National Grid Generation LLC
and
Subsidiaries

Consolidated Financial Statements
For the years ended March 31, 2011 and 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, capitalization and cash flows present fairly, in all material respects, the financial position of National Grid Generation LLC and its subsidiaries at March 31, 2011 and March 31, 2010, 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

June 29, 2011

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NATIONAL GRID GENERATION LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)	March 31,	
	2011	2010
ASSETS		
Current assets		
Accounts receivable	**$ 3,861**	$ 32,280
Allowance for doubtful accounts	**(2,204)**	(2,204)
Intercompany moneypool	**363,690**	342,650
Unbilled revenues	**3,351**	2,369
Materials and supplies, at average cost	**39,038**	38,000
Emission credits	**25,596**	28,667
Prepaid and other current assets	**2,103**	1,565
Total current assets	**435,435**	443,327
Property, plant, and equipment, net	**726,337**	758,023
Deferred charges and other assets		
Contractual receivable - from LIPA	**18,067**	24,421
Other deferred charges	**9,044**	9,210
Total deferred charges	**27,111**	33,631
Total assets	**$ 1,188,883**	$ 1,234,981

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,	
	2011	2010
LIABILITIES AND CAPITALIZATION		
Current liabilities		
Accounts payable	**$ 13,279**	$ 9,880
Accounts payable to affiliates, net	**50,752**	77,753
Taxes accrued	**22,670**	21,953
Interest accrued	**8,017**	13,620
Current deferred income tax liabilities	**13,947**	26,272
Other current liabilities	**4,826**	4,982
Total current liabilities	**113,491**	154,460
Deferred credits and other liabilities		
Asset retirement obligations	**9,182**	8,662
Deferred income tax liabilities	**61,546**	70,322
Postretirement benefits	**85,717**	87,120
Emission credits reserve	**23,581**	23,727
Other deferred liabilities	**19,636**	22,140
Total deferred credits and other liabilities	**199,662**	211,971
Capitalization		
Member's equity:		
Additional paid-in capital	**427,954**	427,954
Retained earnings	**48,743**	41,712
Total member's equity	**476,697**	469,666
Long-term debt	**267,165**	267,016
Advances from KeySpan Corporation	**131,868**	131,868
Total capitalization	**875,730**	868,550
Total liabilities and capitalization	**$ 1,188,883**	$ 1,234,981

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)	Years Ended March 31,	
	2011	2010
Operating revenues	**$ 483,215**	$ 483,703
Operating expenses		
Operations and maintenance	**182,632**	157,476
Impairment of emission credits	**3,149**	7,228
Impairment of property, plant and equipment	**30,814**	-
Depreciation and amortization	**58,353**	55,508
Other taxes	**185,077**	182,319
Total operating expenses	**460,025**	402,531
Operating income	**23,190**	81,172
Other income and (deductions)		
Interest on long-term debt	**(7,669)**	(8,214)
Other interest, including affiliate interest	**(22,034)**	(14,612)
Other income	**3,836**	2,274
Total other deductions	**(25,867)**	(20,552)
Income taxes		
Current	**10,291**	25,915
Deferred	**(19,999)**	1,294
Total income tax (benefit) expense	**(9,708)**	27,209
Net income	**$ 7,031**	$ 33,411

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)	Years Ended March 31,	
	2011	2010
Operating activities:		
Net income	**$ 7,031**	$ 33,411
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**58,353**	55,508
Provision (benefit) for deferred income taxes	**(19,999)**	1,294
Impairment of emission credits	**3,149**	7,228
Impairment of property, plant and equipment	**30,814**	-
Other non-cash items	**6,354**	6,354
Net prepayments and other amortizations	**149**	149
Changes in operating assets and liabilities:		
Accounts receivable, net	**36,182**	(10,510)
Materials and supplies	**(1,038)**	(1,654)
Accounts payable and accrued expenses	**(580)**	2,110
Prepaid taxes and accruals	**717**	(5,789)
Accounts payable to affiliates, net	**(29,506)**	71,884
Other	**(6,728)**	(1,865)
Net cash provided by operating activities	**84,898**	158,120
Investing activities:		
Capital expenditures	**(58,246)**	(56,362)
Other, including cost of removal	**(5,612)**	(5,354)
Changes in intercompany moneypool	**(21,040)**	(96,404)
Net cash used in investing activities	**(84,898)**	(158,120)
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents, beginning of year	**-**	-
Cash and cash equivalents, end of year	**$ -**	$ -
Supplemental disclosures of cash flow information:		
Interest paid	**$ 33,237**	$ 22,832
Income taxes paid (refund)	**$ 40,814**	$ (40,995)
Capital-related accruals included in accounts payable	**$ 1,624**	$ (1,643)

