchase and transportation of natural gas, oil and other petroleum products for gas and electric production and marketing activities. The guarantees cover actual purchases by these subsidiaries that are still outstanding as of March 31, 2010.

(iv) KeySpan has arranged for stand-by letters of credit to be issued to third-parties that have extended credit to certain subsidiaries. Certain vendors require us to post letters of credit to guarantee subsidiary performance under our contracts and to ensure payment to our subsidiary subcontractors and vendors under those contracts. Certain of our vendors also require letters of credit to ensure reimbursement for amounts they are disbursing on behalf of our subsidiaries, such as to beneficiaries under our self-funded insurance programs. Such letters of credit are generally issued by a bank or similar financial institution. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit if the holder demonstrates that we have failed to perform specified actions. If this were to occur, KeySpan would be required to reimburse the issuer of the letter of credit.

To date, KeySpan has not had a claim made against it for any of the above guarantees and we have no reason to believe that our subsidiaries or former subsidiaries will default on their current obligations. However, we cannot predict when or if any defaults may take place or the impact any such defaults may have on our consolidated results of operations, financial condition or cash flows.

As noted previously, KeySpan owns a 26.25% ownership interest in the Millennium Pipeline Company LLC (“Millennium”), the developer of the Millennium Pipeline project. KeySpan has guaranteed $210 million of an $800 million Millennium Pipeline construction loan. The $210 million represents KeySpan’s proportionate share of the $800 million loan based on KeySpan’s 26.25% ownership interest in the Millenium Pipeline project. This guarantee has been accounted for in accordance with current accounting guidance for guarantor’s accounting and disclosure requirements for guarantees, including indirect guarantees of indebtness of others.

Fixed Charges Under Firm Contracts:
We have entered into various contracts for gas delivery, storage and supply services. We are liable for these payments regardless of the level of service we require from third-parties. Such charges are currently recovered from utility customers through the gas adjustment clause.

(In Millions of Dollars)		Gross Payments
2011	$	984.5
2012		689.1
2013		491.3
2014		399.9
2015		319.7
2016 and thereafter		267.4
Total	$	3,151.9

Legal Matters. From time to time we are subject to various legal proceedings arising out of the ordinary course of our business. Except as described below, 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 results of operations, financial condition or cash flows.

Since July 12, 2006, several lawsuits have been filed which allege damages resulting from contamination associated with the historic operations of former manufactured gas plants located in Bay Shore, New York. KeySpan has been conducting site investigations and remediations at these locations pursuant to Administrative Orders on Consent ("ACO") with the New York State Department of Environmental Conservation ("DEC"). There is one lawsuit pending related to the former Clifton manufactured gas plant on Staten Island. KeySpan intends to contest each of these proceedings 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 ACO for one of the land-based sites. The DEC and AG recently determined that the New York 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 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.

In May 2007, KeySpan received a Civil Investigative Demand ("CID") from the United States Department of Justice, Antitrust Division, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electric energy capacity market prior to National Grid's acquisition of KeySpan. The CID is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. In April 2008, KeySpan received a second CID in connection with this

matter. KeySpan believes that its activity in the capacity market has been consistent with all applicable laws and regulations and it continue to cooperate fully with this investigation. On February 22, 2010, the United States Department of Justice ("DOJ") filed a civil complaint, joint stipulation and proposed final judgment under which the DOJ and KeySpan have agreed that KeySpan will pay $12 million in full and final resolution of the DOJ's Civil Investigative Demands from May 2007 and April 2008; such amount is reflected in pension benefits and other reserves on the Consolidated Balance Sheet. The agreement contains no admissions of liability by KeySpan and remains subject to court approval which is currently anticipated later in 2010.

Environmental Matters

Air. Our generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the USEPA and the DEC. In addition to efforts to improve both ozone and particulate matter air quality, there has been an increased focus on greenhouse gas emissions in recent years. Our previous investments in low NOx boiler combustion modifications, the use of natural gas firing systems at our steam electric generating stations, and the compliance flexibility available under cap and trade programs have enabled KeySpan to achieve its prior emission reductions in a cost-effective manner. Future investments will include the installation of enhanced NOx controls and efficiency improvement projects at certain of our Long Island based electric generating facilities. The cost of these improvements is estimated to be approximately $100 million; a mechanism for recovery from LIPA of these investments through fuel savings has been established. We are currently developing a compliance strategy to address anticipated future requirements. At this time, we are unable to predict what effect, if any, these future requirements will have on our financial condition, results of operation, and cash flows.

Water.

Additional capital expenditures associated with the renewal of the surface water discharge permits for our power plants will likely be required by the DEC at each of the Long Island power plants pursuant to Section 316 of the Clean Water Act. Draft permits have been issued by the DEC for Glenwood, Port Jefferson, and E.F. Barrett that propose to require the installation of significant capital equipment, including cooling towers at E.F. Barrett, to mitigate the plants' alleged cooling water system impacts to aquatic organisms. We are currently conducting additional 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. Despite this, environmental groups have filed comments demanding even more costly retrofits at both Glenwood and Port Jefferson, specifically, the installation of cooling towers. It is expected that the determination of required capital improvements and the issuance of final renewal permits for these plants will involve adjudicatory hearings among the Company, the agency, and the environmental groups. Costs associated with the development of studies and analyses necessary to defend our positions are reimbursable from LIPA under the PSA. Capital costs for expected mitigation requirements at the five plants had been estimated at approximately $100 million and did not anticipate a need for cooling towers at any of the

plants. Depending on the outcome of the adjudicatory process, which could take years, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would also be reimbursable from LIPA.

