National Grid Generation LLC and Subsidiaries

Consolidated Financial Statements
For the Year Ended March 31, 2010

NATIONAL GRID GENERATION LLC AND SUBSIDIARIES

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Report of Independent Auditors

To the Members and Board of Directors of
National Grid Generation LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows, and of retained earnings and of capitalization present fairly, in all material respects, the financial position of National Grid Generation LLC and its subsidiaries at March 31, 2010 and March 31, 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP
July 2, 2010

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
ASSETS		
Current assets		
Other special deposit	**$ -**	$ 49
Accounts receivable	**32,147**	12,101
Unbilled revenue	**2,369**	15,573
Allowance for doubtful accounts	**(2,204)**	(5,927)
Accounts receivable money pool	**342,650**	246,246
Emission credits	**28,667**	47,906
Materials and supplies, at average cost	**38,000**	36,346
Prepaid and other current assets	**1,698**	1,257
Deferred income taxes	**-**	10,510
	443,327	364,061
Property, plant and equipment		
Plant	**1,819,684**	1,765,800
Accumulated depreciation	**(1,061,661)**	(1,015,113)
	758,023	750,687
Deferred charges and other assets		
Contractual receivable - from LIPA (See Note 2)	**24,421**	30,775
Other	**9,210**	9,080
	33,631	39,855
Total assets	**$ 1,234,981**	$ 1,154,603

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)	**March 31, 2010**	March 31, 2009
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable and accrued expenses	**$ 28,483**	$ 24,547
Accounts payable affiliates, net	**165,163**	101,017
Taxes accrued	**21,662**	27,742
Deferred income taxes	**26,272**	-
	241,580	153,306
Deferred credits and other liabilities		
Asset retirement obligations	**8,662**	8,172
Emission credit reserve	**23,727**	38,200
Other	**22,140**	22,154
Deferred income taxes	**70,322**	97,782
	124,851	166,308
Capitalization		
Additional paid-in capital	**427,954**	427,954
Retained earnings	**41,712**	8,301
Total member's equity	**469,666**	436,255
Long-term debt	**267,016**	266,866
Total capitalization	**736,682**	703,121
Advances from parent	**131,868**	131,868
Total capitalization and advances from parent	**868,550**	834,989
Total liabilities and capitalization	**$ 1,234,981**	$ 1,154,603

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars)	**Year ended March 31, 2010**	Year ended March 31, 2009
Operating revenues	**$ 483,703**	$ 420,195
Operating expenses		
Operations	**101,213**	102,100
Maintenance	**55,773**	47,537
Emission credit impairment	**7,228**	24,600
Depreciation and amortization	**55,998**	61,856
Operating taxes	**182,319**	167,721
Total operating expenses	**402,531**	403,814
Operating income	**81,172**	16,381
Interest charges	**(22,826)**	(24,069)
Other income	**2,274**	5,951
Earnings before income taxes	**60,620**	(1,737)
Income taxes		
Current	**25,915**	14,875
Deferred	**1,294**	(16,590)
Total income taxes	**27,209**	(1,715)
Net income (loss)	**$ 33,411**	$ (22)

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)	**Year ended March 31, 2010**		Year ended March 31, 2009	
Operating activities				
Net income (loss)	**$**	**33,411**	$	(22)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization		**55,998**		61,856
Deferred income taxes		**1,294**		(16,590)
Emission credit write-down		**7,228**		24,600
Changes in assets and liabilities				
Accounts receivable, net		**(10,510)**		18,622
Materials and supplies		**(1,654)**		(1)
Accounts payable and accrued expenses		**(2,144)**		46,356
Other		**3,064**		11,897
Net cash provided by operating activities		**86,687**		146,718
Investing activities				
Capital expenditures		**(57,096)**		(59,839)
Other		**(5,362)**		(8,211)
Net cash used in investing activities		**(62,458)**		(68,050)
Financing activities				
Moneypool and affiliated transactions		**(24,229)**		(78,668)
Net cash used in financing activities		**(24,229)**		(78,668)
Net increase in cash and cash equivalents		**-**		-
Cash and cash equivalents at beginning of year		**-**		-
Cash and cash equivalents at end of year	**$**	**-**	$	-
Supplemental information				
Interest paid	**$**	**22,832**	$	22,876
Income taxes paid (refund)	**$**	**(40,995)**	$	(15,869)