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,	
				2011	2010
Member's equity					
Additional paid-in capital				**$ 427,954**	$ 427,954
Retained earnings				**48,743**	41,712
Total member's equity				**$ 476,697**	$ 469,666
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				**128,275**	128,275
Fair value premium at acquisition				**(2,415)**	(2,564)
Total long-term debt				**267,165**	267,016
Advances from KeySpan Corporation	On Demand	6.15%		**131,868**	131,868
Total capitalization				**$ 875,730**	$ 868,550

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Nature of Operations

National Grid Generation LLC (the "Company," "we," "us" and "our") owns and operates 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").

The Company is a wholly-owned subsidiary of KeySpan Corporation ("KeySpan" or the "Parent"). KeySpan is a wholly-owned subsidiary of National Grid USA ("NGUSA"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is an indirectly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The Company 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 conversion from the oil and gas-fired generating facilities covered by the PSA. 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 entered into in 1998, the rates of which are reviewed by the Federal Energy Regulatory Commission ("FERC"). These rates may be modified in accordance with the terms of the PSA. The Company and LIPA have recently initiated negotiations for an extension of the PSA, that is scheduled to expire on May 27, 2013. The Company believes a new PSA will be executed prior to its expiration that will allow the Company to recover its investment in property, plant, and equipment and other assets used in operations.

Glenwood and Port Jefferson 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 the Company and its subsidiaries. All material intercompany transactions have been eliminated.

The preparation of consolidated 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 periods. Actual results may differ from these estimates.

Our financial statements reflect certain of the ratemaking policies and actions of the FERC. The FERC approved implementation of new rates, in accordance with a settlement agreement between the Company and LIPA dated October 23, 2009, which the FERC accepted on January 5, 2010.

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 PSA with rates approved by the FERC.

D. Property, Plant and Equipment

Property, plant, and equipment is stated at original cost. The cost of additions to property, plant, and equipment and replacements of retired units of property are capitalized. Costs include direct material, labor, overhead, capitalized interest and an equity return, if applicable. Replacement of minor items of property, plant, and equipment and the cost of current repairs and maintenance are charged to expense. Whenever property, plant, and equipment plant is retired, its original cost, together with cost of removal, less salvage, is charged to accumulated depreciation.

E. 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 income taxes reflect the tax effect of net operating losses, capital losses and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. 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 consolidated balance sheets that have been included in previous tax returns or are expected to be included in future tax returns.

F. Employee Benefits

The Company follows the provisions of the Financial Accounting Standards Board (“FASB”) accounting guidance related to the accounting for defined benefit pension and postretirement plans which requires employers to fully recognize all postretirement plans’ funded status on the consolidated 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 regulated enterprises, to regulatory assets or liabilities. Consistent with past practice, and as required by the guidance, the Company values its pension and postretirement benefits other than pensions (“PBOP”) assets using the year-end market value of those assets. Benefit obligations are also measured at year-end.

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. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

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 forward curves and 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. Material and Supplies

Material and supplies are stated primarily at the lower of cost or market value under the average cost method. The Company’s policy is to write off obsolete material and supplies.

I. Emission Credits

The US Environmental Protection Agency (“EPA”) 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. Additionally, the Regional Greenhouse Gas Initiative is a cooperative effort by ten northeastern states to reduce emissions of carbon dioxide. The Company has an emission allowance credit of $25.6 million and $28.7 million at March 31, 2011 and March 31, 2010, respectively. On a periodic 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

Prospective Accounting Pronouncements

In the preceding twelve months, the FASB has issued numerous updates to GAAP. The Company has evaluated various guidelines and has deemed them as not applicable based on its nature of operations or has implemented the new standards. A discussion of the more significant and relevant updates is as follows:

In June 2011, the FASB issued accounting guidance that eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity. This update seeks to improve financial statement users’ ability to understand the causes of an entity’s change in financial position and results of operations. The Company is now required to consecutively present the statement of income and statement of comprehensive income and also present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. This update does not change the items that are reported in other comprehensive income or any reclassification of items to net income. Additionally, the update does not change an entity’s option to present components of other comprehensive income net of or before related tax effects. This guidance is effective for public companies for fiscal years, and interim periods within that year, beginning after December 15, 2011, and it is to be applied retrospectively. Early adoption is permitted. The Company does not expect adoption of this guidance to have an impact on the Company’s financial position, results of operations or cash flows.