Land, Manufactured Gas Plants and Related Facilities.
Federal and state environmental regulators, as well as private parties, have alleged that several of KeySpan's subsidiaries are potentially responsible parties under Superfund laws for the remediation of numerous contaminated sites in New York and New England. KeySpan's greatest potential Superfund liabilities relate to manufactured gas plant, or MGP, facilities formerly owned or operated by its subsidiaries or their predecessors. MGP byproducts included fuel oils, hydrocarbons, coal tar, purifier waste and other waste products which may pose a risk to human health and the environment. KeySpan is investigating or remediating these sites, or both, as appropriate.

KeySpan 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. KeySpan discounted its environmental reserves at the time of the KeySpan acquisition by National Grid plc using an appropriate fair value methodology.

KeySpan's total reserve for estimated MGP related environmental activities was approximately $640.3 million at March 31, 2010 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. Management believes that obligations imposed on KeySpan because of the environmental laws will not have a material adverse effect on its operations, financial condition or cash flows. Through various rate orders issued by the NYPSC, MADPU and NHPUC costs related to MGP environmental cleanup activities are recovered in rates charged to gas distribution customers. Accordingly, KeySpan has reflected a regulatory asset of $1.1 billion at March 31, 2010.

KeySpan is pursuing claims against other potentially responsible parties to recover investigation and remediation costs it believes are the obligations of those parties. At this time, we cannot predict the likelihood of success of such claims.

***Non-Utility Sites*:**
We are aware of two non-utility sites for which KeySpan may have or share environmental remediation or ongoing maintenance responsibility. We presently estimate the remaining cost of the environmental cleanup activities for these two non-utility sites will be approximately $24.0 million. 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.

Management believes that in the aggregate, the accrued liability for the sites and related facilities identified above are reasonable estimates of the probable cost for the investigation and remediation of these sites and facilities. As circumstances warrant, we periodically re-evaluate the accrued liabilities associated with MGP sites and related facilities. We may be required to investigate and, if necessary, remediate each site previously noted, or other currently unknown former sites and related facility sites, the cost of which is not presently determinable.

Note 12. Related Party Transactions

KeySpan and NGUSA operate money pools with National Grid plc to more effectively utilize cash resources and to reduce outside short-term borrowings. Short-term borrowing needs are met first by available funds of the money pool participants. Borrowings from the money pool incur interest at a rate designed to approximate the cost of third-party short-term borrowings, while investments in the money pool earn interest. Funds may be withdrawn from or repaid to the pool at any time without prior notice. The average interest rate for money pool was 0.91% and 2.62% for the years ended March 31, 2010 and 2009, respectively. KeySpan and NGUSA, collectively, have the ability to borrow up to $3 billion from National Grid plc. KeySpan had no outstanding borrowings at March 31, 2010 and $475 million outstanding at March 31, 2009 under this arrangement. Additionally, KeySpan and NGUSA "share" available funds internally and at March 31, 2010 KeySpan had borrowed $130.9 million from NGUSA and at March 31, 2009 had loaned NGUSA $1.1 billion with no interest. This amount increases or decreases on a daily basis.

KeySpan engages in various other transactions with NGUSA subsidiaries. Certain activities and costs, primarily executive and administrative and some human resources, legal, and strategic planning are shared between KeySpan and NGUSA. At March 31, 2010 and 2009, KeySpan had a receivable balance of $0.5 million and a payable balance of approximately $5 million, respectively, to NGUSA for these services.

At March 31, 2010 and 2009, KeySpan has a net accounts payable balance of $130.4 million and a net accounts receivable of $622 million, respectively, representing its receivable from NGUSA offset by its borrowings from National Grid plc.

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 $13.4 million before tax, and $8.7 million after tax.

Note 13. Discontinued Operations and Other Dispositions

In April 2009, KeySpan sold its remaining two engineering companies that were classified as discontinued operations at March 31, 2009 and prior interim periods. The assets and liabilities of these companies were fair valued at August 24, 2007 as required by the current accounting guidance for business combinations. As a result, the aforementioned sales transaction did not result in any material gain or loss recognition.

The information below highlights the major classes of assets and liabilities of the discontinued operations.

(In millions of dollars)		March 31, 2009
Property	$	3.2
Current assets		15.1
Deferred charges		11.7
Current liabilities		12.7
Deferred credits and other Liabilities		-

(In millions of dollars)		For the Year Ended March 31, 2009
Revenues	$	154.5
Operating expenses:		
Fuel and purchase power		23.9
Operations and maintenance		90.3
Depreciation and amortization		2.6
Operating taxes		(5.6)
Operating Income		43.3
Other income (deductions)		(1.2)
Income taxes		17.5
Income from discontinued operations	$	24.6

Note 14. Subsequent Events

On April 13, 2010 a purchase agreement was signed between the Company and Home Service USA Corp. ("HSUSA") pertaining to the Company's sale of the service contracts portion of its National Grid Engineering Services (NGES) business. Under terms of the agreement, HSUSA has agreed to acquire the service contract business for approximately $74 million, with $30 million (net of working capital) paid at closing and an additional $44 million (NPV) of estimated royalties earned and paid over a ten year period. Projected royalties represent 10% of revenues that HSUSA achieves through the sale of its products, subject to adjustment, in years two through ten following the closing. The installation business of NGES will not be sold. Instead we plan to discontinue the installation portion of the business after completing all currently contracted work.

Subsequent to the end of the fiscal year, we announced that we are evaluating our options concerning our New Hampshire business – EnergyNorth Natural Gas, Inc. which represents approximately 2.5% of our consolidated revenues. These options could include a potential disposal; however, at this point in time no decision has been made by management or the Board regarding EnergyNorth.