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of dollars)	**Year Ended March 31, 2010**	Year Ended March 31, 2009
Balance at beginning of year	**$ 8,301**	$ 8,323
Net income (loss)	**33,411**	(22)
Balance at the end of year	**$ 41,712**	$ 8,301

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

NATIONAL GRID GENERATION LLC
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands of dollars)				**March 31, 2010**	March 31, 2009
Total member's equity				**$ 469,666**	$ 436,255
Long-term debt	Maturity	Interest Rate	Series		
Authority financing notes					
Pollution Control Revenue Bonds					
	October 1, 2028	Variable	1999 A	**41,125**	41,125
Electric Facilities Revenue Bonds					
	December 1, 2027	Variable	1997 A	**24,880**	24,880
Total authority financing notes				**66,005**	66,005
Promissory notes to LIPA*					
Pollution Control Revenue Bonds					
	March 1, 2016	5.15%	1985 B	**27,900**	27,900
Electric Facilities Revenue Bonds					
	November 1, 2023	5.30%	1993 B	**29,600**	29,600
	October 1, 2024	5.30%	1994 A	**2,600**	2,600
	August 1, 2025	5.30%	1995 A	**15,200**	15,200
Total Promissory Notes to LIPA				**75,300**	75,300
Tax-exempt bonds					
Nassau County Industrial Development Revenue Bonds	September 1, 2027	5.25%		**53,275**	53,275
Suffolk County Industrial Development Revenue Bonds	September 1, 2027	5.25%		**75,000**	75,000
Long-term debt				**269,580**	269,580
Fair value premium at acquisition				**(2,564)**	(2,714)
Total long-term debt				**267,016**	266,866
Total capitalization				**736,682**	703,121
Advances from parent	On Demand	6.15%		**131,868**	131,868
Total capitalization and advances from parent				**$ 868,550**	$ 834,989

*The promissory notes to LIPA have been allocated to National Grid Generation LLC from the Parent. (See Note 3 to the Consolidated Financial Statements "Long-term Debt and Advances from Parent")

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

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

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.

National Grid Generation has an agreement with LIPA (the "Power Supply Agreement" or "PSA") which provides for the sale to LIPA all of the capacity and, to the extent LIPA requests, energy from the generating facilities. LIPA represents our only customer for capacity and energy. Capacity refers to the ability to generate energy and, pursuant to New York Independent System Operator ("NYISO") requirements, must be maintained at specified levels (including reserves) regardless of the source and amount of energy consumed. By contrast, energy refers to the electricity generated for consumption by customers. Such sales of capacity and energy to LIPA are made under terms of the PSA the rate of which are reviewed by the Federal Energy Regulatory Commission ("FERC"). These rates may be modified in accordance with the terms of the PSA. (See Note 6 – Commitments and Contingencies for additional information on the PSA.)

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

B. Basis of Presentation

The consolidated financial statements reflect the accounts of National Grid Generation and its subsidiaries. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Our financial statements reflect certain of the ratemaking policies and actions of FERC. FERC approved implementation of new rates, in accordance with a settlement agreement between National Grid Generation and LIPA dated October 23, 2009, which FERC accepted on January 5, 2010. See “Power Supply Agreement” in Note 6 for further discussion of the approved settlement.

The Company has evaluated events or transactions that occurred after March 31, 2010 through June 30, 2010 for potential recognition or disclosure in the consolidated financial statements. There were no subsequent events that were needed to be recognized.