In April 2011, the FASB issued accounting guidance that substantially amended existing guidance with respect to the fair value measurement topic (“the Topic”). The guidance seeks to amend the Topic in order to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards. Consequently, the guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements as well as changing specific applications of the Topic. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements including, but not limited to, fair value measurement of a portfolio of financial instruments, fair value measurement of premiums and discounts and additional disclosures about fair value measurements. This guidance is effective for financial statements issued for interim and annual periods beginning after December 15, 2011. The early adoption of this guidance is not permitted and can only be applied prospectively. The Company is currently determining the potential impact of the guidance on its financial position, results of operations and cash flows.

In March 2011, the FASB issued updated guidance over the agreements between two entities to transfer financial assets. Prior to this update, an entity could recognize this transfer when it was deemed that the transferee had effective control over the transferred asset, specifically whether the entity has the ability to repurchase substantially the same asset based on the transferor’s collateral. This accounting update evaluates the effectiveness of the entity's control by focusing on the transferor's contractual rights and obligations as opposed to the entity’s ability to perform on those rights and obligations. This update also eliminates the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This guidance is treated prospectively and effective for annual or interim reporting periods beginning on or after December 15, 2011. The Company does not expect adoption of this guidance to have an impact on the Company’s financial position, results of operations or cash flows.

In December 2010, the FASB issued an accounting update to address inconsistencies in the application of accounting guidance related to reporting pro forma revenue and earnings of business combinations. This update is effective for entities who entered into an acquisition and whose acquisition date is on or after the beginning of the first annual reporting period

beginning on or after December 15, 2010. This disclosure requires revenue and earnings of the combined entity to be disclosed as though the combination had occurred at the beginning of the prior reporting period. The supplemental disclosure related to this activity now is required to provide a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The Company does not expect the adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

In December 2010, the FASB issued an accounting update that modified the goodwill impairment procedures necessary for entities with zero or negative carrying value. The FASB created this guidance to require entities to complete Step 2 of the impairment test, which requires the entity to assess whether or not it was likely that impairment existed throughout the period. To do this, an entity should consider whether there were adverse qualitative factors throughout the period that would contribute to impairment. This update is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect adoption of this guidance to have an impact on the Company's financial position, results of operations or cash flows.

Recently Adopted Accounting Pronouncements

In March 2010, the FASB issued updated guidance that provides for scope exceptions applicable to financial instrument contracts with embedded credit derivative features. This FASB guidance is effective for financial statements issued for interim periods beginning after June 15, 2010. On an ongoing basis, the Company evaluates new and existing transactions and agreements to determine whether they are derivatives, or have provisions that meet the characteristics of embedded derivatives. Those transactions designated for any of the elective accounting treatments for derivatives must meet specific, restrictive criteria, both at the time of designation and on an ongoing basis. None of the financial instrument contracts or credit agreements the Company has entered were identified and designated as meeting the criteria for derivative or embedded derivative treatment. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In February 2010, the FASB issued an amendment to certain recognition and disclosure requirements for events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The amendment applies to both issued financial statements and financial statements revised as a result of either a correction of an error or retrospective application of GAAP. The new provisions require non-public entities to disclose both the date that the financial statements were issued, or available to be issued, and the date the revised financial statements were issued or available to be issued. The amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

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 statements 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 adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

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 beginning after November 15, 2009 and are to be applied to transfers occurring on or after the date of adoption. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

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. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

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. The FASB guidance is effective for financial statements issued for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the reporting period beginning April 1, 2010 and noted no impact on the Company's financial position, results of operations or cash flows due to the adoption of this standard.

K. Reclassifications

Certain reclassifications have been made to conform prior periods' data to the current presentation. The prior year audited financial statement included the postretirement benefit reserve as a component of accounts payable to affiliates under current liabilities which is now being reclassed as a separate line item under deferred credits in the accompanying consolidated balance sheets.

This reclassification had no effect on the Company's results of operations and cash flows.

Note 2. Employee Benefits

Summary

The Company participates with certain other KeySpan subsidiaries in a non-contributory defined benefit plan and a PBOP plan.

The pension plan is a defined benefit plan which provides union employees with a retirement benefit and non-union employees hired before January 1, 2011 with a retirement benefit.

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

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

Pension Plans

The Company participates in the pension plans with certain other KeySpan subsidiaries. Pension plan assets are commingled and cannot be allocated to an individual company. Pension costs are allocated to the Company. The pension plans had a net underfunded obligation of $643.9 million at March 31, 2011 and $740.2 million at March 31, 2010.