C. Revenue Recognition

Electric revenues are derived from billings to LIPA for the electric generation capacity and, to the extent requested, energy from our existing oil and gas-fired generating plants. Sales of capacity and energy are made under terms of the Power Supply Agreement with rates approved by FERC. (See Note 6 – Commitments and Contingencies for additional information on the PSA.)

D. Property, Plant and Equipment

Property is stated at original cost of construction, which includes allocations of overheads and taxes. Capitalized interest for the year ended March 31, 2010 and March 31, 2009 was approximately $1.4 million and $1.0 million respectively.

Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property. The annualized composite rate on average depreciable property was approximately 3.48% and 3.60% for the year ended March 31, 2010 and March 31, 2009 respectively. The cost of property retired, plus the cost of removal less salvage, is charged to accumulated depreciation in accordance with the Power Supply Agreement. The cost of repair and minor replacement and renewal of property is charged to maintenance expense when incurred.

E. Employee Benefits

In December 2006, KeySpan adopted the provisions of current accounting guidance for employers’ accounting for defined benefit pensions and other postretirement benefit plans. The guidance requires employers to fully recognize all postretirement plans’ funded status on the balance sheet as a net liability or asset and required an offsetting adjustment to accumulated other comprehensive income in shareholders’ equity upon implementation. 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 2 – Employee Benefits for additional details on KeySpan’s pension and other postretirement plans.)

F. Income Taxes

Federal and state income taxes are recorded under the current accounting provisions for the accounting and reporting of income taxes. Income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred investment tax credits are amortized over the useful life of the underlying property. Additionally, the Company follows the current accounting guidance relating to uncertainty in income taxes which applies to all income tax positions reflected on the Company's consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns.

G. 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.

H. Inventory

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

I. Emission Credits

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 ("NOx") 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 recorded an asset for its emission allowance credits of $28.7 million and $47.9 million at March 31, 2010 and 2009, respectively (See Note 7 – Emission Credits for further discussion on emission allowance credit). 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.

J. Recent Accounting Pronouncements

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

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

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

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

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

NOTE 2 – EMPLOYEE BENEFITS

Pension Plans

The employees of National Grid Generation are members of a consolidated defined benefit pension plan, under the Parent. Benefits are based on years of service and compensation. Pension costs are allocated to National Grid Generation; related pension obligations and assets are commingled and are not allocated to individual sponsors. The Parent's defined benefit pension plan had a net underfunded obligation of $740.2 million at March 31, 2010 and $825.3 million at March 31, 2009. Certain current year changes in the funded status of the Parent's plan are allocated to National Grid Generation through an intercompany payable amount. Gross actuarial pension expense allocated to us for the year ended March 31, 2010 and March 31, 2009 was $7.0 million and $2.4 million respectively and is included in "Operations expense" on the Consolidated Statements of Income.

At March 31, 2010, it is estimated that approximately $28.0 million of unfunded pension liabilities of National Grid Generation resides in accumulated other comprehensive income of the Parent and will be allocated to National Grid Generation through pension expense in future periods.

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

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

Other Postretirement Benefits

National Grid Generation employees are members of a noncontributory defined benefit plan. The Parent has been funding a portion of future benefits over employees' active service lives through Voluntary Employee Beneficiary Association ("VEBA") trusts. Contributions to VEBA trusts are tax deductible, subject to limitations contained in the Internal Revenue Code.

Other postretirement costs are allocated to us; related other postretirement obligations and assets are commingled and are not allocated to individual sponsors. The KeySpan defined benefit plan had a net underfunded obligation of $1.1 billion at March 31, 2010 and $923.5 million at March 31, 2009. Certain current year changes in the funded status of the KeySpan plan are allocated to National Grid Generation through an intercompany payable amount. Gross other postretirement allocated to us for the year ended March 31, 2010 and March 31, 2009 was $5.5 million and $4.7 million, respectively, and is included in "Operations expense" on the Consolidated Statements of Income.