Certain current year changes in the funded status of the KeySpan plan are allocated to the Company through an intercompany payable account. Gross actuarial pension expense allocated to the Company was $6.1 million and $7.0 million for the years ended March 31, 2011 and March 31, 2010, respectively.

At March 31, 2011, it is estimated that approximately $14.2 million of unfunded pension liabilities of the Company resides in accumulated other comprehensive income of the Parent and will be allocated to the Company through pension expense in future periods.

Other Postretirement Benefits

The Company participates in the PBOP plans with certain other KeySpan subsidiaries. PBOP plan assets are commingled and cannot be allocated to an individual company. PBOP costs are allocated to the Company. PBOP costs are allocated to the Company. The PBOP plans had a net underfunded obligation of $1.1 billion at March 31, 2011 and March 31, 2010.

Certain current year changes in the funded status of the KeySpan plan are allocated to the Company through an intercompany payable account. Gross actuarial PBOP expense allocated to the Company was $7.3 million and $5.5 million for the years ended March 31, 2011 and March 31, 2010, respectively.

At March 31, 2011, it is estimated that approximately $11.2 million of unfunded other postretirement benefits liabilities of the Company resides in accumulated other comprehensive income of the Parent and will be allocated to the Company through other postretirement expense in future periods.

In 1993, the Company 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, 2011 and March 31, 2010, the remaining balance is $18.1 million and $24.4 million respectively and is recorded as a contractual receivable from LIPA.

Health Care Reform Act

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 that 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 consolidated statement of income of approximately $2.9 million for the year ended March 31, 2010.

Workforce Reduction Program

In connection with National Grid plc’s acquisition of KeySpan, National Grid plc and KeySpan offered 673 non-union employees a voluntary early retirement offer (“VERO”) in an effort to reduce the workforce. Eligible employees must have been working in a targeted area as of April 13, 2007 and be at least 52 years of age with seven or more years of service as of September 30, 2007. For eligible employees who had elected to accept the VERO offer, National Grid plc and KeySpan had the right to retain that employee for up to three years before VERO payments were made. An employee who accepted the VERO offer but elected to terminate employment with National Grid plc or KeySpan prior to the three year period, without consent of National Grid plc or KeySpan, forfeited all rights to VERO payments. The VERO is completed and the Company has accrued approximately $8.7 million.

Note 3. Debt

Authority Financing Notes

We can issue tax-exempt bonds through the New York State Energy Research and Development Authority. At March 31, 2011 and March 31, 2010, $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 0.50% to 2.00% for the year ended March 31, 2011, at which time the rate was 1.60%. 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%. Interest expense related to these notes for the year ended March 31, 2011 and March 31, 2010 was $0.7 million and $1.3 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, 2011 ranged from 0.24% to 0.34%. The interest rate was 0.26% and 0.30% at March 31, 2011 and March 31, 2010, respectively. Interest expense related to these notes for the year ended March 31, 2011 and March 31, 2010 was $0.1 million.

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, 2011 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, 2011 and March 31, 2010, we had outstanding $128.3 million of 5.25% tax-exempt bonds due June 1, 2027 - $53.3 million of these Industrial Development Revenue Bonds were issued through the Nassau County Industrial Development Authority for the construction of the Glenwood electric-generation peaking plant and the balance of $75 million was issued by the Suffolk County Industrial Development Authority for the Port Jefferson electric-generation peaking plant. KeySpan Corporation has fully and unconditionally guaranteed the payment obligations of its subsidiaries with regard to these tax-exempt bonds.

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

The Company's consolidated balance sheet reflects the long-term debt at carrying value. The following table reflects the maturity schedule for our debt repayment requirement at March 31, 2011:

(in thousands of dollars)		
Years Ended March 31,		**Amount**
2012	$	-
2013		-
2014		-
2015		-
2016		27,900
Thereafter		241,680
Total	$	269,580

Advances from Parent

At March 31, 2011 and 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 date 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 a carrying value of $401.4 million. The fair value of this debt at March 31, 2011 is $405.4 million.

All other financial instruments on the consolidated balance sheets such as moneypool balances, accounts receivable and accounts payable are stated at amounts that approximate fair value.