At March 31, 2010, it is estimated that approximately $18.0 million of unfunded other postretirement benefits liabilities of National Grid Generation resides in accumulated other comprehensive income of the Parent and will be allocated to National Grid Generation through other postretirement expense in future periods.

In 1993, National Grid Generation adopted the then current provisions for employers accounting for post-employment benefits other than pensions, and reported an accumulated postretirement benefit obligation and corresponding contractual receivable. As of March 31, 2010 and March 31, 2009, the remaining balance is $24.4 million and $30.8 million respectively and is recorded as a contractual receivable from LIPA.

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

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

Pension/Other 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%

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

Key Assumptions Used

Several assumptions affect the pension and other 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 8.00% expected rate of return on assets, net of expenses for its pension plan and a 7.70% expected rate of return on assets, net of expenses for its other postretirement plans.

*Discount rat*e. KeySpan selects its discount rate assumption based upon rates of return on high quality corporate bond yields in the marketplace as of each measurement date (typically each March 31st). Specifically, KeySpan uses the Hewitt Top Quartile Discount Curve along with the expected future cashflows from the KeySpan retirement plans to determine the weighted average discount rate assumption. At March 31, 2010 and March 31, 2009, a discount rate assumption of 6.10% and 7.30% was deemed appropriate for the plans.

Workforce Reduction Program

In connection with the acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer ("VERO") in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of December 31 , 2007. For eligible employees who have elected to accept the VERO offer, National Grid plc and KeySpan have the right to retain that employee for up to three years before VERO payments are made. An employee who accepts the VERO offer but elects to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeits all rights to VERO payments. The cost of VERO offer to National Grid Generation is estimated to be approximately $8 million. This amount is being expensed over a three year period or over the remaining service period whichever is shorter. The VERO is near completion and National Grid Generation has expensed approximately $8.1 million of VERO costs as of March 31, 2010.

NOTE 3 – LONG-TERM DEBT AND ADVANCES FROM PARENT

Authority Financing Notes

We can issue tax-exempt bonds through the New York State Energy Research and Development Authority. At March 31, 2010 and March 31, 2009, $41.1 million of Authority Financing Notes 1999 Series A Pollution Control Revenue Bonds due October 1, 2028 were outstanding. The interest rate ranged from 0.45% to 18.00% for the year ended March 31, 2010, at which time the rate was 2.00%. The interest rate ranged from 2.0% to 18.00% for the year ended March 31, 2009, at which time the rate was 5.39%. Interest expense related to these notes for the year ended March 31, 2010 and March 31, 2009 was $1.3 million and $2.6 million respectively.

We also have outstanding $24.9 million variable rate 1997 Series A Electric Facilities Revenue Bonds due December 1, 2027. The interest rate on these bonds is reset weekly and during the year ended March 31, 2010 ranged from 0.18% to 0.55%.The interest rate was 0.30% and 0.50% at March 31, 2010 and March 31, 2009, respectively. Interest expense related to these notes for the year ended March 31, 2010 and March 31, 2009 was $0.1 million and $0.6 million respectively.

Promissory Notes

The Parent has issued promissory notes to LIPA representing an amount equivalent to certain Authority Financing Notes. The Parent then allocated a portion of these notes to us. At March 31, 2010 we had outstanding $75.3 million of such notes, consisting of $27.9 million, 5.15% notes due March 1, 2016 and $47.4 million, 5.30% notes with maturities ranging from November 1, 2023 to August 1, 2025.

Industrial Development Revenue Bonds

At March 31, 2010, we had outstanding $128.3 million of 5.25% tax-exempt bonds due September 1, 2027 - $53.3 million of these Industrial Development Revenue Bonds were issued through the Nassau County Industrial Development Authority for the construction of the Glenwood electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. KeySpan Corporation has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to these tax-exempt bonds.