Note 4. Property, Plant and Equipment

At March 31, 2011 and March 31, 2010, property, plant and equipment at cost and accumulated depreciation and amortization are as follows:

(in thousands of dollars)	March 31,	
	2011	**2010**
Plant and machinery	**$ 1,493,015**	$ 1,426,367
Land and buildings	**324,564**	318,497
Assets in construction	**35,511**	67,919
Software and other intangibles	**7,435**	6,901
Total	**1,860,525**	1,819,684
Accumulated depreciation and amortization	**(1,134,188)**	(1,061,661)
Property, plant and equipment, net	**$ 726,337**	$ 758,023

Depreciation

Depreciation is provided on a straight-line basis at rates designed to amortize the cost of depreciable property, plant and equipment over their estimated remaining useful lives. The composite depreciation rate, expressed as a percentage of the average depreciable property in service, at March 31, 2011 and March 31, 2010 is approximately 3.41% and 3.48% respectively. The cost of repair and minor replacement and renewal of property is charged to maintenance expense.

Property, Plant and Equipment Impairment

On December 17, 2010, LIPA requested information associated with its contractual rights under its PSA with the Company to reduce ("Ramp Down") the amount of capacity purchased from the Company. The PSA gives LIPA the right to Ramp Down specified generating units at certain points during the term of the agreement. Per the terms of the PSA, in the event of a Ramp Down: (a) LIPA would pay the Company a percentage of the present value of the remaining capacity charges related to agreed-upon ramped down generating unit(s) due through the end of the current PSA termination date, May 27, 2013 and (b) the Company would then reduce the future monthly capacity charges for the unit(s) billed to LIPA.

Following negotiations between the parties on the issue of Ramp Down, on June 16, 2011, the Company and LIPA announced their intent to enter into an amendment to the PSA (the "Ramp Down Amendment"), pursuant to which the parties will agree to Ramp Down generating units located at the Far Rockaway and Glenwood, New York generating facilities. The effectiveness of the Ramp Down Amendment is subject to approval of LIPA's Board of Trustees and receipt of certain regulatory approvals, including (i) the approval of the New York State Comptroller and the New York State Attorney General; and (ii) acceptance of the Ramp Down Amendment by the Federal Energy Regulatory Commission. Under the Ramp Down Amendment, the Ramp Down of Glenwood and Far Rockaway will be deemed to have occurred for purpose of calculating the economic impact (the net of items (a) and (b) above) on May 27, 2011 (the "Ramp Down Date"). Notwithstanding, the Company will continue to provide capacity, energy and ancillary services from Glenwood and Far Rockaway to LIPA until such time as the units become eligible for retirement, pending completion of certain transmission projects in the area currently served by these facilities (currently anticipated in the Summer 2012).

The Company will be responsible for the costs to remediate/demolish the Glenwood and Far Rockaway units following retirement. The Ramp Down Amendment was approved by LIPA's Board on June 23, 2011.

In anticipation of the Ramp Down of Glenwood and Far Rockaway, as of March 31, 2011, the Company recorded estimated charges for impairment to long-lived assets of $30.8 million. The recorded impairment charges have reduced the carrying value of the power generating units located in Glenwood and Far Rockaway to their net recoverable value as determined by use of discounted cash flows and estimated salvage value.

Note 5. Income Taxes

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

(in thousands of dollars)	Years Ended March 31, **2011**	2010
Components of federal and state income taxes:		
Current tax expense:		
Federal	**$ 4,940**	$ 17,197
State	**5,351**	8,718
Total current tax expense	**10,291**	25,915
Deferred tax (benefit) expense:		
Federal	**(10,441)**	2,340
State	**(9,558)**	(1,046)
Total deferred tax (benefit) expense	**(19,999)**	1,294
Total income tax (benefit) expense	**$ (9,708)**	$ 27,209

Income tax (benefit) expense for the years ended March 31, 2011 and March 31, 2010 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, 2011 and March 31, 2010 is presented in the following table:

(in thousands of dollars)	Years Ended March 31, **2011**	**2010**
Computed tax	**$ (937)**	$ 21,217
Increase (reduction) including those attributable to flow-through of certain tax adjustments:		
State income tax, net of federal benefit	**(2,735)**	4,986
Audit and related reserve movements	**(4,244)**	-
Intercompany tax allocation	**(1,855)**	(1,941)
Medicare subsidy, including Patient Protection & Affordable Care Act effect, net	**-**	2,887
Other items - net	**63**	60
Total	**(8,771)**	5,992
Federal and state income taxes	**$ (9,708)**	$ 27,209

Significant components of the Company's net deferred tax assets and liabilities at March 31, 2011 and March 31, 2010 are presented in the following table:

	March 31,	
(in thousands of dollars)	**2011**	2010
Pensions, other post employee benefits ("OPEB") and other employee benefits	**$ 36,863**	$ 40,832
Future federal benefit on state taxes	**5,301**	7,086
Asset retirement obligations	**2,795**	2,884
Allowance for uncollectible accounts	**968**	1,016
Other items	**7,925**	9,775
Total deferred tax assets [1]	**53,852**	61,593
Property related differences	**(100,918)**	(110,384)
Property taxes	**(17,981)**	(33,074)
Deferred credits - pension and OPEB	**(8,517)**	(11,253)
Emissions allowances	**(1,929)**	(3,476)
Total deferred tax liabilities	**(129,345)**	(158,187)
Net accumulated deferred income tax liability	**(75,493)**	(96,594)

[1] There were no valuation allowances for deferred tax assets at March 31, 2011 or March 31, 2010.

	2011	2010
Current portion of net deferred tax liability	**(13,947)**	(26,272)
Non-current portion of net deferred income tax liability	**(61,546)**	(70,322)
Net accumulated deferred income tax liability	**$ (75,493)**	$ (96,594)

Subsequent to the KeySpan acquisition by NGUSA on August 24, 2007, KeySpan and its subsidiaries became members of the National Grid Holdings Inc. ("NGHI") and subsidiaries consolidated federal income tax return. The Company is a member of this consolidated group. The Company has joint and several liability for any potential assessments against the consolidated group.

As of March 31, 2011 and March 31, 2010, the Company's current federal income tax balances payable to its Parent are $34.8 million, and $64.8 million, respectively.

The Company adopted the provisions of the current accounting guidance which clarifies the accounting and disclosure of uncertain tax positions in the financial statements. The 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.

As of March 31, 2011 and March 31, 2010, the Company's unrecognized tax benefits totaled $9.4 million and $27.5 million, respectively, of which none and $23.4 million, respectively, would impact 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, 2011 and March 31, 2010:

Reconciliation of Unrecognized Tax Benefits		**Years Ended March 31,**		
(in thousands of dollars)		**2011**		2010
Beginning balance	**$**	**27,498**	$	13,296
Gross increases related to prior year		**16,536**		-
Gross increases related to current year		**324**		14,202
Settlements with tax authorities		**(34,959)**		-
Ending balance	**$**	**9,399**	$	27,498

As of March 31, 2011 and March 31, 2010, the Company has accrued for interest related to unrecognized tax benefits of $5.8 million and $11.4 million, respectively. During the years ended March 31, 2011 and March 31, 2010, the Company recorded interest expense of $7.9 million and $1.6 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, 2011 and March 31, 2010.

In November 2010, KeySpan and its subsidiaries reached a settlement agreement with the Internal Revenue Service ("IRS") on outstanding tax matters for calendar tax years 2000 through 2006. The Company was a member of the KeySpan and its subsidiaries consolidated federal income tax return for these years and was obligated to pay $26.6 million to KeySpan for its share of the settlement pursuant to the tax sharing agreement. In connection with the settlement, the Company recorded a $4.2 million tax benefit for the differences between the amounts settled upon with the IRS and the tax positions previously accrued. Resolution of tax matters for these years with state and local tax authorities is outstanding. The tax returns for the short year ended August 24, 2007, as well as the years ended March 31, 2008 through March 31, 2011 remain subject to examination by the IRS.

The Company was a member of KeySpan and subsidiaries combined New York State ("NYS") income tax return for calendar years ended December 31, 2003 through December 31, 2006, short period ended August 24, 2007 and year ended March 31, 2008. The tax returns for these years remain subject to examination by the State of New York. The Company is no longer a member of KeySpan and subsidiaries combined NYS income tax return and is filing a separate NYS income tax return beginning with the year ended March 31, 2009. The tax returns for the separately filed years ended March 31, 2009 through March 31, 2011 remain subject to examination by the State of New York.

Note 6. Commitments and Contingencies

Legal Matters

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

Environmental Matters

Ordinary business operations subject the Company 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 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 the Company'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 on our financial statements.

Air

Our generating facilities are subject to increasingly stringent emissions limitations under current and anticipated future requirements of the EPA 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 NO_x 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 the Company to achieve its prior emission reductions in a cost-effective manner. Future investments will include the installation of enhanced NO_x 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 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. The DEC subsequently rescinded the draft permit for E.F. Barrett in order to allow for a review of all potential environmental impacts pursuant to the State Environmental Quality Review Act. Draft permits for Northport and Far Rockaway are expected later in 2011. 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. In addition, environmental groups have filed comments demanding even more costly retrofits at Glenwood, E.F. Barrett, and Port Jefferson, specifically, the installation of cooling towers. The Company is in discussion with the environmental groups regarding effective alternate mitigation technologies. Discussions with the DEC and the environmental groups have been productive and may lead to mutually agreeable final permits at some or all of the plants. Nevertheless it is possible that the determination of required capital improvements and the issuance of final renewal permits for these plants could 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. The company believes that two of these plants, the Glenwood and Far Rockaway power generating units, will be selected for decommissioning. Depending on the outcome of the adjudicatory process, which could extend beyond the next fiscal year, ultimate costs could be substantially higher. Costs associated with any finally ordered capital improvements would also be reimbursable from LIPA under the PSA.