Upon acquisition by National Grid plc, National Grid Generation revalued its outstanding debt. The fair value adjustment is being amortized over the future lives of the underlying debt.

All currently outstanding debt matures beyond five years.

Advances from Parent

At March 31, 2010 the $131.9 million due to the Parent remains outstanding. The interest rate of this advance is 6.15%. There are no covenants or fixed maturity dates associated with the advance.

Fair Value Measurement of Financial Instruments

Long-term debt is 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 Company's Consolidated Balance Sheet reflects the long-term debt at carrying value. The fair value of this debt at March 31, 2010 is $418.0 million.

All other financial instruments on the Consolidated Balance Sheets such as money pool balances, accounts receivable and accounts payable are stated at amounts that approximate fair value.

On July 20, 2009 Moody's Investors Service changed the ratings to stable from negative for National Grid plc and its rated subsidiaries.

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

Standard & Poor's	Moody's Investor Services	FitchRatings
A-	Baa1	N/A

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

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

(In thousands of dollars)	Plant and Machinery	Land and Buildings	Assets in Construction	Software Intangibles	Total
Balance at March 31, 2008	$ 1,376,934	$ 306,249	$ 31,140	$ 6,530	$ 1,720,853
Additions	(5,048)	(9,730)	64,569	-	49,791
Disposals	(4,352)	(492)	-	-	(4,844)
Reclassifications	26,880	14,169	(41,049)	-	-
Balance at March 31, 2009	1,394,414	310,196	54,660	6,530	1,765,800
Accumulated depreciation at March 31, 2009	(891,887)	(117,951)	-	(5,275)	(1,015,113)
Net book value at March 31, 2009	$ 502,527	$ 192,245	$ 54,660	$ 1,255	$ 750,687
Balance at March 31, 2009	$ 1,394,414	$ 310,196	$ 54,660	$ 6,530	$ 1,765,800
Additions	(2,060)	-	59,163	371	57,474
Disposals	(3,338)	(252)	-	-	(3,590)
Reclassifications	32,389	13,515	(45,904)	-	-
Balance at March 31, 2010	1,421,405	323,459	67,919	6,901	1,819,684
Accumulated depreciation at March 31, 2010	(933,802)	(122,055)	8	(5,812)	(1,061,661)
Net book value at March 31, 2010	$ 487,603	$ 201,404	$ 67,927	$ 1,089	$ 758,023

NOTE 5 – INCOME TAXES

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

(In thousands of dollars)	Year ended March 31,2010		Year ended March 31,2009	
Current income tax expense (benefit):				
Federal	**$**	**17,197**	$	10,208
State		**8,718**		4,667
Total current income tax expense (benefit)		**25,915**		14,875
Deferred income tax expense (benefit):				
Federal		**2,340**		(11,760)
State		**(1,046)**		(4,830)
Total deferred income tax expense (benefit)		**1,294**		(16,590)
Total income tax expense (benefit)	**$**	**27,209**	$	(1,715)

Income tax expense for the years ended March 31, 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%, to the Company's actual income tax expense for the years ended March 31, 2010 and 2009 is presented in the following table:

(In Thousands of Dollars)	Year ended March 31, 2010		Year ended March 31, 2009	
Computed tax	**$**	**21,217**	$	(608)
State income tax, net of federal tax benefit		**4,986**		(106)
Medicare subsidy, including Patient Protection & Affordable Care Act effect, net		**2,887**		(232)
Intercompany tax allocation		**(1,941)**		(993)
Provision to return adjustments		**-**		176
Audit and related reserve movements		**-**		116
Other items, net		**60**		(68)
Total		**5,992**		(1,107)
Federal and state income taxes	**$**	**27,209**	$	(1,715)