Asset Retirement Obligations

The Company has various asset retirement obligations primarily associated with its electric generation activities. These obligations have remained substantially unchanged from March 31, 2010, except for normal accretion adjustments and costs incurred. Generally, our largest asset retirement obligations relate to: (i) cleaning and removal requirements associated with storage tanks containing waste oil and other waste contaminants; (ii) legal requirements to remove asbestos upon major renovation or demolition of structures and facilities and (iii) waste water treatment pond removal. These obligations total $9.2 million and $8.7 million at March 31, 2011 and March 31, 2010, respectively.

Power Supply Agreement

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, 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 the Company for the cost of all fuel deliveries.

The Company and LIPA entered into the Fourth Amendment to the PSA on March 22, 2007. Pursuant to the Fourth Amendment, the Company agreed to make certain capital improvements to the National Grid Generation Northport and Port Jefferson generating facilities consisting of certain turbine upgrades and new emission controls and to bear the risk of recovery of the costs of the additions through a mechanism that limits recovery to actual fuel and emission savings realized by LIPA as calculated pursuant to the Fourth Amendment. The Fourth Amendment also authorizes the Company to assess a capacity charge for the turbine upgrades and new emission controls at such time as the initial improvements begin commercial operation, which occurred on April 1, 2010.

On February 1, 2010, the Company filed at the FERC revisions to Appendix A of the PSA to add the mechanism for calculating the annual capacity charge for the certain turbine upgrades and new emission controls and otherwise implement the Fourth Amendment to the PSA. LIPA intervened and protested various aspects of the Company's formula. On March 31, 2010, the FERC issued an order accepting and suspending the Company's proposed tariff sheets and establishing hearing and Settlement Judge procedures. Following the issuance of that order, the Company and LIPA entered into settlement discussions that resulted in a Stipulation and Settlement Agreement ("Settlement Agreement") which was filed at the FERC on May 13, 2010. The Administrative Law Judge certified the uncontested Settlement Agreement to the FERC on June 7, 2010. On September 24, 2010, the FERC issued a letter order approving, subject to rehearing, the uncontested Settlement Agreement between the Company and LIPA which details the revisions to Appendix A of the PSA that adds the mechanism for calculating the annual capacity charge for turbine upgrades and new emission controls and otherwise implement the Fourth Amendment to the PSA.

Based on the Settlement Agreement, the capacity charge for turbine upgrades and new emission controls will reflect a capitalized interest rate of 4.95% through March 31, 2010, and a 4.85% return thereafter, with all such rates reflecting 100% tax exempt debt financing. In addition, the Settlement Agreement provides that the rate for calculating the return on plant in service will be 4.85% with such rate reflecting 100% tax exempt debt financing. Finally, Article I of Settlement Agreement contains the method for calculating the fuel and emission savings attributable to the turbine upgrades and new emission controls.

Additions to plant for turbine upgrades and emission controls went into service April 2, 2010 and June 1, 2010 at a combined cost of $25.8 million with measured fuel and emission savings sufficient enough to recover the associated capacity costs in 2010.

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, the Company 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. The FERC issued an order on December 31, 2009 accepting the Company's proposed tariff rates effective from February 1, 2009, subject to refund and the outcome of any proceedings instituted by the FERC. The FERC also established settlement procedures to encourage LIPA and the Company to explore the possibility of a settlement. LIPA and the Company 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. The 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.

The Company has an inventory of SO_2 and NO_X emission allowances that may be sold to third party purchasers. The number of emission allowances available for sale 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 to Long Island. In accordance with the PSA, 33% of emission allowance sales revenue is retained by the Company 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 DEC 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.