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

(In thousands of dollars)		**2010**		**2009**
Pensions, OPEB and other employee benefits	**$**	**40,832**	$	31,977
Future federal benefit on state taxes		**7,086**		9,702
Asset retirement obligations		**2,884**		3,548
Allowance for uncollectible accounts		**1,016**		5,015
Reserves not currently deductible		**198**		198
Other, net		**9,700**		7,282
Total deferred tax assets [1]		**61,716**		57,722
Property related differences		**(110,384)**		(88,376)
Property taxes		**(33,074)**		(24,971)
Deferred credits - Pension and OPEB		**(11,253)**		(19,405)
Emissions allowances		**(3,476)**		(12,115)
Unamortized debt discount or premium		**(123)**		(127)
Total deferred tax liabilities		**(158,310)**		(144,994)
Net accumulated deferred income tax liability		**(96,594)**		(87,272)
Current portion of net deferred tax asset (liability)		**(26,272)**		10,510
Non-current portion of net deferred income tax liability	**$**	**(70,322)**	$	(97,782)

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

KeySpan and its subsidiaries are members of the National Grid Holdings Inc. ("NGHI") and subsidiaries consolidated federal income tax return. The Company is a member of this consolidated group. The Company has joint and several liability for any potential assessments against the consolidated group.

As of March 31, 2010 and 2009, the Company's current federal income tax balance was a payable to its Parent of $64.8 million, and a receivable of $41.2 million, respectively.

The Company adopted the provisions of the FASB guidance which clarifies the accounting for uncertain tax positions. This guidance 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.

With the application of this FASB guidance, as of March 31, 2010 and 2009, the Company's unrecognized tax benefits totaled $27.5 million and $13.3 million, respectively, of which $23.4 million and $23.4 million would affect the effective tax rate, if recognized.

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

Reconciliation of Unrecognized Tax Benefits				
(In thousands of dollars)		**2010**		2009
Beginning balance	**$**	**13,296**	$	39,719
Gross increases (decreases) related to prior period		**-**		(26,423)
Gross increases (decreases) related to current period		**14,202**		-
Ending balance	**$**	**27,498**	$	13,296

As of March 31, 2010 and March 31, 2009, the Company has accrued for interest related to unrecognized tax benefits of $11.4 million and $9.8 million, respectively. During the years ended March 31, 2010 and March 31 2009, the Company recorded interest expense related to unrecognized tax benefits of $1.6 million and $1.9 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 the 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 years ended December 31, 2000 through 2006. The examination is expected to be concluded during the year ending March 31, 2011. At that time, the Company expects to decrease its unrecognized tax benefits by $20.6 million. The tax returns for the short period ended August 24, 2007, as well as the years ended March 31, 2008 and March 31, 2009 remains subject to examination by the IRS.

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

National Grid Generation has various asset retirement obligations primarily associated with its electric generation activities. These obligations have remained substantially unchanged from March 31, 2009, except for accretion adjustments. Generally, the company's largest asset retirement obligations relate to: (i) tanks removal and cleaning; (ii) asbestos removal and (iii) waste water treatment pond removal.

At March 31, 2010 and March 31, 2009 the following asset retirement obligations were recorded on the Consolidated Balance Sheets in "Other noncurrent liabilities", at their estimated present values:

(In thousands of dollars)				
		2010		2009
Asbestos removal	**$**	**1,659**	$	1,565
Tanks removal and cleaning		**5,271**		4,973
Main - cutting, purging and capping		**1,732**		1,634
Total asset retirement obligations	**$**	**8,662**	$	8,172

National Grid Generation recorded $0.5 million and $0.5 million of asset retirement obligation accretion expense for the year ended March 31, 2010 and March 31, 2009, respectively.

Power Supply Agreement (PSA)

The PSA provides for the sale to LIPA all of the capacity and, to the extent LIPA requests, energy conversion from the oil and gas-fired generating facilities covered by the PSA. LIPA represents the only customer for capacity and energy. Capacity refers to the ability to generate energy and, pursuant to NYISO requirements, must be maintained at specified levels (including reserves) regardless of the source and amount of energy consumption. Energy refers to the electricity generated for consumption by customers. Such sales of capacity and energy to LIPA are made under the terms of the PSA entered into in 1998.