Note 7. Emission Credits

We are entitled to NO_X 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 CAIR, resulting in a $171.5 million reduction to the initial valuation. At March 31, 2009, these credits were determined to be further impaired due to reduced demand in the emissions trading market which resulted in a decline of emission credit prices. We further reduced the inventory value by $62.5 million resulting in a $24.6 million charge to the consolidated statement of income. At March 31, 2010, we further reduced the inventory value by $27.1 million resulting in a $7.2 million impairment charge to the income statement at March 31, 2010. At March 31, 2011 we further wrote down the inventory by $11.8 million resulting in an impairment charge to the income statement of $3.1 million. As of March 31, 2011, these credits had a fair value of $1.1 million which includes partial use and sale of these credits. As agreed to in the PSA Agreement with LIPA, LIPA is entitled to $0.6 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 $25.6 million on the consolidated balance sheets also includes $24.5 million of CO_2 emission allowances purchased through the Regional Greenhouse Gas Initiative auctions.

Note 8. Related Party Transactions

Moneypool

The Company is engaged in various transactions with KeySpan, NGUSA and certain affiliates. For the most part, the various affiliates of KeySpan do not maintain separate cash balances. Financing for the Company's working capital is obtained through participation in the KeySpan moneypool for unregulated entities. Funds may be withdrawn from or repaid to the moneypool at any time without prior notice.

The moneypool is funded by operating funds from moneypool participants. In addition, KeySpan and NGUSA collectively have the ability to borrow up to $3 billion from National Grid plc for working capital needs including funding of the moneypool, if necessary. We had an outstanding moneypool receivable position of $363.7 million and $342.7 million at March 31, 2011 and March 31, 2010, respectively. Interest rates associated with the moneypool are designed to approximate the cost of third-party short-term borrowings.

The average interest rate for the moneypool was 1.20% and 0.91% for the years ended March 31, 2011 and March 31, 2010, respectively.

Advances to/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 the Company via intercompany billings and generally settled through the moneypool on a monthly basis. The Company had a $16.0 million and $51.7 million liability for these services at March 31, 2011 and March 31, 2010, respectively.

In addition, the Company had an intercompany tax payable of $34.8 million liability to KeySpan. Therefore, at March 31, 2011, the Company had a moneypool receivable of $363.7 million and an intercompany payable, net of intercompany receivables, of $50.8 million, for a total net intercompany payable position of $312.9 million.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are typically allocated using cost/causation principles linked to the relationship of that type of service, such as meters, square footage, number of employees, etc. Lastly, all other costs are allocated based on a general allocator. These costs include operating and capital expenditures of $98.6 million and $30.4 million for the year ended March 31, 2011 and $86.2 million and $28.6 million for the year ended March 31, 2010, respectively.

Service Company Audit

In November 2008, the FERC commenced an audit of NGUSA, including its service companies and other affiliates in the National Grid holding company system. The audit evaluates our compliance with: 1) cross-subsidization restrictions on affiliate transactions; 2) accounting, recordkeeping and reporting requirements; 3) preservation of records requirements for holding companies and service companies; and 4) Uniform System of Accounts for centralized service companies. The final audit report from the FERC was received in February 2011. In April 2011, NGUSA replied to the FERC and outlined its plan to address the findings in the report, which we are currently in the process of implementing. None of the findings had a material impact on the consolidated financial statements of the Company.

Holding Company Charges

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 consolidated financial statements of NGUSA, have not been reflected on these consolidated financial statements. Were these amounts allocated to this subsidiary, the estimated effect on net income would be approximately $1.1 million and $0.9 million before taxes, and $0.7 million and $0.6 million after taxes, for the years ended March 31, 2011 and March 31, 2010, respectively.

Organization Restructuring

On January 31, 2011, National Grid plc announced substantial changes to the organization, including new global, US and UK operating models, and changes to the leadership team. The announced structure seeks to create a leaner, more-efficient business backed by streamlined operations that will help meet, more efficiently, the needs of regulators, customers and shareholders. The implementation of the new U.S. business structure commences on April 4, 2011 and targets annualized savings of $200.0 million by March 2012 primarily through the reduction of up to 1,200 positions. As of March 31, 2011, NGUSA had recorded a $66.8 million reserve for one-time employment termination benefits related to severance, payroll taxes, healthcare continuation, and outplacement services as well as consulting fees related to the restructuring program. These charges have been recorded by NGUSA and none have been allocated to the Company as at March 31, 2011. Subsequently in June 2011, we offered a voluntary severance plan to certain individuals which is expected to cost up to an additional $20 million across all entities affiliated with NGUSA.

Note 9. Subsequent Events

In accordance with current authoritative accounting guidance, the Company has evaluated for disclosure subsequent events that have occurred up through June 29, 2011, the date of issuance of these consolidated financial statements. As of June 29, 2011, there were no subsequent events which required recognition or disclosure.