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

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, 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 increase were settled in March 2010.

National Grid Generation has an inventory of sulfur dioxide ("SO_2") and nitrogen oxide ("NOx") emission allowances that may be sold to third party purchasers. The number available for sale of emission allowances varies from year to year relative to the level of emissions from the generating facilities, which is greatly dependent on the mix of natural gas and fuel oil used for generation and the amount of purchased power that is imported onto Long Island. In accordance with the PSA, 33% of emission allowance sales revenue is retained by National Grid Generation and the other 67% is credited to LIPA. LIPA also has a right of first refusal on any potential emission allowance sales. Additionally, we are bound by a memorandum of understanding with the New York State Department of Environmental Conservation which prohibits the sale of SO_2 allowances into certain states and requires the purchaser to be bound by the same restriction, which may affect the allowances' market value.

Generation Purchase Rights Agreement and 2006 Option Agreement

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

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

Legal Matters

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

Environmental Matters

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

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

Air. Our generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA and 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 ongoing installation of enhanced NOx controls and efficiency improvement projects at certain of our Long Island based electric generating facilities. The total 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 in the fourth amendment to the PSA. 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 on the order of 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 twelve months, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would also be reimbursable from LIPA.

NOTE 7 – EMISSION CREDITS

We are entitled to NOx and SO_2 emission credits associated with our electric generating facilities on Long Island. The fair value of these credits initially valued at $296 million at the time of National Grid plc's acquisition of KeySpan has been amended to reflect a decision of the DC circuit court to vacate the Clean Air Interstate Rule, resulting in a $171.5 million reduction to the initial valuation. At March 31, 2009, these credits were determined to be further impaired due to reduced demand in the emissions trading market which resulted in a decline of emission credit prices. We reduced the inventory value by $62.5 million resulting in a $24.6 million charge to the income statement. At March 31, 2010, we further reduced the inventory value by $27.1 million resulting in a $7.2 million charge to the income statement at March 31, 2010 respectively. As of March 31, 2010, these credits had a fair value of $13.1 million which includes partial use and sale of these credits. As agreed to in the PSA Agreement with LIPA, LIPA is entitled to $6.8 million of this amount; the LIPA portion of the emission credits is reflected in deferred credits, as these credits are consumed or sold the allowance balance is reduced.

The emission credits balance of $28.7 million on the Consolidated Balance Sheets also includes $15.6 million of CO_2 emission allowances purchased through the Regional Greenhouse Gas Initiative auctions.

NOTE 8 – RELATED PARTY TRANSACTIONS

Money Pool

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

The money pool is funded by operating funds from money pool participants. In addition, KeySpan has the ability to borrow up to $3 billion from National Grid, plc for working capital needs including the funding of the money pool, if necessary. We had an outstanding money pool receivable balance of $342.7 million and $246.2 million as of March 31, 2010 and March 31, 2009, respectively. Interest rates associated with the money pool are designed to approximate the cost of third-party short-term borrowings.

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

Accounts Receivable from Affiliates

NGUSA and its affiliates also provide us with various services, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, treasury/finance), human resources, information technology, legal, and strategic planning. The costs of these services are charged to us via inter-company billings and generally settled through the money pool on a monthly basis. At March 31, 2010, the Company had a $51.7 million liability for these services. In addition, the Company had a $48.7 million liability to KeySpan for allocated pension and other post retirement benefit costs and an intercompany tax payable of $64.8 million. Therefore, at March 31, 2010, National Grid Generation had a money pool receivable of $342.7 million and an intercompany payable, net of intercompany receivables, of $165.2 million, for a total net intercompany receivable position of $177.5 million.

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 $0.9 million before tax, and $0.6 million after tax.